

High Speed Two (HS2) Ltd Board Meeting held on 4 February 2016

Minutes

Room 6.1, Two Snow Hill, Queensway, Birmingham B4 6GA

Present:

David Higgins, Chair
Lord Andrew Adonis
Richard Brown
Christine Emmett
Simon Kirby, Chief Executive Officer (CEO)
Roger Mountford
Alison Munro, Managing Director – Development
Duncan Sutherland
Jo Valentine (Items 2-16)
Neil Masom

In Attendance:

XXXX, Assistant Company Secretary
XXXX, Phase Two Development Director
XXXX, interim General Counsel
XXXX, Strategic Communications Adviser
David Prout, Department for Transport (DfT), Observer
Jim Crawford, Managing Director Design and Construction
XXXX, Procurement Governance Lead
XXXX, Project Commercial & Development Director
Beth West, Commercial Director

Apologies:

Steve Allen, Chief Financial Officer

1. Declaration of Interests

- 1.1. There were no declarations of interest other than those already recorded in the register.

2. Enabling Works Contract (EWC) – Commercial Principles

- 2.1. The Board received a presentation on the EWC Commercial Principles for endorsement.
- 2.2. The Board noted that one of the most important aspects of the EWC was the values of the proposed contractor and the alignment of its values with those of the Company.
- 2.3. The Board was informed that the intention was for the Company to procure a Contractor Management Organisation (CMO) to sit alongside the Company and act as 'intelligent client' to buy in expertise across a wide spectrum of activity; ranging from archaeological work to utilities diversions.
- 2.4. The Board noted the importance of the Company's contractors engaging properly with the local community and the local environment, and acting as ambassadors for the Company in this regard.
- 2.5. The Board went on to discuss the key performance indicator mechanisms for scoring performance against contracts, and the mechanism for the annual bonus to be paid to contractors. It was noted the performance mechanisms should incentivise contractors for the early completion of works and not just 'on time'.
- 2.6. It was agreed that the key areas of focus for the 'level two' key performance indicators should be Schedule, Cost and Community Engagement.
- 2.7. The Board noted that the substitution of a delivery partner was a 'last resort' measure and should only occur in rare circumstances.
- 2.8. The Board observed that the Company needed to carefully manage situations where the CMO would be able to tender for fixed-price work and retain any surplus. A clear statement of definition for the work was required to avoid the CMO being incentivised to find the 'lowest price' bidder.
- 2.9. The Board counselled against the use of the CMO or its subcontractors to directly carry out work in normal circumstances and noted this should only be used on a limited basis with the Company retaining the right to intervene.
- 2.10. The Board noted that the Community Engagement performance measure would benefit from further consideration and more precise definition. It was observed there was a distinction between being responsive to the needs of

communities and the compliance with environmental conditions under the hybrid Bill.

- 2.11. The Board agreed to delegate further discussion of these matters to the Commercial and Investment Committee (CIC). The Board noted that, subject to the discussion by the committee of the detailed matters noted above, it was content to endorse the proposals.
- 2.12. Subject to the consideration by the CIC of the points identified by the Board above, the Board noted the update and:-
 - Approved the approach to the commercial principles covered within the submission (subject to further discussion by CIC);
 - Gave confirmation that the 3 KPIs (and associated calibration) linked to Level 2 incentivisation (Schedule, Cost, and Community Engagement) were the appropriate ones for EWC; and
 - Recommended the team progress to proceed through further approvals as required under the HS2 Ltd and DfT governance and assurance regimes, as outlined in the update
 - Confirmed the importance of the contractors maintaining acceptable standards of Safety

3. Main Works Civils Contracts (MWCC) Commercial Principles¹

- 3.1. The Board received a presentation on the commercial principles underlying the approach to the tendering of the Main Works Civil Engineering Contracts work.
- 3.2. The Board was advised of the key principles underpinning the work including: the mechanism for an agreement of the target price for the work with the tenderers; the approach to risk and the approach to learning from international best practice. It was agreed that the tendering process should include a mechanism to draw out tenderers' experiences of best practice in international rail.
- 3.3. The Board noted the importance of tenderers being incentivised to align with the best interests of passengers, local authorities, transport sector peers and other stakeholders.
- 3.4. It was agreed that a report of the Independent Assurance Panel (Procurement) would be circulated to the Board. This was in order to provide assurance the Panel was content with proposed revisions to the ITT evaluation (contract award options); and revisions to the process of phased

¹ During the discussion of this matter the Chairman, Chief Executive, Strategic Communications Adviser and DfT Observer left the room for a short time. The Deputy Chair chaired the meeting during the Chairman's absence.

tender returns, to address observations made by the Commercial and Investment Committee.

Action: Commercial Director

3.5. Subject to the above observation, the Board noted the update and endorsed the following recommendations:-

- To approve the approach to the commercial principles covered in sections 2 to 5 inclusive of the submission;
- To approve the sharing of the '2 from 4' principles in dialogue with PQQ applicants to determine Applicant preferencing, as required for tender shortlisting; and
- To agree that the team progress to proceed through further approvals, as required under the HS2 Ltd and DfT governance regime and as set out in section 7 of the paper

4. **Phase 2B: Procurement of a Development Partner (DP) and Professional Services Consultants (PSCs)**

4.1. The Board received an update on the progress of the procurement process for a Delivery Partner and Professional Services Consultants to assist the Company in the planning for Phase 2B of the project.

4.2. The Board was briefed on the Most Economically Advantageous Tender (MEAT) method of scoring tenders, and was informed of the lessons learnt from Phase 1 which were being built into the process.

4.3. The Board noted the update and :-

- approved the Phase Two B Procurement Plans and the Proposed Approval Process for the procurement of P2DP and P2PSCs (including the issue of the OJEU notices and Pre-Qualification Questionnaire) as contained within the paper; and
- endorsed onwards release to DfT Governance and Approval Boards as necessary to obtain formal authorisation

5. **Mineral Extraction at Birmingham Interchange**

[Redacted: Commercial in Confidence
Effective Conduct of Public Affairs]

6. **Minutes of Previous Meeting and Matters Arising**

6.1. The minutes of the meeting held on 14 January 2016 were received and agreed as a true record and signed by the Chair.

7. Report from Remuneration Committee meeting, 20 January 2016

7.1. The Board received an update from the Chair of the Remuneration Committee on the most recent meeting of the committee which took place on 20 January 2016.

7.2. The report was taken as read and the Board noted the report.

8. Report from Commercial & Investment Committee meeting, 21 January 2016

8.1. The Board received a verbal update from the Chair of the Commercial and Investment Committee on the meeting of the committee held on 21 January.

8.2. The Board was informed that David Orr CBE, Chair of the Independent Panel (Procurement) had attended the meeting. Mr Orr had reported on the particular risk posed by layers of governance causing timetable compression and the confusion between assurance and governance. It was agreed to discuss these findings with representatives of the DfT.

Action: All to please note

8.3. The Board noted the update.

9. Report from Audit and Risk Assurance Committee meeting, 26 January 2016

9.1. The Board received an update from the most recent meeting of the Audit and Risk Assurance Committee which was noted.

10. Report from Health, Safety and Environment Committee meeting, 28 January 2016

10.1. The Board received an update from the most recent meeting of the Health, Safety and Environment (HSE) Committee which was noted.

11. Chair's Report

11.1. The Chairman advised members that the hybrid Bill Select Committee was due to complete its hearings shortly, and paid tribute to the performance of the management team, noting the remarkable pace of progress achieved.

11.2. The Board was updated on plans for the UK Northern Powerhouse International Conference and Exhibition in Manchester and the launch of a document detailing the positive impacts HS2 was already having on the regions.

11.3. The Board noted the update.

12. CEO's Summary and Programme Dashboard

12.1. The CEO informed the Board of the completion of the Select Committee hearings.

12.2. The Board noted that the Chair of the Community Fund had been appointed and it was agreed to invite her to brief the Board on her work in six months' time.

Action-
Community Fund Chair

12.3. The Board noted that a briefing to all the members of the House of Lords who had spoken at recent debates in relation to HS2 would be offered in preparation for the House of Lords stage of the hybrid Bill.

Action-
Strategic Communications Advisor

13. Health & Safety Report – January 2016

13.1. The Board noted the update.

14. Business Planning

14.1. The received an update on Business planning.

14.2. The Board was briefed on workforce planning for the next two to three years. It was noted the planning process was driven in part by the consideration of Baseline 6 which would be discussed at a Board Briefing later that day.

14.3. The Board asked that a short summary of strategic objectives be received for publication and sharing with the Company's stakeholders.

14.4. It was agreed that further details including on budget proposals, would come back to the next meeting.

Action-
Chief Financial Officer

14.5. The Board noted the update.

15. Date of Next Meeting – 3 March 2016

16. Any Other Business

16.1. It was agreed that a programme of Board briefing topics over the next six months would be reviewed.

Action-
Chairman

Signed: