

High Speed Two (HS2) Ltd Board Meeting held on 7 April 2016

Minutes

Boardroom, One Canada Square, London E14 5AB

Present:

Richard Brown (Chair)
Lord Andrew Adonis
Steve Allen, Chief Financial Officer (CFO)
Christine Emmett
Simon Kirby, Chief Executive Officer (CEO)
Neil Masom
Roger Mountford
Alison Munro, Managing Director – Development
Duncan Sutherland
Jo Valentine

In Attendance:

Jim Crawford, Managing Director Design and Construction (items 11 and 21)
XXXX, interim Director of Land and Property (item 12)
XXXX, General Counsel and Company Secretary
XXXX, Assistant Company Secretary
XXXX, Director of Finance Operations (item 14)
XXXX, Strategic Communications Adviser
Alistair Kirk, Programme and Strategy Director (Items 11 and 21)
David Prout, Department for Transport (DfT), Observer
Chris Rayner, Managing Director of Railway Operations (item 10)
XXXX, Director of Rolling Stock and Depots (item 10)
XXXX, interim Corporate Affairs Director (item 13)

By Invitation:

XXXX, Genius Methods Ltd (Independent Board Effectiveness Reviewer)

Apologies:

Sir David Higgins (Chairman)

1. Introductions and Declaration of Interests

- 1.1. Introductions were made and apologies for absence were noted.
- 1.2. There were no changes to the previously declared interests.

2. Minutes of Previous Meeting and Matters Arising

- 2.1. It was agreed the Minutes of the Meeting held on 3 March and the schedule of Matters Arising, having been circulated at short notice, would be deferred for consideration at the next scheduled Board meeting on 5 May.
- 2.2. It was agreed that Non Executive Board members would receive instructions, login details and the offer of a 1:1 induction for the electronic Board papers App.
Action: Head of Governance
- 2.3. There were no further Matters Arising.

3. Report from Audit & Risk Assurance Committee meeting, 23 March 2016

- 3.1. It was noted the Committee had received a briefing on security and resilience.
- 3.2. The Committee had discussed the financial Year End (and proposed year-end Audit) and it had been noted that the National Audit Office was comfortable that matters identified in last year's management letter had been progressed.
- 3.3. The Committee had received an update on the NAO Value for Money report and an indication of when the findings are likely to be reported.
- 3.4. It was noted the Chairs of the Audit and Risk Assurance Committee and Safety, Health and Environment Committee would meet to discuss potential omissions or duplications between the remit of the two committees.
Action: Chairs of ARAC/HSE Committees
- 3.5. It was agreed that the Board would receive an update on Security by Design, and the Deputy Chairman advised that he would pass on details of particular contacts working in this area.
Action: Deputy Chair

4. Report from Commercial and Investment Committee meeting, 29 March 2016

- 4.1. The Board received an update on the Committee's recent meeting. The following matters were discussed for endorsement by the Board (for approval by DfT's BICC):
 - With regard to the Main Works Civils Contract incentive structure, [REDACTED]
[REDACTED] It was noted that a briefings will be made to bidders to explain the incentive structure.
 - It was proposed that the [REDACTED]
[REDACTED]
[REDACTED]

4.2. The Board endorsed the recommendations of the Committee as set out above.

5. Report from Remuneration Committee meeting, 29 March 2016

5.1. It was noted that the Committee had received an update on the Staff Survey and a report on this matter would be made to a future Board meeting.

Action: Chief Executive/HR Director

5.2. An update was given on the proposed pay review, which would correlate to performance rating and pay range. In relation to the reduction of interim staff the Committee was advised that the Company was close to having a ratio of 70% permanent to 30% interim staff. It was agreed that an external audit of the figures would be undertaken.

5.3. The Board noted the proposed pay review was in line with peers in the sector.

6. Deputy Chair's Report

6.1. The Deputy Chairman advised that he had recently received a briefing from DfT on the overall positive political environment with regard to the project. The Board noted possible factors which might lead to a change in this situation in the medium term.

7. CEO's Summary and Programme Dashboard

7.1. The Chief Executive gave an update on developments for the month in review. He reported that a series of staff briefings had taken place in London and Birmingham.

7.2. He also noted that a Memorandum of Understanding (MoU) between the Company and the Trades Union Congress (TUC) had been signed. The key points were discussed.

8. Health and Safety: Health & Safety Report – March 2016

8.1. The Board was advised of the launch of the Safe at Heart strategy to a range of industry regulators and the supply chain.

8.2. It was agreed that a graphic measure of incidents per amount of hours worked on the project overall would be added to the update. The Board noted the trend in 'incidents reported' reflected the increased amount of work on the project. It was confirmed that all matters are being properly tracked and reported.

Action: Chief Executive/
Corporate Health and Safety Director

9. Finance and Commercial Report

9.1. The Board discussed major land and property acquisitions. The CFO confirmed that it had not been possible to complete several major Land and Property (L&P)

transactions prior to the financial year end to ease an underspend on the budget; however the deals were all agreed in principle and were nearing completion.

- 9.2. The Board noted that access to land must be secured so that construction could begin in a timely manner. The Board observed that there had been some slippage on this over the past twelve months.

10. Rolling Stock: Maintenance and Depot packaging

- 10.1. The Board was asked to approve the Company's proposed approach to the procurement of rolling stock maintenance and design/construction of depots. It was proposed the broad approach would be to procure the maintenance for rolling stock from the appointed rolling stock manufacturer.

- 10.2. The principal depot for rolling stock maintenance and stabling be was intended to be at Washwood Heath. It was noted that the Commercial and Investment Committee had endorsed the approach but was of the view that the tender for Phase Two rolling stock could be complicated if [REDACTED]

- 10.3. The Board Observer noted that the proposal required further quantification. A discussion took place about the proposal. It was also queried as to why the Department was seeing draft discussion papers in parallel to the Company.

Action: Chief Executive

- 10.4. It was noted that the Company did not have the appropriate delegations to make decisions on the matter, with all Rolling Stock decisions remaining within the delegation of the Department.

- 10.5. The Board declined to accept the paper and requested that the paper be resubmitted after further work on the proposed approach to procurement and further quantitative analysis.

Action: MD Railway Operations

11. Review Point 1 – Close out

[Note: The discussion of this item took place following the discussion of Baseline 6 (BL6) at item 21 on the published Agenda]

12. Land and Property Update

- 12.1. The Board received an update from the interim Director of Land and Property (IDL) on resourcing the land and property team to ensure key programme milestones were met.

- 12.2. It was noted that the team would need to double in size in nine months. A decision would be put to the Board next month to tender the land referencing support to provide additional resources.

12.3. It was noted that acquisition of 11,000 parcels of land was required to meet BL6. There were discrete peaks of activity in this workload. The overall property cost estimate would need to be completed by the end of the 2016.

12.4. The Board considers this activity to be on the critical path for the delivery of the programme as a whole.

13. Update on Recruitment of new Community Engagement Roles (Verbal)

13.1. The Strategic Communications Adviser and interim Corporate Affairs Director gave an update on the resourcing of the Community Engagement team.

13.2. It was noted that the duration and scale of the programme would require a 'best industry practice' approach and the senior community engagement role was likely to be very demanding.

13.3. Board members observed that some local authorities were carrying out excellent community engagement work, and the team should consider giving a budget to an authority or authorities in order to facilitate a partnership approach.

13.4. It was agreed that the senior postholder should report directly to the Chief Executive and the role description should state that the individual would be highly visible to the Board. Shortlisted candidates should meet the Board as a whole as part of the selection process if several strong candidates emerged.

Action Strategic Communications Adviser/
interim Corporate Affairs Director

13.5. Due to the high profile nature of the role and the skillset required it was also agreed that the search be global in nature and appropriately qualified overseas contacts would be considered.

Action General Counsel and Company Secretary

14. Insurance Strategy

14.1. The Board was asked to approve the Company's insurance strategy, which involved the procurement of an owner-controlled insurance programme covering the HS2 supply chain for certain insurances. It was also confirmed that a captive, 'in house' insurance vehicle would be considered alongside a traditional procurement.

14.2. The insurance strategy was a requirement of Review Point 2.

14.3. Board members observed that the proposal would benefit from commentary on value for money, the level of tolerable and intolerable losses and the market's capacity to provide insurance at this level.

Action: Director of Finance Operations

14.4. The overall budget for the proposal had been accounted for in BL6, and was treated as an upfront premium for insurance cover for the life of the project.

14.5. In agreeing the proposal the Board noted that all future insurance related matters should be considered first by the Commercial and Investment Committee, subject to the Terms of Reference of such Committee.

Action: Director of Finance Operations

14.6. The Board noted the update and

- Approved the Insurance Strategy for Phase 1 Project Insurances
- Noted that (pursuant to the approval granted by the Investment Panel) the process of procuring a suitably qualified and experienced Insurance Broker for the life of Phase 1 construction had commenced.
- Noted that the actual placement of the Owner Controlled Insurance Programme (OCIP) will, because of the expected value, be put to the Board for decision (expected: Winter FY2016/17).

15. Update on Operational Delegations

15.1. The Board's agreement was sought to issue replacement delegated authority letters in the week commencing 21 March to certain staff, consistent with last year's scheme of delegations, for FY2016/17.

15.2. The Board was advised that a further update on the position with regard to the Company's receipt of increased Operational Delegations from the Department would be given at the next Board meeting.

Action: Chief Financial Officer/
General Counsel and Company Secretary

15.3. The Board noted the update and

- Approved the replacement delegated authority letters issued in the week commencing 21 March 2016
- Noted that a further approval will be sought from the Board in May to the new Operational Delegations (which are in the process of being agreed 'in principle' between DfT and HS2 Ltd as part of the Review Point 1 process, pending HS2 Ltd Board approval).

16. Board Future Workload

16.1. The Board received a forward agenda for noting and discussion. It was agreed to add a number of items to the plan.

Action General Counsel and Company Secretary

17. Approvals Route for MWCC ITT issue (Verbal)

17.1. The Board discussed the approach to be taken to the consideration of the Invitation to Tender of the Main Works Civils. It was agreed that the approach and the overall timetable for the approval of the ITT would be discussed in more detail with the Chair of the Commercial and Investment Committee.

Action: General Counsel and Company Secretary

18. Corporate Affairs report

18.1. The report was taken as read.

19. Date of Next Meeting – 7 May 2016

20. AOB

20.1. The Board discussed the approach to the procurement of steel for the construction of the railway and related infrastructure.

20.2. It was noted that recent changes to procurement regulations meant that, subject to an appropriate business case being made, the Company was able to consider social and environmental factors (such as regeneration and social exclusion) in its approach to procurement. It was agreed that a business case would be provided to the Board, giving consideration to modelling, risk appetite and currency hedging amongst other matters.

Action: Chief Financial Officer

21. BL6 – Approval

21.1 The Board received a presentation on the finalisation of BL6. The Board discussed the main risks identified in the baseline preparation and noted that the outcome was not yet at the Spending Review 2015 (SR15) target price, which was not surprising given the current stage of development. The Board observed that bridging this gap was a key priority for HS2.

21.2 After further discussion about certain features of BL6, the Board noted the presentation and:-

- Approved the adoption of BL6
- Noted that:
 - Schedule Confidence had increased to P60% – 68% of achieving entry into service on 31st December 2026
 - that it considered the proposed contingency was adequate at this time but that it required a continued focus on retaining affordability and increasing confidence levels, thereby reducing exposure as the Project progresses through the procurement steps,

subject to the following conditions being met:-

ITTs

Complete L2 /L3 assurance to validate: flow down of estimate to target prices; MWCC ITT tender documentation (April)

Assurance

Issue close out plan for all findings (to be managed via RP Exec Assurance Review and ARAC) (April)

Management Information

Demonstrate cost and schedule confidence against affordable budget and sponsor's requirements (April)

Efficiencies

Complete outstanding implementation plans for the delivery of Value Engineering, efficiency and International Benchmarking Study opportunities (and report to Board) (June)

Schedule

Identify areas to increase confidence levels to 80% (June) (For example around Land and Property, Station procurements and Network Rail interfaces. The Board noted that accelerated access to Land and Property was a key to the Schedule being met)

Cost

Complete estimate review and validate further opportunities for cost reductions to support MWC tender process (and report to Board in July) and L&P new property cost estimate by RP2

Scope

Develop list of VM and VE opportunities to identify cost savings while retaining programme benefits (August)

Contingency

Develop 'Road Map' to achieve Phase 1 target costs for RP3 (and report to Board) (September)

Funding

Develop a plan to improve Baseline cost and risks so that by RP3 the P50 estimate is less than the 2015 Spending Review Target Price (and report to Board) (September)

22 Main Works Civils Contracts

- 22.1 The Board went on to discuss the flow-down of BL6 to the main works civils contracts (MWCC). A report on the commercial assurance lines of defence was expected to be available to support BICC submission for its 25th April meeting.
- 22.2 It was noted the flow down from BL6 was within the contract value parameters set out in the OJEU notice and that further time was available to ensure the Initial Target Prices in the MWCC correlated with the BL6 cost plan.
- 22.3 It was agreed that the issue would be further discussed at the Commercial and Investment Committee to be specially convened to consider the MWCC ITT.
Action: MD Construction
- 22.4 It was noted that there was a sequencing issue in setting the budget prices for the 7 MWCC lots (as derived from BL6) in that savings required against the BL6 cost plan to bring it in line with the SR15 target prices were required to be identified prior to RP3 in April 2018. There was a discussion as to how the budget prices for the 7 MWCC lots would deal with this. The Board noted that the gainshare regime in the MWCC would encourage the identification of savings and thereby help the savings target to be met.
- 22.5 The Board noted the discussion and endorsed the methodology being utilised for the cascade of the BL6 content to the 7 MWCC lots, noting that final numbers would be provided as to such cascade as part of the approval process for the issue of the ITT documentation.

23. Review Point One – Close-Out

- 23.1 The Board received the final Review Point 1 (RP1) Executive Assurance Report and subsidiary reports on 'modules 2-4' (Strategies, Capabilities and Funding) for approval and onward submission to the DfT's BICC.
- 23.2 It was noted that the headline findings included that the Company had completed all RP1 commitments as defined in the Development Agreement and set out in the letter to DfT dated 19 June 2015.

- 23.3 The Company was confirming its view that it had the necessary governance and competence arrangements in place and the full report would be sent forward for the attention of BICC.
- 23.4 It was noted that a total of eleven key action points had been identified for action, seven of which were owned by DfT and four by HS2 Ltd. The Board agreed that all actions should in practice be seen as joint actions.
- 23.5 It was noted that a comprehensive Business Transformation Programme had been developed to action and embed the action points set out in the strategies developed as part of RP1 completion.
- 23.6 The Board observed that the 271 capabilities that had been listed as part of the RP1 process must not be simply documented without further actions taken to close them out.
- 23.7 The Board agreed to approve the recommendations in the report subject to further consideration by the Executive on how these core capabilities are embedded in HS2.

Action: Executive Committee

- 23.8 It was confirmed that a draft operational delegations document was enclosed in the pack for the Board's approval. It was noted that there had been a subsequent revision to the document which had been included in the version submitted to the DfT's BICC. It was agreed that the updated document would be circulated to the Board by correspondence with the decision to approve the document delegated to the Deputy Chair.

Action: General Counsel and Company Secretary/
Programme and Strategy Director

- 23.9 Subject to these last two points, the Board noted the report and:
- Approved the release of the Final RP1 Executive Assurance Review Report and its subsidiary reports, as well as the covering letter from the Chairman;
 - Agreed the Chairman would write to SRO HSR (Senior Responsible Owner High Speed Rail) after the Board meeting, to flag some of the ongoing work that will be required after RP1; and
 - Noted the proposed sequence for onward submission to BICC on 11 April.