

High Speed Two (HS2) Ltd Board Meeting

Minutes
06 July 2017

Boardroom, 2 Snowhill, Birmingham

Members	In Attendance	Apologies
David Higgins Chairman	Jim Crawford (items 05 and 07) Managing Director, Construction	Andrew McNaughton Technical Director
Jo Valentine Non-executive Director	[REDACTED] Construction Procurement Director	Mark Thurston Chief Executive Officer
Steve Allen Chief Financial Officer	Nicole Geoghegan General Counsel and Company Secretary	
Richard Brown Non-executive Director	[REDACTED] Commercial and Sponsorship Director	
Christine Emmett Non-executive Director	Michael Hurn Department for Transport, Observer	
Mel Ewell Non-executive Director	[REDACTED] Strategic Communications Advisor	
Neil Masom Non-executive Director	[REDACTED] Deputy Company Secretary	
Roger Mountford Non-executive Director	[REDACTED] Commercial Development Director	
Alison Munro Managing Director, Development		
Duncan Sutherland Non-executive Director		

1. WELCOME AND DECLARATION OF INTEREST

- 1.1 The Board noted the retirement announcement of Alison Munro and thanked her for her contribution to the organisation.
- 1.2 The Board welcomed Michael Hurn in his new capacity as DfT Observer.
- 1.3 There were no additional declarations made.

2. MINUTES OF THE PREVIOUS MEETING 08 JUNE 2017 AND MATTERS ARISING

- 2.1 The minutes of the meeting 08 June 2017 were agreed as a true record.
- 2.2 The status of the actions were noted and the following updates were provided:
 - 2.2.1 **Action 691:** The Board discussed the need to have a prompt list of key people, movement through the month and notice periods. The Board requested a Human Resources strategy at a future date with a standing 6-monthly update to the Board.
 - 2.2.2 **Action 689:** The group is almost finalised and the position regarding formal approval is being checked. **Should formal approval be required**

then an informal meeting should proceed in the meantime. An update to the Board should be sent on membership.

Action: [REDACTED] Steve Allen

- 2.3 The Board received a brief verbal update on [REDACTED] where they were advised that there has been significant progress. David Higgins and Jo Valentine did not take part in any discussion.

3. CEO MONTHLY REPORT AND MANAGEMENT INFORMATION

- 3.1 The Board noted the CEO Summary and the May Monthly Report.
- 3.2 The Board requested a more tangible update with regard to any slippages reported regarding Early Works Contracts (EWC) in order to determine any impact to programme schedule. **It was agreed a lessons learned and impact review piece will return to the Board in August.¹**

Action: Jim Crawford

- 3.3 **The Board requested a deep dive on the Network Rail interface. It was agreed that this will be reviewed by the Programme Committee and report to a future Board meeting.**

Action: Jim Crawford

- 3.4 **The Board requested that the reporting for Display Screen Equipment (DSE) is clearer.**

Action: Emma Head

- 3.5 The Board discussed the Health, Safety and Environment Committee and the detail regarding environmental updates.
- 3.6 The Board noted the update on Birmingham Airport and that HS2 Ltd should look at a value for money approach to progress the issue.
- 3.7 The Board noted that HS2 Ltd will make a series of announcements on 17 July 2017 including the announcement of the Main Works Civil Contracts, the Phase 2b route, the Phase 2a hybrid Bill deposit, the Annual Report and Accounts and the Corporate Plan.
- 3.8 **The Board received a verbal update with regard to a high potential event which occurred outside of the reporting period. The Board asked for more real time reporting for such issues and also requested sight of the system or procedure to communicate of group significant incidents.**

Action: Emma Head

¹ Post meeting note: This matter has been subsequently referred to the Programme Committee

- 1.1. The Board discussed the [REDACTED] which Network Rail have on a number of schemes. A summary of the top issues and emerging trends should be produced.

4. COMMERCIAL AND INVESTMENT COMMITTEE

- 4.1 The Board noted the summary from the Commercial and Investment Committee and the review of the papers being suggested for Board approvals.

5. MAIN WORKS CIVILS CONTRACT (MWCC) CONTRACT AWARD

- 5.1 The Board noted the paper for the recommendation to award the Main Works Civils Contract (MWCC) and the evaluation process resulting in the recommendation for the seven Lots, namely S1, S2, C1, C2, C3, N1 and N2.
- 5.2 The Board received a presentation on the day setting out the detail of the results of the tender evaluation process.
- 5.3 The Board noted the summary of the process, evaluation criteria, post tender addendum and BL [REDACTED] alignment.
- 5.4 The Board were advised that there has been application of detailed assurance.
- 5.5 The Board noted that through the tender process the highest two tenderers were engaged through negotiations to keep the competitive tension.
- 5.6 The Board noted the behavioural scoring and the improvement work. There has been appointment of a head of collaboration to work within a framework to promote collaboration and behavioural aspects.
- 5.7 The Board noted that with regard to potential conflict of interests that previous lessons learned have been applied.
- 5.8 Management supported the clean and risk profile aligned result which has produced a clear set of winners.
- 5.9 The Board discussed the approach to controls for the confidence levels (at P50 to P95) and noted the checkpoints will act as a flag for potential drawdowns of contingency.
- 5.10 The Board discussed internal controls and noted the work ongoing prior to the contracts coming into effect. There has been active training to support delivery.
- 5.11 The HS2 Ltd Board approved the award decision recommendations for the MWCC Contracts (totalling ITP of [REDACTED] including the associated Collaboration Agreement and Framework agreement;
- 5.12 The Board were satisfied that the MWCC procurement and evaluation process has been carried out in accordance with the Utilities Contracts Regulations 2006 (as amended) and the process as set out and declared in the Invitation to Tender (ITT);
- 5.13 The Board noted the supporting capability paper and subsequently approved:

5.13.1 The commencement of Stage One activities following award and associated commitment to spend a total of [REDACTED] on Stage One activities, which is the sum of the recommended Contractors' Stage One Target Prices inclusive of a [REDACTED] contingency provision;

5.13.2 That HS2 be authorised to operate the MWCC Contracts (as awarded) in accordance with their terms (including to issue instructions within the scope and budget contemplated by the ITP's relating to these Contracts) as will be outlined on the day.

5.14 **The Board discussed the key persons, confidence and consistency of culture and noted that the successful project directors will be invited to meet the Board.**

Action: Jim Crawford

5.15 **The Board requested visibility of the checkpoints and it was agreed that these will be built into the Board forward look.**

Action: Jim Crawford/ [REDACTED]

5.16 **The Board noted that the DfT will grant delegated authority subject to correspondence to approval that capability exists within HS2 to support and manage Stage One MWCC.**

Action: Steve Allen

6. EUSTON MASTER DEVELOPMENT PARTNER

6.1 The Board noted the paper updating on the recent activity for the procurement of a Master Development Partner (MDP) for Euston Station. The Board were asked to note and endorse a number of points.

6.2 The Chair of the Commercial and Investment Committee (CIC) gave an update with regard to the approach to take five of the seven tenderers through to the next stage.

6.3 The CIC noted that the initial scoring from tenderers does not form or contribute to evaluation at later stages.

6.4 The Board noted the anonymised approach to names until the issue of notification letters.

6.5 The Chair of the CIC highlighted key discussion from the CIC meeting of 21 June 2017 and the following points were raised and noted:

6.5.1 The Committee had questioned if the process had unintentionally appeared more cumbersome and that the Heads of Terms first draft could be perceived as onerous, and a possible deterrent to applicants.

6.5.2 The Committee also highlighted to the Board that the lack of written instruction is a risk to HS2 as the relationship with the DfT is not defined.

6.5.3 The Board agreed that there must be a clear, formalised instruction agreed in the interim agreement prior to the refresh of the Development Agreement;

6.5.4 **It was agreed that an exchange of correspondence between the Accounting Officers at Hs2 Ltd and DfT would be agreed and issued promptly;**

Action: Steve Allen on behalf of Mark Thurston

6.5.5 The DfT Observer advised the Board that the Heads of Terms are not intentionally onerous. Management responded to advise that they are not viewed by the market as onerous and market appetite is significant and positive.

6.5.6 The Board discussed the [REDACTED] clause and whilst it noted that there has been developed discussion through management the Board would like it noted that in the view of the Non-executive Directors should be deleted;

6.5.7 The Board noted the [REDACTED] and advised that the Board are not in the position of authority to act as endorsers of these. The Board in the meantime noted their comfort with the current draft subject to the above minute;

6.5.8 The Board noted that at the time of reporting the line of defence (LOD)₃ report and legal assurance letter were not available;

6.5.9 The Board suggested that management consider lessons learned from other projects experience with stations e.g. Canary Wharf and Victoria; and

6.5.10 The Board noted that the potential for joint ventures in the procurement seems unlikely.

6.6 Following the above discussions:

6.6.1 The Board noted the update on the procurement timetable;

6.6.2 The Board noted the shortlist;

6.6.3 The Board noted the commercial terms but have no power to endorse, with a recommendation to remove the [REDACTED]

6.6.4 The Board would like management to clarify Secretary of State obligations;

6.6.5 As per minute 6.6.4, there will be an exchange of accounting officers letters, defining and documenting the agreed HS2 Ltd role; and

6.6.6 The LOD₃ and legal assurance letter will be circulated via correspondence and endorsement is subject to satisfaction of these.

- 7. **RAIL SYSTEMS CATEGORY PLAN APPROVAL – [REDACTED]**
- 7.1 The Board noted the paper seeking approval of:
 - 7.1.1 The Railway System Category Procurement Plan, setting out the procurement approach for delivery of the Railway Systems programme for Phases 1 and 2a; and
 - 7.1.2 The delegations proposed to apply to the Railway Systems procurement programme after the acceptance by BICC of the Category Procurement Plan.
- 7.2 The Board noted that this decision was with regard to the approval of a category plan containing six packages, with the option for tenderers to bid for more than one.
- 7.3 The Commercial and Investment Committee had raised questions around duopoly regarding the supply of [REDACTED]. The intention is to procure the [REDACTED] supplier and novate the contract to those appointed rail systems contractors to allow for fair competition.
- 7.4 The Board discussed the alternative financing options for [REDACTED] and noted that there is ongoing analysis to the pros and cons of capex rather than revenue.
- 7.5 Management advised that the packaging strategy is designed to keep options open and support an active decision process.
- 7.6 The Board reviewed the approach to the proposed packaging of the Railway Systems prompting that whole life asset management is fundamental and testing with Management how this strategy links with the asset management strategy.
- 7.7 The Board requested more information and evidence on the decision to split light systems into two packages: telecoms and signals/ traffic management. The Chair noted that an alternative to [REDACTED]
[REDACTED]
[REDACTED] Management will consider this suggestion.
- 7.8 The Board requested Management revisit whole of life costing and the financial model as part of the consideration.
- 7.9 The Board requested building maintenance at the Depot be explored and that Management should return to the Board further to testing of the light systems package with assessment on the impact regarding classic conventional railway and interfacing.
- 8. **OWNER CONTROLLED INSURANCE PROGRAMME: APPROVAL**
- 8.1 The Board noted the recommendation to award the (Owner Controlled Insurance Programme) OCIP to the Insurers listed below under the agreed policy wording for

the contract sums, which equate to a total of [REDACTED]. The contract period is 10.5 years, with an option to extend for a further two years. The Board noted that the contract term will allow HS2 Ltd to cover all risks arising from the construction of Phase 1 and 2a of the HS2 project.

8.2 The Board approved the contract award.

9. [REDACTED]

9.6 The Board noted the update subject to development of a further thought piece and proposal to the Board.

10. UPDATE FROM AUDIT AND RISK ASSURANCE COMMITTEE

10.1 The Board noted the 2016/17 Annual Report of the Audit and Risk Assurance Committee (ARAC) to the HS2 Ltd Board and Accounting Officer.

10.2 The Board noted the outcome of the 2016/2017 audits and in relation to the Annual Report and Accounts (ARA).

10.3 The Board noted the National Audit Office were satisfied and complementary about the fairness and accuracy of the accounts.

10.4 At the time of reporting there was an emerging regularity regarding the redundancy issues identified. **The HS2 Ltd Board were recommended to approve the ARA subject to the Chair of the ARAC and the Chief Financial Officer finalising the issue.**

Action: Neil Masom/ Steve Allen

10.5 The Board noted the issues highlighted by the National Audit Office with regard to the internal control environments comments and also by the internal audit process.

- 10.6 The Chair of the ARAC has been in subsequent meetings with the NAO discussing the development of enterprise and corporate capability whilst maintaining public money capability.
- 10.7 The issues will be worked with the Chief Financial Officer and reported through ARAC.
- 10.8 The Board noted that the outcome will be a qualification of the accounts and discussed the immediate actions being taken and longer term planning activity.
- 10.9 The Board agreed that subject to final confirmation of the NAO and conclusion of redundancy issue, the 2016/2017 Annual Report and Accounts be recommended to Parliament.
- 10.10 **The Board requested sight of the NAO management letter.**

Action: [REDACTED]

- 10.11 The Board expressed their serious concern regarding internal controls reflected in the comments from the management letter.
- 10.12 **The Board requested a letter from Hs2 Ltd to the DfT Accounting Officer promptly as to the controls and actions going forward with a further report to August Board.**

Action: Steve Allen

11. NOMINATIONS COMMITTEE UPDATE

- 11.1 The Board noted that the Chair of the Nominations Committee will have a meeting with the DfT Observer to clarify the requirement and process for the recruitment of Non-executive Directors.
- 11.2 It was proposed that Jo Valentine, Richard Brown and David Higgins will participate in the recruitment process and keep the Board informed.

12. REMUNERATION COMMITTEE UPDATE

- 12.1 The Board received an update on the Remuneration Committee meeting which took place on 05 July 2017.
- 12.2 The Committee approved a one percent pay increase for the Executive, back dated to April 2017, with eligibility subject to meeting or exceeding performance objectives.
- 12.3 The Committee has received the revised Human Resources dashboard which will be included in the Board Report going forward.
- 12.4 The Board noted that succession planning was mentioned at the meeting and was a suggestion for Nominations Committee remit. The Board further noted that the Terms of Reference for the Remuneration Committee might also be reviewed further to the outcomes from audits discussed.

13. CORPORATE AFFAIRS REPORT

- 13.1 The Board noted the report from Corporate Affairs for June 2017.
- 13.2 The Board noted that there had been a positive meeting with the newly appointed Rail Minister.
- 13.3 The Board noted the work ongoing for the series of announcements to be made week on 17 July 2017.

14. BOARD FUTURE WORKLOAD

- 14.1 The Board noted the forward workload for the Board.
- 14.2 The Board will use the afternoon of 04 October 2017 as an away day and discussed the potential topics, including:
 - 14.2.1 Strategy versus what good looks like over the next 12 months; and
 - 14.2.2 Major risks deep dive.
- 14.3 The Board discussed re-establishing the occurrence of DfT and HS2 combined meetings.

15. CHAIRS REPORT

- 15.1 The Chairman recommended that Duncan Sutherland be appointed to the Commercial and Investment Committee.
- 15.2 There were no other items to be reported.

16. ANY OTHER BUSINESS

- 16.1 The Company Secretary informed the Board about her annual leave.

Signed:

Date: