

HS2 LTD



TRIENNIAL REVIEW 2011

Department for Transport

Disclaimer

The Triennial Review does not address policy issues regarding high speed rail, and does not make comment on any matters regarding selection of a line of route or the consultation.

This Triennial Review was conducted prior to the Secretary of State for Transport making a decision on whether to proceed with High Speed Rail. The recommendations of this review would only apply if a decision is taken to proceed. If the decision is not to proceed, the Department would then evaluate whether there was a requirement for the body to continue – for example in order to undertake alternative work on a different route or form of high speed rail. If this need was not found, the body would be wound down in line with planned arrangements.

The Review was conducted by the High Speed Rail Strategy team, and formed part of the forward planning that would allow for a smooth transition to the development phase for the High Speed Rail link between London, the West Midlands, and the North in the event of a decision to proceed.

It was therefore necessary to assume for the purposes of the review that the Secretary of State's decision would be to proceed with the project, an assumption which guides the findings of this report.

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INTRODUCTION

This document explains how the Triennial Review of High Speed 2 (HS2) Ltd (hereafter referred to as HS2 Ltd) was undertaken, and its findings.

The sections below will outline the strategic approach to the review, how we considered the potential organisational structures, and the governance arrangements in place.

While this report will present the findings of the Triennial Review, it will also recommend areas where improvements can be made to the measures in place, to ensure that the project would be delivered successfully in the development phase that would follow a decision to proceed.

HIGH SPEED RAIL

In order to understand the purpose of HS2 Ltd, it is first necessary to understand the Government's vision and objectives for High Speed Rail.

The vision for a high speed rail network is one that supports economic growth by encouraging a flourishing private sector and re-balancing the economy. It will:

- **Enable rising numbers of journeys**
- **Improve speed, convenience and reliability of links between major cities and gateways**
- **Support sustainable growth**
- **Keep pace with developments in other countries**

The first structural reform objective laid out in the DfT Business Plan¹ is the delivery of HS2:

B) Coalition Priorities:

Structural Reform Priorities

1. Deliver the Coalition's commitments on high speed rail

- Carry out the preparation needed to start work on a high speed rail line early in the next Parliament connecting London with Heathrow, Birmingham, Manchester and Leeds, as the first step towards a national high speed rail network for the whole of Britain

¹ <http://www2.dft.gov.uk/about/publications/business/plan2011-15/>

The timescales within the delivery plan are reliant on receiving timely output of materials related to the functions of HS2 Ltd, in order to inform Departmental work.

ACTIONS	Start	End
1.1 Review and consult on high speed rail	Started	Jan 2012
Carry out consultation on high speed rail strategy and route of initial London-Birmingham phase of High Speed 2	Feb 2011	Jul 2011
Analyse consultation responses and publish proposed route and strategy	Jul 2011	Jan 2012
1.2 Legislate for the London-Birmingham phase of High Speed 2		
Complete outline engineering design for the London-Birmingham route	Jan 2012	Apr 2013
Draft environmental impact assessment	Jan 2012	Sep 2013
Consult on Environmental Statement	Apr 2013	Sep 2013
Take first Hybrid Bill through Parliament	Oct 2013	May 2015

The importance of High Speed Rail was the main transport element of the Queen's speech:

Demand for travel between major British conurbations is expected to increase significantly over the next twenty to thirty years. High speed rail appears best placed to provide significant and sustainable additional capacity to meet that demand, whilst also improving journey times. The Government's vision is for a truly national high speed rail network as part of its programme of measures for creating a low carbon economy, although it recognises that this would need to be achieved in phases. Such a network would include links to Heathrow and potentially other airports to provide an alternative to short-haul aviation.²

The project has been strongly supported in statements by the Prime Minister:

I believe that if we are really serious about rebalancing our economy and ensuring that we get growth across the country, and not just in the south-east, the time for high-speed rail has come. That is why it has my strong support.³

It also forms part of the Coalition's "Programme for Government"

We will establish a high speed rail network as part of our programme of measures to fulfil our joint ambitions for creating a low carbon economy. Our vision is of a truly national high speed rail network for the whole of Britain. Given financial constraints, we will have to achieve this in phases.⁴

² Quote from the Queen's Speech, 25th May 2010

³ Quote from David Cameron, Prime Minister's Questions, 22nd June 2011

⁴ http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf

HIGH SPEED 2 (HS2) LTD

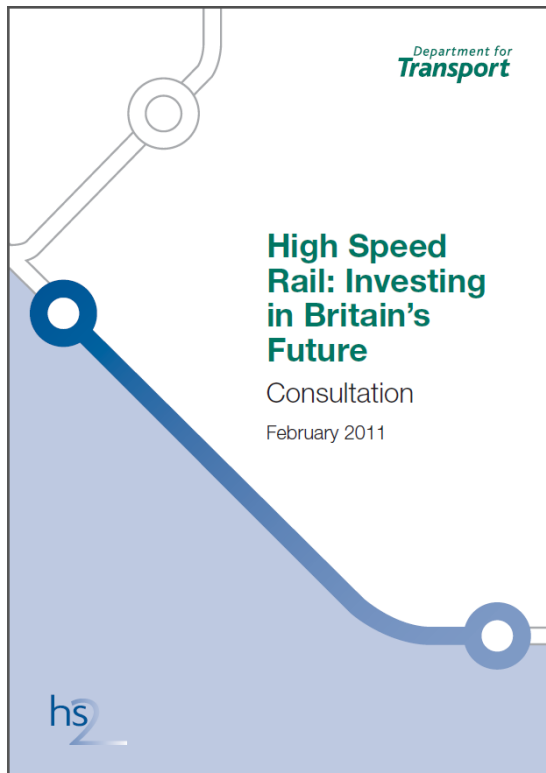
HS2 Ltd is an Executive Non-Departmental Public Body (NDPB). It was also established as a Companies Act company, limited by guarantee, on 14 January 2009. It has a sole member, the Secretary of State for Transport, for whom it is remitted to undertake work. HS2 Ltd is funded from the public purse by grants-in-aid and currently employs around 85 staff who are either directly employed; seconded from the DfT, Network Rail, and other government departments; or on temporary contracts.

The company's objective was to 'advise the Secretary of State for Transport on the development of proposals for a new railway line from London to the West Midlands and potentially beyond'.

HS2 Ltd's initial role was to look at the feasibility of, and business case for, a new high speed rail line between London and the West Midlands; and to consider the case for high speed rail services linking London, northern England and Scotland. HS2 Ltd has provided the Government with technical knowledge and advice required to ensure the effective use of public money in considering the options for High Speed Rail.

On 20 December 2010, the Secretary of State for Transport published the Government's proposed line of route between London and the West Midlands for consultation. It included a number of detailed changes to mitigate some of the local impacts of the route as originally published by the previous Government.

The Secretary of State for Transport launched a consultation on the Government's proposals for a national high speed rail network on 28 February 2011.



The consultation sought views on the Government's strategy for a national high speed network; the proposed route for an initial line from London to the West Midlands; and options for providing assistance to those who are detrimentally affected by any new line.

The consultation period ended on 29 July 2011. After the period of consultation, the role of HS2 Ltd was to analyse the responses, reporting their findings to the Secretary of State for Transport to inform her decision on whether to proceed with High Speed Rail.

During the consultation phase, close working between HS2 Ltd and DfT had been crucial to delivering a high quality, legally robust consultation on time.

Should the Secretary of State decide to move forward with high speed rail following consultation, the role of HS2 Ltd would be to contribute to the introduction of a Hybrid Bill into Parliament on the London to West Midlands route.

The aim would be to deposit the Hybrid Bill by October 2013 to allow the bill to be processed through its various parliamentary stages, with a view to obtaining Royal Assent in 2015.

Objectives and Functions

The key functions of HS2 Ltd, and how these contributed to the core business of the NDPB and the sponsor department are outlined below.

The DfT is the sponsor department, and is responsible for the overall programme and strategy for high speed rail.

HS2 Ltd's objectives, as set out in the Memorandum of Association, were to advise the Secretary of State for Transport on the development of proposals for a new railway from London to the West Midlands and potentially beyond, including without limitation:

- **Identification of:**
 - I. a potential route or routes;**
 - II. indicative costs and benefits; and**
 - III. possible financing;**
- **Management of the design of any potential route or routes.**

HS2 would be a high capacity railway, designed to standard European high speed specifications, and making use of technology successfully developed in countries like France and Germany. The specifications for high speed rail systems are different to those of conventional UK rail. In order to ensure that new systems built in Europe were compatible with each other and use common standards, the European Union set out guidance and specifications that all countries must adhere to when building new rail lines.

HS2 Ltd would undertake different work on each phase concurrently:

The London to West Midlands route:

Engineering - including the engineering design and development of:

- Over 140 miles of high speed railway.
- Four stations, including remodelling of Euston and Old Oak Common and two depots.
- A large number of utility and railway interfaces.

Environmental policy, impact studies, and consultations - including:

- Noise and vibration mitigation.
- Resilient track.
- Environmental impact.

Land referencing - of the HS2 London to West Midlands alignment, temporary construction sites, and land and access required for maintenance and operation of the operational railway

Commercial Work - including:

- Procurement and financing of the railway
- Development of proposals for the commercial aspects of the project

Safety and quality policy

Architectural services - Including the design of bridges and stations

Economic Analysis

The West Midlands to the North route:

Options Development

Consultation Management

HS2 Ltd would also undertake work applicable to both phases of the project:

Government and Public Relations - including land and property management and public affairs

Consultation and engagement - Managing the promotion of the project and a large number of consultations

THE TRIENNIAL REVIEW

The Triennial Review process was established as part of the new architecture to drive forward the Coalition commitment to 'reduce the number and cost of public bodies'. In addition to the public bodies reform process, and related Public Bodies Act (which received Royal Assent on 14 December 2011), the Triennial Review process will examine all public bodies at least every three years, with two aims:

- **To provide a robust challenge of the continuing need for this NDPB – both its functions and form; and,**
- **If it is agreed that it should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance.**

The Triennial Review of HS2 Ltd was announced by the Secretary of State by Written Ministerial Statement (WMS) on 8 November 2011. The Secretary of State also wrote to the Transport Select Committee ahead of the review.

Following the issue of the WMS, the Triennial Review team wrote to all Members of Parliament whose constituency was on the Line of Route, or who had responded to the consultation, to ensure that they were aware of the review. We also contacted interested Peers, and stakeholder representatives, including Network Rail, TfL, the Office of Rail Regulation, and the Association of Train Operating Companies. Various HS2 interest groups picked up upon the WMS, and responded with comments which provided the input of wider views into the report.

It is understood by the review team that the issue of High Speed Rail is of close personal interest to a number of parties, both along the line of route and in wider Britain. The focus of a Triennial Review is on the Corporate Governance arrangements in place, and therefore the review does not comment on how HS2 Ltd arrived at its recommendations. Responses from the public were however used to inform the review, and are addressed where possible in light of the question asked in Part Two of the review.

The remit of HS2 Ltd was to inform the Secretary of State in making her decision on whether to proceed with High Speed Rail. The team further confirmed with other Department officials that the work undertaken during the consultation would be expanded upon during the more detailed planning and design work in the lead up to the Hybrid Bill. This would include, for instance, an Environmental Impact Assessment, to expand upon the Appraisal of Sustainability report that supported the consultation. It is planned that this will include engagement with stakeholders from Local Authorities, community forums (including parish and district councils) and wider public events, as well as Statutory bodies.

It was therefore accepted by the Triennial Review team that the functions of HS2 Ltd would be required to ensure the successful Royal Assent to a Hybrid Bill on High Speed Rail. It was however still necessary to establish the manner in which the functions should be provided, and the governance in place to ensure that these functions were effectively delivered.

The Triennial Review team were therefore guided in their approach by two questions, which laid out its objectives:

- **What structure is best suited to providing the necessary functions to deliver High Speed Rail?**
- **What arrangements are in place now, and what need to be in place to ensure that the project is delivered effectively?**

These questions addressed the two stages of the Triennial Review process, which had been established by Cabinet Office⁵. The team accepted that the function was necessary, for the reasons above, however completion of the first stage also required further assessment of the organisational structure that would best deliver this function.

In order to best offer value for money in approaching this process, and in accordance with Cabinet Office guidance that departments should ensure that reviews make good use of relevant existing information, the review team built upon work that had been carried out between July and September 2011 by a joint working group from the Department for Transport, Infrastructure UK and HS2. This group had examined the organisational structures and governance arrangements that should exist for High Speed Rail, with a primary focus on the development phase of the project. As the Triennial Review focussed upon the organisational structure for High Speed Rail in 2012-15, and considered what would be required to develop the Hybrid Bill, the overarching Departmental objective during that timeframe, the earlier work provided a useful input.

The Triennial Review addressed the elements required to comply with Cabinet Office requirements for the review of a larger NDPB:

- **Parliamentary and Stakeholder engagement**
- **Challenge Group Oversight**

Following an initial planning phase, the team's assumptions in entering the review were put before a Challenge Group, which included a Non-Executive Member of the Board of the Department of Health, a DfT Deputy Director, and representatives from Infrastructure UK and Cabinet Office, with wide experience of large scale infrastructure projects in regulated sectors.

The Challenge Group provided a high level of direction in areas to consider in approaching the main phase of the review, and areas which required redress. These considerations were included both in approaching the review itself and in evaluating further areas for development going forwards. The Challenge Group then provided further oversight at the conclusion of the review.

The initial work on this review concluded that the most effective structure for delivery in the development phase was one in which HS2 Ltd continued as an Executive Non-Department Public Body.

⁵ http://www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

In order to continue in this way, it was recommended that the Department should perform a client/sponsor role and HS2 Ltd, continuing as a public limited company, performing the role of the delivery body. This mutually re-enforcing relationship built in the correct level of challenge and assurance required on a project of this magnitude.

Cabinet Office guidance lays out a number of criteria that should be considered in conducting a Triennial Review.

The Triennial Review of HS2 is:

Timely - The Triennial Review was conducted in the build up to a decision on High Speed Rail. Due to the potential change in scope of the role of HS2 Ltd, it was the right time to evaluate both the required structure, and the governance that was in place, to ensure that HS2 Ltd was able to carry out its required function if High Speed Rail was to move into a development phase.

Challenging - The Review is overseen by a highly competent Challenge Group, able to provide a high level of scrutiny. It also had external input from Infrastructure UK, the Major Projects Authority, and other interested stakeholders. It will be presented to the Secretary of State and Minister for the Cabinet Office, and a Non-Executive Director on the Department Board will be appointed to take forward its recommendations.

Inclusive - High Speed Rail is of interest to a wide range of people. In order to proactively engage those who may have an interest, we contacted the Transport Select Committee, MPs, Peers, and interested parties to make them aware that the review was being undertaken.

Transparent - The review is to be published in the Libraries of both Houses, and on DfT and HS2 websites

Value for Money - Partly in response to a recommendation from the MPA, work on organisational structures was jointly undertaken by the DfT and Infrastructure UK in July and August 2011. The Triennial Review made use of this earlier work, in order to include a wider range of outlooks at no added cost.

Proportionate - The Review took a detailed approach, and engaged a Challenge Group of sufficiently high calibre to ensure a full review of a high profile body responsible for a large, high budget infrastructure project affecting many people.

PART 1 - ORGANISATIONAL STRUCTURES

What structure is best suited to providing the functions necessary to deliver High Speed Rail?

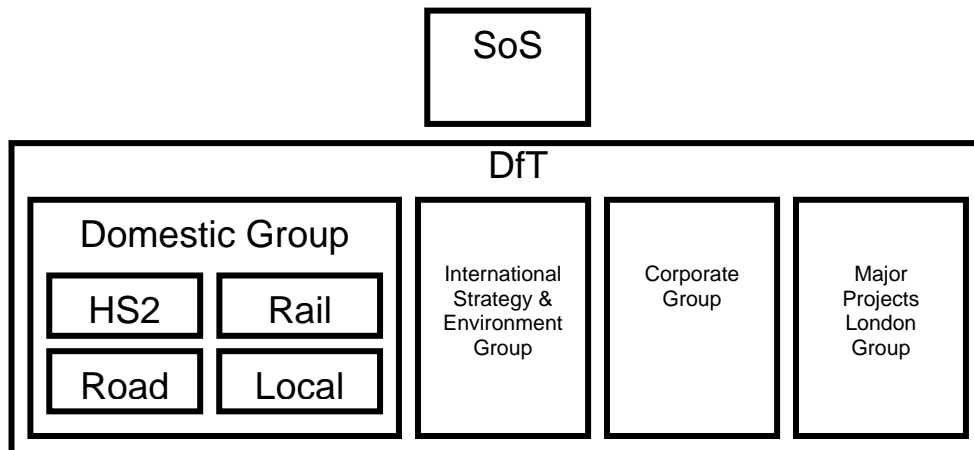
This section of the report provides a comparative analysis of the potential delivery structures for HS2 Ltd.

The review provides an evaluation of how best to provide the functions necessary for successful delivery of the Hybrid Bill phase, and the potential future structure of HS2 Ltd. In considering the full range of organisational structures suggested by the Cabinet Office guidance, it was possible to rapidly dismiss several concepts⁶ due to immediate and obvious drawbacks.

It should be noted that, due to the nature of the High Speed 2 project, many of the possible delivery options analysed in the following pages were theoretical, and it was not possible to evaluate the success of a working example with verifiable outputs. For this reason, and due to the difficulties in monetising many of the factors involved, a cost-benefit analysis was not undertaken. Where possible, lessons have been learned from other major transport infrastructure projects such as HS1 and Crossrail.

⁶ Establishment of a non-Ministerial Department, moving to the local or voluntary sectors, utilising a Government Office, a Public Corporation

Bring In-House



This option would see the functions of HS2 Ltd brought into the Department so that all the areas of work currently performed within the NDPB were subsumed within a directorate within the Department's Domestic group.

The Department for Transport would therefore have responsibility for the strategy, consultation and legislation of the project, but would also undertake the technical, environmental and commercial aspects of the project. In evaluating this structure, it was apparent that a different approach was required to that taken by SNCF or Deutsche Bahn in developing High Speed Rail, due to the nature of British railways.

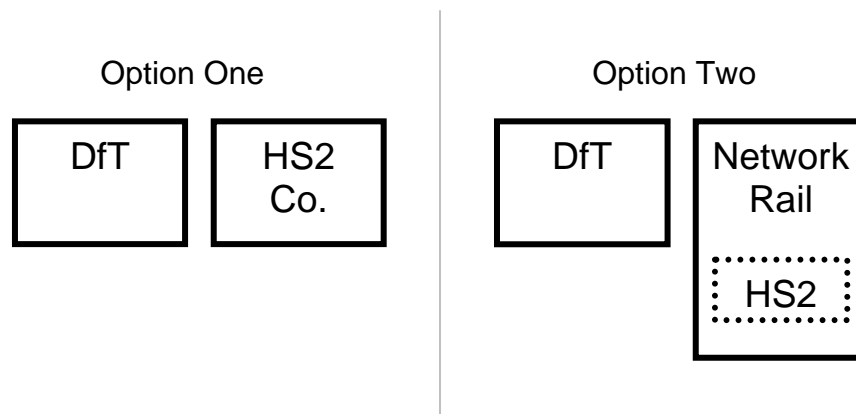
Pro:

- The Department would have absolute control during the Hybrid Bill phase
- It could help to ensure that the project is closely joined to wider rail and transport policy development

Con:

- It could prove very difficult to recruit the required skills to deliver the project, particularly at the most senior level.
- The Spending Review 2010 includes commitments to reduce Departmental admin spend. If HS2 was brought in-house it would lead to an increase in headcount of circa 300 people at the busiest point of the next phase, making meeting this commitment difficult.
- It would be difficult to demonstrate that the work undertaken by the Department on proposals for the Leeds/Manchester/Heathrow link had been completed objectively.
- The majority of staff would be specialists who may not be able to find future roles in Civil Service at the end of the project.
- Market soundings have demonstrated that it will be very challenging, and potentially impossible to recruit the required skills into the Civil Service.

Move out of central government to the private sector



This option would see the functions of HS2 Ltd passed to the private sector or the privatisation of HS2 Ltd so that it solely operates as a private company.

Option One (illustrated above) could be completed by making HS2 Ltd solely a private company. There are a number of options for how this could work were we to pursue this option. However this was performed, the new organisation would lead on the development of HS2 reporting into the Department.

Option Two is a variation on this option that could be completed by merging HS2 Ltd into Network Rail. This would allow Network Rail to build upon their experience of large scale publicly funded rail infrastructure projects.

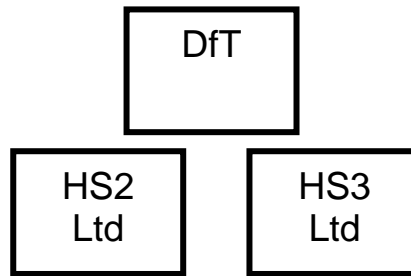
Pro:

- This allows the company to set up the right structure to focus on delivery and designing / engineering the railway.
- The company could increase focus on efficiency to ensure maximum profits.

Con:

- HS2 will need to be funded, almost in its entirety, by public money. If the delivery body was detached from DfT, there would be insufficient Government control.
- Disconnects the project from DfT at a crucial time when control will be needed to lead the Hybrid Bill process.
- DfT would not be able to effectively directly influence the direction of HS2.
- Focus on profit may diminish commitment to economic welfare objectives.
- Without public sector funding, it could be difficult for the market to absorb the risk of a large Infrastructure project, and deliver it within the requirements of the Department.
- With public sector funding, it could be difficult for the Department to exercise sufficient control over the delivery of the project.

Establish a new NDPB



This option would see HS2 Ltd continuing to focus on the development of the line from London to the West Midlands and a new NDPB established to work on the route north of Birmingham and the link to Heathrow.

The majority of staff who are in HS2 Ltd would remain there and the body would increase in size to meet the challenges of the next phase, but the second NDPB (for example, HS3 Ltd) would be established to do a similar role to that performed by HS2 Ltd during the advisory and consultation phases of the project. This organisation would have its own Board and Chief Executive supported by a team who could deliver these earlier phases of the project.

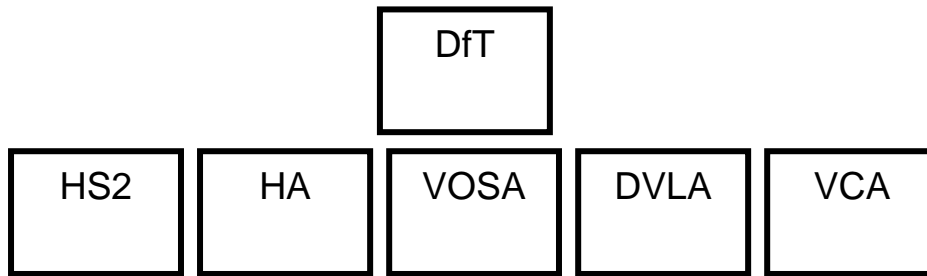
Pro:

- This ensures that each NDPB has a focus on delivering the sections of the project they are responsible for, and individual visions are not diluted.
- The DfT can set very clear roles and responsibilities for each of the NDPBs.

Con:

- Increases the number of NDPBs that the Department is responsible for at a time when the Government is trying to reduce the number of public bodies.
- The technical, engineering, commercial and environmental elements of the project would overlap between the two NDPBs which could lead to additional work, cost and delay.
- The new NDPB would not necessarily be better able to deliver its remit outside of HS2.

Set up an Executive Agency



This option would set up an HS2 as an Executive Agency to deliver the project.

This would bring HS2 closer to the Department although with a degree of autonomy to deliver activities within its remit. All activities would be moved to this new Agency, except Sponsorship, which could reduce the oversight undertaken within DfT.

The Agency would be staffed by Civil Servants so either current staff would have to move to Civil Service terms and conditions or we would need to recruit new staff to fill these posts.

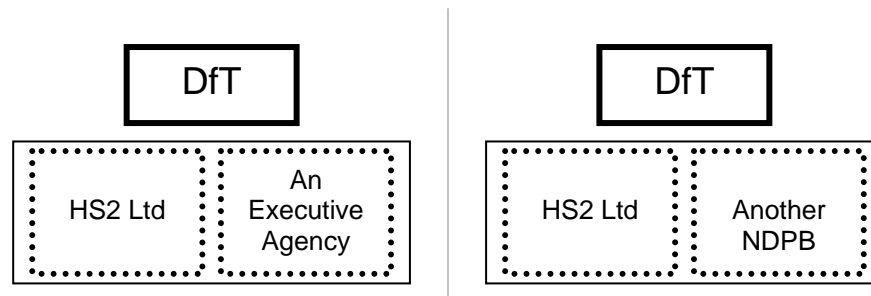
Pro:

- It would give a clear focus and remit to HS2 to deliver the project.
- All HSR activity could be located in the one body.

Con:

- Executive Agencies need to be staffed by Civil Servants – market soundings have demonstrated that it will be challenging, if not impossible to recruit the required skills into the Civil Service.
- The majority of Executive Agencies are involved in delivering a service. It is not possible to describe the functions of HS2 currently or in the future under this criterion.
- A sponsorship team would still be required in DfT so there are questions around how much reduction in headcount could be achieved.
- Setting up a new body in the timescales available would be incredibly demanding and increase our risks of failing to delivery

Merge with another Body



This option involved us examining other areas of central government that deliver a similar or complimentary function. The aim was to merge HS2 Ltd with this organisation, removing any of the duplicated functions, but with each body continuing to fulfil its primary remit. A number of options were looked at more closely, including following the Dutch example of using their equivalent of the Highways Agency to deliver their high speed rail line, and the possibility of looking at other current major transport infrastructure projects, and considering if there was any potential to bring the bodies together. However, very early analysis showed that these options were not worth pursuing.

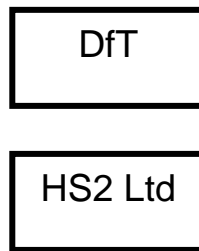
Pro:

- This may deliver some economies of scale by reducing the number of functions that are duplicated between the two bodies.
- Could allow the transfer of knowledge and skills from one project to the other.

Con:

- Divergent remits would be very difficult to align. There is a high degree of risk that all focus on one of the projects would be lost.
- Risks around delivering one mega project in isolation are high; merging two such projects together raises the risks even higher.
- Significantly damages stakeholder confidence in the project as it sends confused signals.
- The rail market in the UK is very different to continental Europe, and it would not be possible to hand responsibility to an Executive Agency.

Continue with NDPB



This option would see HS2 Ltd continuing to focus on the development of the line from London to the West Midlands, on the route north of Birmingham and the link to Heathrow. DfT would continue to perform its role as Sponsor of the NDPB and setting the overall strategy.

As HS2 Ltd performs a technical function that requires external expertise to deliver, this model would likely be the most effective at filling these positions. It would also maintain a tried and tested approach to delivering large scale transport infrastructure projects.

Pro:

- Builds on the delivery of the project to date using an effective model.
- Ensures the ability to recruit staff with technical expertise to the project.
- Ensures that we do not add further risk into the timescales by attempting to implement a new model.
- Ensures that there is effective oversight and challenge of the NDPB in line with Government guidance.
- Allows options development to be delivered with a degree of independence from Ministers.

Con:

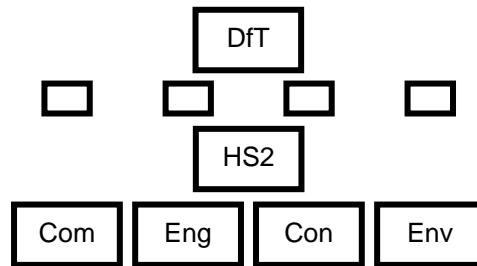
- This option requires DfT to retain an NDPB at a time when the government is committed to reducing their number.

In evaluating whether to continue with an NDPB, it is necessary to apply further consideration to the structure required within the DfT / Non-Departmental Public Body relationship. Comparison of the following structures is covered in depth in the following pages:

- Sponsor / Delivery Body Relationship
- One Body Responsible for HS2
- Fully Integrated Approach

POTENTIAL NDPB STRUCTURE

Sponsor / Delivery Body relationship



There is a very clear distinction between the sponsor, DfT, and the delivery body, HS2 Ltd. DfT would monitor work to ensure that the programme milestones are met on budget.

DfT would lead on the policy aspects of the Hybrid Bill including developing proposals on a range of policy decisions ahead of introduction of the bill.

HS2 Ltd would be given the autonomy (within a remit from DfT) to focus on delivering the design and development work, other private elements of the bill, the environmental statement and the effective management of multi-million pound contracts under which external companies are undertaking much of the detail of this work.

DfT monitors the work of HS2 so that the Department is able to closely monitor delivery and have the assurance that HS2 is in line with the government's plans.

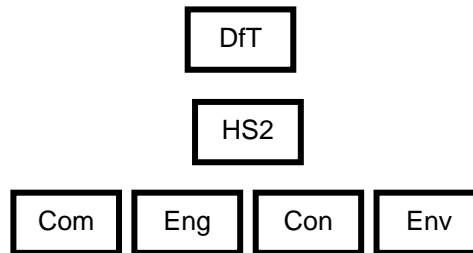
Pro:

- Enables a body separate from Government to recruit and retain the technical and specialist staff required.
- Continues independent policy advice to Ministers from DfT on key strategic issues.
- Well tested model successfully used on Crossrail, Olympics, CTRL.
- The sponsor/delivery body role provides an opportunity for constructive challenge and assurance.
- Enables Ministers to take decisions and manage policy trade-offs.
- Provides greater clarity for both organisations.

Con:

- Requires DfT to shadow HS2 Ltd's work to some degree, which may seem wasteful if you do not value the challenge function which DfT would provide.
- It may not be possible to give HS2 Ltd complete control of the project due to the high political profile of the project.

One body is responsible for HS2



In this option all the development phase activities would be brought together in one body, HS2 Ltd, but it is organisationally situated much closer to DfT.

HS2 Ltd would deliver all its current role but also the Hybrid Bill and policy development. DfT would retain only a very small sponsorship team in line with the proper management of NDPBs. HS2 Ltd would remain an NDPB but would have a mix of specialist rail project skills with roles traditionally performed in the Civil Service. This mix of skills within the one organisation could give the body a strong Civil Service feel due to the focus on successfully delivering the Hybrid Bill through Parliament.

Our analysis concluded that this would make it harder to recruit the required level of technical and engineering expertise in the organisation. This body would not be significantly at arms' length from Ministers as it would be responsible for all briefing for debates/interviews on high speed rail and for managing the bill, advising Ministers on handling all amendments and during its Parliamentary passage.

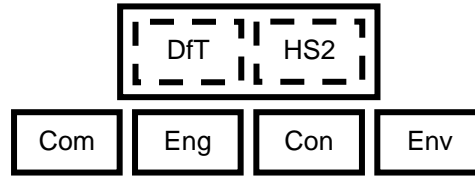
Pro:

- One single body for all aspects of the project.
- Brings the body closer to Ministers.
- Reduces headcount in DfT.

Con:

- Difficult to attract, recruit and retain the right skills and experience to a body that is so close to government.
- HS2 Ltd is no longer able to maintain its focus on the delivery remit.
- DfT no longer retain any resource or expertise within DfT to protect the SoS' interests.
- Unclear where scrutiny / assurance from DfT happens.
- Problems integrating this body with wider rail policy development in DfT.

Fully integrated approach



In this option an integrated approach is adopted to the delivery in the development phase with joint responsibility held between DfT and HS2 Ltd for managing the delivery of the work packages / contracts. HS2 Ltd would no longer have a delegated remit for delivery. This would position DfT more fully within HS2 Ltd requiring a larger team from the Department who would jointly agree and monitor the work with HS2 Ltd. Working relationships and roles of the different parties would need to be carefully specified and monitored.

Pro:

- Gives assurance and control to DfT on the activities that are being undertaken and progress that is being made.

Con:

- Confuses the role of sponsor and delivery body.
- Significantly increases the number of staff and skills required within DfT.
- Large amounts of duplication on work.
- Very likely that different steers will be given on the same areas resulting in increasing the time and cost of the project.
- It could be difficult to establish and manage this sort of relationship.

CONCLUSIONS

In evaluating the above structures, it was the conclusion of the Triennial Review that HS2 Ltd should continue as a Non-Departmental Public Body.

In endorsing the continuing NDPB status of HS2 Ltd, it was then necessary to consider which delivery option for the relationship between the Department and the NDPB would best deliver the requirements of the Department.

The single most important factor that had been consistently identified in order to guarantee the success of High Speed Rail was getting the right people to work within the development body on the project. Analysis of other projects, and market soundings on the recruitment of individuals to this project, identified that a Sponsor / Delivery Body relationship as the recommended approach to ensure that we could attract the right individuals.

While it would be expected that the delivery body would act as a champion for High Speed Rail, it was deemed necessary that the technical assurances provided were apolitical and based on best practice.

Due to the technical nature of the role, and the need for the Department to maintain oversight of how public money is spent, a strong well-defined relationship is paramount, which validated the conclusion of the Triennial Review that the sponsor/delivery body relationship was the best option to deliver the development phase.

The findings was endorsed by the Secretary of State in October 2011, and it was the consideration of the Triennial Review group that no further information had come to light in the interim months that contradicted the earlier findings.

The Three Tests

One of the requirements of the Triennial Review process is an assessment of the role of HS2 Ltd in line with the Government's "Three Tests":

- **Is this a technical function (which needs external expertise to deliver)?**
- **Is this a function which needs to be, and be seen to be, delivered with absolute impartiality (such as certain regulatory or funding regulations)?**
- **Is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity?**

The role of HS2 Ltd, including the technical nature of its function was laid out in the description above and the Triennial Review Team was therefore satisfied that the functions undertaken by HS2 Ltd satisfied the requirements of the "Three Tests".

PART 2 - GOVERNANCE

What arrangements are in place to ensure that the project is delivered effectively?

The High Speed Rail link between London, the West Midlands, and the North is a large scale, publicly funded, infrastructure project. Having established both a requirement for the function of HS2 Ltd, and having outlined the preferred delivery arrangement, it is necessary to consider what arrangements are currently in place to ensure that the project is delivered effectively, and that the Department for Transport has sufficient oversight of the project.

This section therefore assesses the governance arrangements in place at the time of the review, and with consideration of the changing demands upon the body, gives due consideration to those arrangements required to successfully meet the goals of the development phase.

This section also informs Part Three, in which we make recommendations for the arrangements that would be put in place in the months following a decision. Ensuring satisfactory governance provides for a robust relationship between the Department for Transport as Sponsor, and HS2 Ltd as the delivery body, and reinforces the conclusions of Part One of this review.

As noted in the opening description of the Triennial Review process, the review considered matters of corporate governance only, and could not comment on whether HS2 should proceed, the specific line of route that had been put forward, or to give consideration to individual aspects of the advice provided by HS2 Ltd.

It was confirmed with the relevant officials within the Department that there had been sufficient transparency in access to responses to the consultation phase, to inform the decisions taken internally. The consultation had offered all interested stakeholders an opportunity to comment, and HS2 Ltd had not been in a position where it could mislead the Department by not giving due consideration to any points raised during this formal process.

While some areas of programme governance were touched upon during the Challenge Group meetings, this was used to inform the team on these areas of corporate governance and to guide conclusions when considering areas such as the controls in place, and financial delegation.

The review approached the issue of good governance with reference to the areas within Cabinet Office guidance on “Principles of Good Corporate Governance”, and this analysis is provided below.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The standard approach to assessing Corporate Governance in the UK is the use of “Comply or Explain” questions. The Cabinet Office guidance on Principles of Good Corporate Governance was arranged as questions in this format, and structured using the titles provided.

In providing the below outcomes, the review team initially analysed the Framework Document⁷, to establish the basis under which HS2 Ltd was expected to comply with these requirements. The current version of the Framework Document was agreed in November 2010 between the DfT and HS2 Ltd. A copy will be available alongside this report.

Consideration of the Framework Document and its suitability led the team appraisal of the governance arrangements, and HS2 Ltd were asked to provide supporting documentation to confirm their compliance where applicable. The team also sought input from stakeholders including those from the DfT Sponsorship Team. The key aspects of the Framework Document were then brought forward for discussion in the Challenge Group.

Comply / Explain Questions for HS2 Limited
Question to HS2 Limited Not currently compliant

Area	Owner	Statement	Comments	Comply	Explain
<u>Statutory Accountability</u>	HS2 Ltd / DfT	Does HS2 Limited comply with all statutory and administrative requirements on the use of public funds?	This includes the principles and policies set out in the HMT publication "Managing Public Money" and Cabinet Office/HM Treasury spending controls.	Yes – Framework Agreement 3.4 & 3.5	
<u>Statutory Accountability</u>	HS2 Ltd / DfT	Does HS2 Limited operate within the limits of its statutory authority and in accordance with any delegated authorities agreed with the Department for Transport?		Yes – Framework Agreement 3.7 & 3.8	
<u>Statutory Accountability</u>	HS2 Ltd	Does HS2 Limited operate in line with the statutory requirements and spirit of the Freedom of Information Act 2000?			
<u>Statutory Accountability</u>	HS2 Ltd	Does HS2 Limited have a comprehensive Publication Scheme through which it proactively releases information that is of legitimate public interest, where this is consistent with the provisions of the Act?		Yes – Framework Agreement 4.1 & 4.7	

In order to highlight areas where scope was identified for improvement, bold text is used, and recommendations for improvement are made in Part Three of this report.

The following section should not be taken to imply further assessment against the Companies Act 2006, or any other relevant legislation, excepting where the Cabinet Office used said legislation to inform their guidance.

⁷ <http://hs2.org.uk/assets/x/78428>

Statutory Accountability

1. Does HS2 Ltd comply with all statutory and administrative requirements on the use of public funds?

This requirement was laid out in the Framework Document at sections 3.4 and 3.5.

HS2 Ltd confirmed that they adhered to the principles set out in “Managing Public Money”, and the relevant spending controls set out by Cabinet Office and HM Treasury. HS2 are now externally audited by the National Audit Office, and have undertaken an Internal Audit of Core Controls.

HS2 provided copies of financial delegations, however these will need to be increased for the next phase.

2. Does HS2 Ltd operate within the limits of its statutory authority and in accordance with any delegated authorities agreed with the Department for Transport?

This requirement was laid out in the Framework Document at sections 3.7, 3.8, 3.20 & 3.22.

HS2 Ltd further provided a delegation letter to the DfT Non-Executive on the HS2 Ltd Board, representing formal delegation to the HS2 Ltd Accounting Officer. A copy of the HS2 Ltd purchasing policy was provided

3. Does HS2 Ltd operate in line with the statutory requirements and spirit of the Freedom of Information Act 2000?

The HS2.org.uk website provides full details of the Publication Scheme, which includes reference to the Freedom of Information Act. The website further includes previous responses and the documents disclosed.

4. Does HS2 Ltd have a comprehensive Publication Scheme through which it proactively releases information that is of legitimate public interest, where this is consistent with the provisions of the Act?

This requirement was laid out in the Framework Document at sections 4.1 & 4.7.

The HS2.org.uk website provides full details of the Publication Scheme, including which documents are available online.

It was however noted that some documents were difficult to locate, and that there was scope for improvement in the website in order to present the available information more readily, as well as in making more information available. Documents cited for inclusion would include Terms of Reference for the Board Committees. This is addressed further in the transparency section of Part Three of this document.

5. *Does HS2 Ltd comply with Data Protection legislation?*

HS2 Ltd responded that it was compliant with Data Protection legislation, and that its Publication Scheme was being updated to reflect this.

6. *Is HS2 Ltd subject to the Public Records Acts 1958 and 1967?*

HS2 Ltd confirmed that they were compliant, and provided evidence that they were in the process of compiling an official record to that effect.

Accountability for Public Money

7. *Is there a formally designated Accounting Officer for HS2 Ltd?*

This requirement was laid out in the Framework Document at sections 3.2 and 3.20.

The Accounting Officer for HS2 Ltd is the Chief Executive. HS2 Ltd confirmed that there was a formal delegation to this effect, from the Department's Principal Accounting Officer. The HS2 Board Code of Practice directs the Chief Executive to the Treasury's handbook "Regularity, Propriety and Value for Money" to describe the necessary concepts in a financial context

8. *Are the role, responsibilities and accountability of the Accounting Officer clearly defined and understood?*

This requirement was laid out in the Framework Document at sections 3.2.

HS2 Ltd stated that regular meetings were held with internal and external auditors, and government advice was updated as necessary. The current Chief Executive was an experienced Civil Servant, whose role and responsibilities were laid out in the Board Code of Practice.

An induction programme would be required to ensure that any future external candidate appointed to the role, was suitably able to fulfil these requirements.

9. *Does HS2 Ltd have in place appropriate arrangements to ensure that public funds satisfy the required criteria?*

This requirement was laid out in the Framework Document at section 8.3.

HS2 Ltd responded that their delegations restricted authorities within the company and that any amounts above £25k were cleared by the HS2 Ltd programme board, and that in various instances DfT approval was required. HS2 Ltd provided a copy of the Procurement Authorities table.

It was identified that a new range of delegations would be required to reflect the change in financial responsibility, and these would need to be considered as part of the agreements between DfT and HS2 Ltd entering the development phase.

It is noted that HS2 Ltd has an interim Commercial Director with a high level of Financial experience, who had been the Finance Director on HS1, and a designated Head of Finance, who is a Chartered Accountant, responsible for reporting to the board. HS2 Ltd confirmed that the Commercial Director would be the senior executive responsible for finance in the organisational structure proposed should the decision be made to proceed.

10. Are the annual accounts of HS2 Ltd laid before Parliament?

This requirement was laid out in the Framework Document at sections 5.1, 5.3 and 5.6.

HS2 Ltd confirmed that they had laid the last set of accounts before Parliament voluntarily. The accounts for the current Financial Year would be laid before Parliament as an obligatory matter, as they were to be externally audited by the National Audit Office.

11. Have the Comptroller and Auditor General been established as the external auditor for the body?

This requirement was laid out in the Framework Document at section 5.6.

HS2 Ltd confirmed that the National Audit Office had been appointed as External Auditors.

Role of the Board

12. Has the board of HS2 Ltd been formed such that it can meet the stated requirements?

This requirement was laid out in the Framework Document at section 3.17.

The Board of HS2 Ltd is formed of a number of professionally competent individuals, with experience of the areas of business conducted by the company. There is a Board Code of Practice and Staff Code of Practice (which was outlined in the Staff Handbook), to formally set out the expectations of conduct in these roles. Routine Meetings were held on a monthly basis, though other meetings could be held if required, and it was confirmed that the board members were able to commit sufficient time to attend. Minutes were published on the HS2.org.uk website. The Board Code of Practice confirmed that the Board has a responsibility to ensure that “the board has a balance of skills appropriate to directing the HS2 Ltd business, as set out in the Government Code of Practice on Corporate Governance”. The Audit Committee minutes of March 2011 confirmed that the Code of Practice had been received, and was in effect.

To meet the demands of the development phase following a decision by the Secretary of State to proceed with HS2, the board is to be strengthened by recruitment, ensuring that the necessary expertise is reflected in the board composition.

13. Does the board have in place a framework of strategic control (or scheme of delegated or reserved powers)?

This requirement was laid out in the Framework Document at sections 3.17.

HS2 Ltd provided a copy of the full Framework Document, and confirmed that the Corporate and Business Plans were overseen and approved by the board. Milestones and risks were regularly reviewed, under item 4 on the meeting agendas, and the Board received monthly financial updates, which were available in the published minutes. The audit and remuneration committees had delegated authority to advise on matters in their respective areas, as laid out in the relevant Terms of Reference.

The Corporate Governance Code now requires the Chair of the Audit Committee to have appropriate financial experience. HS2 Ltd are therefore to ensure that this is taken into account when considering roles on the Board within the development phase.

14. Has the Board established formal procedural and financial regulations to govern the conduct of its business?

This requirement was laid out in the Framework Document at sections 4.3 and 8.1.

HS2 Ltd provided a Management Assurance questionnaire, as presented to the Audit Committee, and the Terms of Reference and minutes of the Audit Committee.

15. Does the Board have in place appropriate arrangements to ensure that it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively?

This requirement was laid out in the Framework Document at section 3.17.

HS2 Ltd stated that the Chair of the Audit Committee reported back to the board following each meeting, and that a financial update was provided by the Head of Finance each month. The Board Secretariat further supported the Board in the provision of any information on best practice. The Senior Executive team and Chief Executive update the Board on the work of HS2 on a monthly basis, with regular reports on key milestones and risk registers.

16. Does the Board have in place a senior executive responsible for ensuring that Board procedures are followed and that all applicable statutes and regulations and other relevant statements of best practice are complied with?

This requirement was laid out in the Framework Document at section 3.14.

HS2 Ltd responded that the Board was overseen by the Chair, in accordance with the Code of Practice and Framework Document. The Secretariat and Head of Governance provided support to that function.

17. Does the Board have in place a remuneration committee to make recommendations on the remuneration of top executives?

This requirement was laid out in the Framework Document at sections 6.1, 6.2 and B2.

HS2 Ltd provided Terms of Reference of their Remuneration Committee, and confirmed that salaries of Non-Executive Directors and the Chief Executive were published in the Annual Accounts. The Department for Transport published salaries over the relevant threshold in accordance with DfT policy.

It was however found that Board committee membership and detailed information on the board members were both lacking on the HS2 Ltd website, reducing transparency.

18. Is there in place an annual performance evaluation process?

This requirement was laid out in the Framework Document at section 6.2.

HS2 Ltd responded that the Audit Committee was scheduled to carry out Annual Self Assessment in April. A Board Self Assessment was completed on 30 November 2011.

Role of the Chair

19. Is the board led by a non-executive Chair appointed by a formal, rigorous and transparent process?

The need to ensure compliance with OCPA Code of Practice was raised. Any future appointments are to be made in accordance with the relevant guidance. See Part Three.

20. Are the duties, role and responsibilities, terms of office and remuneration of the Chair set out clearly and formally defined in writing?

This requirement was laid out in the Framework Document at sections 3.13 and 3.14.

HS2 Ltd confirmed that the roles and responsibilities of the Chair were set out in the Framework Document, and Code of Conduct. The remuneration was in the Annual Accounts. The Chair attended quarterly meetings with the Secretary of State. Board members had attended site visits to familiarise themselves with the routes

21. Are the roles of Chair and Chief Executive held by different individuals?

The Board Chair is Sir Brian Briscoe, and the Chief Executive is Alison Munro. This requirement is therefore satisfied.

Role of Non-Executive Board Members

22. *Is there a majority of non-executive members on the board?*

This was confirmed to be the case.

23. *Are the duties, role and responsibilities, terms of office and remuneration of non-executive board members set out clearly and formally defined in writing?*

As per question 20.

24. *Is there in place a formal, rigorous and transparent process for the appointment of non-executive members of the board?*

As per question 19.

25. *Are all non-executive Board members properly independent of management?*

The non-executive members of the Board do not take any executive function within HS2 Ltd.

26. *Are all non-executive board members able to allocate sufficient time to the board to discharge their responsibilities effectively?*

It was found that this was not currently an issue. The current contracts of board members were due to expire shortly after the decision of the Secretary of State on High Speed Rail. It was therefore expected that the board members would evaluate their own ability to commit time, and this would allow an exit point for any board members with concerns in this area.

Further recruitment post-decision would ensure that all sitting members of the board were able to dedicate sufficient time, and also strengthen the capacity of the board to advise on all aspects of HS2 Ltd's work.

27. *Is there in place a proper induction process for new board members?*

This requirement was laid out in the Framework Document at section 3.14.

HS2 Ltd confirmed that the current Board members were experienced, and had received up to date guidance on corporate best practice. Board members had met HS2 Ltd staff and been familiarised with specific issues relating to the project, as well as attending site visits. It was confirmed that should recruitment take place during the transition to a Development focus, specific training would be provided for any new Board Members.

Annual Reporting

28. *Does HS2 Ltd publish, on a timely basis an objective, balanced and understandable annual report?*

This requirement was laid out in the Framework Document at section 5.3.

HS2 Ltd publishes its annual accounts online, however it was noted that this did not provide a dedicated corporate governance section, as found in comparator organisations.

HS2 Ltd confirmed that they are preparing a month nine Governance Statement, including a Register of Attendance (as referred to in Part Three of this report), to be submitted at the end of January 2012, and a year end Governance Statement will be published as part of the 2011-12 Annual Report and Accounts.

Internal Controls

29. *Has HS2 Ltd taken steps to ensure that effective systems of risk management are established as part of the systems of internal control?*

This requirement was laid out in the Framework Document at section 8.13.

HS2 Ltd confirmed that the Risk Registers were presented to the Board and Audit Committee, and that this was reflected in the minutes. The Internal Audit report was made to the Audit Committee on a quarterly basis.

The National Audit Office, as External Auditors met regularly with the Chair of the Audit Committee, Accounting Officer and Audit Committee.

30. *Are there in place appropriate financial delegations?*

This is laid out in Appendix A of the Framework Document. It was confirmed that the board complied with the delegations in place.

Due to the changes in role, it is likely that the current financial delegations will need to be reconsidered, and it will therefore be necessary for new arrangements to be made to reflect the development phase.

31. *Are there in place effective anti-fraud and anti-corruption measures?*

This requirement was laid out in the Framework Document at Appendix D.

HS2 Ltd further provided copies of the Anti-Bribery and Whistle-Blowing policies, and the Anti-Fraud policy. Distribution of the policies was confirmed in the relevant minutes.

32. Are there in place clear rules governing the claiming of expenses, and effective systems in place to ensure compliance with these rules?

This requirement was laid out in the Framework Document at Appendix D2.

HS2 Ltd provided a copy of the Travel and Subsistence Policy and the Entertainment Expenditure Policy.

Audit Committee

33. Has the board established an audit (or audit and risk) committee with responsibility for the independent review of the systems of internal control and of the external audit process?

This requirement was laid out in the Framework Document at sections 3.4 and 3.5.

It was confirmed that there was in place an Audit Committee, and both terms of reference and minutes of the meetings were provided.

It was confirmed that transparency of these activities could be improved by inclusion on the HS2 website.

External Auditors

34. Has HS2 Ltd taken steps to ensure that an objective and professional relationship is maintained with the external auditors?

This requirement was laid out in the Framework Document at sections 4.17 and 5.6.

Internal Audits of the Core Controls were carried out by an Audit Manager from the Department for Transport's Audit & Risk Assurance Division. The arrangements for the provision of the internal audit service were detailed in a Service Level Agreement, and provided in accordance with HM Treasury's Government Internal Audit Standards (GIAS).

Communication with Stakeholders

35. Has HS2 Ltd identified its key stakeholders, and established clear and effective channels of communication with these stakeholders?

HS2 Ltd responded that, from the start of its work in January 2009, it had placed significant importance on working collaboratively with stakeholders. Stakeholder categories were identified at an early stage and working groups established.

As the project has moved forward into subsequent phases, HS2 Ltd Programme Board had continually reviewed our approach to stakeholder engagement and put in place mechanisms appropriate to the stage of the project, including for the public consultation.

HS2 Ltd had developed an engagement plan for London to West Midlands should the project proceed, including a three part structure featuring: a National Environment Forum, covering matters of environmental policy and principle; Planning Forums, involving local authorities and other statutory bodies on planning and technical issues; and Community Forums, involving local community representatives to discuss potential mitigations.

At the time of writing, work on developing options for the Y network to Manchester and Leeds had involved a programme of engagement with delivery partner stakeholders on station options. Plans were being put in place for engagement with authorities on proposed lines of route prior to the submission of a report by HS2 Ltd to the Secretary of State in March 2012, and for stakeholder engagement following her receipt of that report.

HS2 Ltd confirmed that they aim to respond to general enquiries from members of the public within 20 working days. Members of the public who telephone the public enquiries team are advised of this policy where responses can not be provided directly, and an automatic email response is issued to those who email the public enquiries team, advising them of this response time target.

By employing Non-Executive Directors with relevant experience, it was possible for the board to demonstrate the necessary credibility to stakeholders in the industry.

Communication with the Public

36. Has HS2 Ltd made an explicit commitment to openness in all its activities?

This requirement was laid out in the Framework Document at section 4.7.

HS2 Ltd provided further clarification in responses to questions 4 and 35. HS2 Ltd confirmed that some members of the HS2 Ltd Board had claimed expenses for 2011/12. The entitlement of Board members to reimbursement for travel is set out in the Annual Report and Accounts.

Data on spend over £500 for HS2 Ltd was not published on the HS2 Ltd website, but was published by the Department⁸.

37. Does HS2 have in place effective correspondence handling and complaint procedures?

The HS2 Ltd Complaints procedures are published at HS2.org.uk. HS2 Ltd aim to respond within 20 working days to any enquiries made to the public enquiries team. An automatic email response is sent to those who contact the public enquiries team via email to inform them of this policy.

⁸ <http://www.dft.gov.uk/publications/dft-monthly-spending>

Marketing and PR

38. *Does HS2 Ltd comply with the Government's conventions on publicity and advertising?*

HS2 Ltd confirmed that this was addressed in the Board Code of Practice, Staff Handbook, ERG & Communications Clearances.

39. *Does HS2 Ltd have robust and effective systems in place to ensure that it is not, and is not perceived to be, engaging in political lobbying?*

HS2 Ltd provides a function to the Department which allows it to meet the Coalition priority of introducing a High Speed Rail network between London, the West Midlands and the North.

While some respondents gave concerns that HS2 Ltd had adopted a pro-HS2 stance to its work, it was the finding of the team that HS2 Ltd had met DfT expectations in carrying out the remit they had been given, and that the information was suitably impartial.

When asked to respond to concerns raised by the public about the HS2 Ltd Challenge Panels, which were convened to provide a critical view of the HS2 Ltd proposals, HS2 Ltd clarified that these were not designed to oppose or object to high speed rail or the proposals as a principle. The members were there to provide strategic challenge and an independent perspective on how HS2 Ltd developed the proposals for a new railway line from London to the West Midlands as a first stage and any subsequent extensions. HS2 Ltd confirmed that they had sought to appoint people who had particular expertise or experience that they could bring to bear on the particular issues being considered. For example, the Strategic Challenge Panel included members with experience of transport, land use planning and regional development, and environment and sustainability issues.

HS2 Ltd stated that this was addressed as part of the Board Code of Practice, and the Business Interests Register.

It was noted that the role of members of HS2 Ltd was to engage with stakeholders, and that a record would of meetings would be beneficial to pre-empt claims of prejudice or lobbying.

Further clarification would be obtained by following OCPA Code of Practice in making future appointments.

This is also addressed further in the recommendations made on Transparency of HS2 Ltd in Part Three.

Conduct

40. *Is there in place a Code of Conduct setting out the standards of personal and professional behaviour expected of all board members?*

HS2 Ltd provided a copy of the Board Code of Practice and staff Code of Conduct.

41. *Has HS2 Ltd adopted a Code of Conduct for staff?*

See Questions 12, 13 & 20.

42. *Are there in place clear rules and procedures for managing conflicts of interest?*

HS2 Ltd responded that there was a Register of Business Interests, a Board Conflicts of Interests Register and that the Audit Committee conflicts were requested at each meeting.

It was recommended that these matters were made easily available on the HS2 Ltd website. The latest draft minutes available to the review team confirmed that this had been separately addressed as a point for action.

43. *Are there in place clear rules and guidelines in place on political activity for Board members and staff?*

HS2 Ltd confirmed that this was laid out in the Board Code of Practice and Staff Handbook.

44. *Are there in place rules for Board members and senior staff on the acceptance of appointments or employment after resignation or retirement?*

HS2 Ltd confirmed that the confidentiality section of the contract included matters after termination of appointment, however this did not limit posts taken after termination of contract.

This may need to be reflected in any new contracts issued to those recruited to meet the operational needs of HS2 Ltd should the Secretary of State decide to continue with High Speed Rail.

Ministerial Accountability

45. *Do the Minister and sponsoring Department exercise appropriate scrutiny and oversight of HS2 Ltd?*

This requirement was laid out in the Framework Document at sections 3.1 and 3.8.

HS2 Ltd confirmed that there were regular meetings with the Secretary of State, and that Monthly Reports were provided to the Department for Transport. An MPA review had been undertaken to ensure further scrutiny.

The DfT Sponsorship team confirmed that there were regular sponsorship body meetings with senior members of the HS2 Ltd executive team.

46. Are appointments to the Board made in line with any statutory requirements and, where appropriate, with the Code of Practice issued by the Commissioner for Public Appointments?

This is addressed in Question 19. It is expected that any future appointments are to be made in line with the OCPA Code of Practice.

47. Does the Minister meet the Chair and/or Chief Executive on a regular basis?

It was confirmed that the Minister met with the Chair or Chief Executive regularly as required.

48. Are there in place a range of appropriate controls and safeguards to ensure that the Minister is consulted on key issues and can be properly held to account?

This requirement was laid out in the Framework Document at sections 3.1 & and 3.4.

As the remit following consultation was to advise the Secretary of State and to facilitate her decision on whether to proceed with High Speed Rail, it was felt that there was sufficient ministerial oversight during the current phase.

As detailed above, recommendations were made as to the Sponsor's Requirements and Project Delivery Agreements needed for the development phase, should the Secretary of State decide to proceed.

49. Is there in place a requirement to inform Parliament of the activities of the public body through publication of an annual report?

This requirement was laid out in the Framework Document at sections 5.2, and is addressed above.

Role of the Sponsoring Department

50. Does the Departmental board's regular agenda include scrutiny of the performance of the public body?

This requirement was laid out in the Framework Document at sections 3.14, 4.12, and 8.13.

The sponsorship body confirmed that the Department Board was regularly appraised of finance and risk matters, and progress in milestones.

51. Is there a Framework Document in place which sets out clearly the aims, objectives and functions of the public body and the respective roles and responsibilities of the Minister, the sponsoring Department and the public body?

A Framework Document is in place and has guided the formation of this section.

Reference has been made in this document of the need to revise the Framework Document to reflect the requirements of the development phase. This work will be completed in the event of a decision to proceed.

52. Is there a dedicated sponsor team within the Department for Transport?

There exists within the DfT a dedicated team, who were consulted during the production of this assessment of Governance Procedures.

53. Is there regular and ongoing dialogue between the Department for Transport and HS2 Ltd?

This requirement was laid out in the Framework Document at sections 3.6.

There is a continuing dialogue between both parties, in order to adapt to the requirements of the project and ensure efficient delivery.

Conclusions

It was the assessment of the Triennial Review team that the arrangements which had been put in place for HS2 Limited during its original remit, considering the case for HS2 and in supporting the consultation process for the first phase of the project were generally adequate.

It would nonetheless be vital for HS2 Ltd and the DfT to collaborate on improving the controls and processes which govern the activities of HS2 Ltd, in order to reflect the higher levels of assurance required following an increase and change in responsibilities of the NDPB after a decision by the Secretary of State's to continue with HS2.

The need for an increase in controls could be addressed in part by implementing a new Framework Document as part of a suite of project documents that would be put in place going forward.

The team considered these points, the need for greater transparency, and other areas for development. Recommendations are made in the following section.

PART 3 - THE FUTURE OF HS2 LTD

What arrangements need to be in place to ensure that the project is delivered effectively?

The role of HS2 Ltd has changed in a number of ways in the three years since it was conceived. When entering the development phase of a High Speed Rail project, the functions of HS2 Ltd would be required to change again, in order to meet the timescales outlined in the DfT Business Plan for Royal Assent of a Hybrid Bill on High Speed Rail.

In order to strengthen the relationship between DfT and HS2 Ltd it is important to build upon areas of good governance, but also to address any areas where improvements could be made. It is important to state that these improvements will be owned by the sponsor Department and not just HS2 Ltd. During the consideration of the governance arrangements provided above, areas were identified where improvements could be made. The Challenge Group had reservations about whether the current arrangements were adequate for the circumstances that may arise during the development phase. A summary of these areas are provided below:

TRANSPARENCY

There is a high level of public interest in High Speed Rail, and this has an impact on HS2 Ltd, and how it carries out its operations. It was noted during the review that there were several areas where an increase in transparency could address the concerns of the public and have a positive impact on public perception of the way in which HS2 Ltd conducts itself.

It is a recommendation of the review that HS2 Ltd look at areas where the information that is made available could be improved upon, in the context of good corporate governance, with an increase in published documentation.

The inclusion of a section on corporate governance within the Annual Report, with input from the Audit Committee and Remuneration Committee, matters of attendance etc, would improve transparency. This could be conducted in line with a review of relevant sections of the HS2 website, to improve the visibility and accessibility of information.

The review team is aware that, separately from the publication of the report, HS2 Ltd's board has already moved to publish Business Interest registers, however further steps are possible, such as providing a link from the HS2 Ltd website to the DfT website page where DfT publishes spend over £500, for ease of location. The publication scheme would require updating to ensure that it confirmed HS2 Ltd to be compliant with Data Protection legislation, and an Official Record of HS2 Ltd's decision making in compliance with the Public Records Acts should be published when complete.

A full recruitment process in line with Office of the Commissioner for Public Appointments (OCPA) guidance would be required for new non-executive board members. This would reinforce the transparency of the organisation.

FINANCIAL DELEGATION

While the financial assurances of HS2 Ltd were found to be satisfactory, the review observed that, with an increase in the budget and financial delegations to HS2 Ltd, there would need to be strong evidence of uplift in the financial controls and processes to reflect this increase in budget. HS2 Ltd Finance confirmed that they were aware of this and intend to put further controls in place.

The above remit changes would include an update to the system of financial delegations in place, to ensure that the approvals process was robust and reflected an appropriate level of trust, while still providing oversight and assurances necessary to maintain DfT control on any possibility of overspend.

It is suggested that the financial responsibilities are laid out not only in terms of spend by HS2 Ltd on aspects of design and development, but with strong regard to the impact that this will have on the overall costs throughout the lifespan of the project.

As the Head of Finance reports to the Commercial Director, it may be necessary to clarify this relationship. This could form part of the improvement in the description of the Board and Senior Executive team on the HS2 Ltd website.

REMIT

In order to clearly set out the respective roles and responsibilities of each party and what rights and powers each holds in the development phase, the new remit will need to be clearly designed to allow no flexibility in interpretation. It will further reflect the increase in manpower and wider scope of activities, as well as the use of technical staff.

It is likely that the defined high-level responsibilities will broadly follow the approach given in the table below:

High Level Activity	Responsibility	
	R=Responsible S=Supporting	
	DfT	HS2
Engineering Design	S	R
Environmental	S	R
Hybrid Bill	R	S
Funding	R	S
Commercial	S	R
Property	S	R
Strategy	R	S
Resourcing	R	S
Communications and engagement	S	R
Leeds / Manchester / Heathrow route development	S	R
Land Referencing	S	R
Regulation	R	S

Rather than simply being provided by letter as in the previous phases, a number of documents will be required to clearly set out HS2 Ltd's remit post decision:

- A Project Development Agreement clearly setting out the matters for which HS2 Ltd needs approval from the Department and how this approval will be obtained and how such decisions will be taken.
- A Sponsor's Requirements document, setting out the specific outputs and standards which HS2 Ltd are required to achieve.
- A revised Framework Document to address gaps in the existing document, to reduce areas which are overly proscriptive, and to strengthen the Corporate Governance arrangements. This would include setting the composition of the Board.
- Updated Terms of Reference for the Board and Committees to ensure that there is transparency to the public in how business is undertaken, but also to provide protection for those in these positions.

This would offer several benefits, including:

- Ensuring sufficient delegated responsibility to allow the Board to be developed in ways appropriate to its expanding remit, including making the roles attractive and attract the right calibre of Board/Executive;
- Giving credibility to the HS2 Board and staff in carrying out their roles;
- Agreeing the critical change points during the project; and
- Giving external clarity and transparency to the activities of HS2 Ltd.

These documents are to be developed with HS2 Ltd, in order to ensure that both parties have input and agree any changes, and that there is a clear appreciation of expectation and of delegation in approaching the next phase. The documentation would reflect the higher expenditure of the development phase, and alter financial delegations in order to allow HS2 Ltd scope to function within the remit, reducing the burden on DfT staff.

The revised terms of reference for the relevant DfT approval bodies, including the HS2 Ltd Programme Board, will need to make clear what matters they need to consider and what needs to be escalated and who is required to attend for such decisions to be taken. These will include, but not be limited to, changes in the design, how the contingency budget will be managed and by whom, and what is the role of the DfT.

COMPOSITION OF THE BOARD

The timeline for this project is such that the London to the West Midlands line would open in 2026, with work on the “Y” completing in 2033. A project of this scale is likely to traverse a number of Elections, and it was therefore a consideration of the review that the Board would need to be apolitical.

The Challenge Group were concerned that sufficient consideration be given to remuneration of key members of the Board. In order to attract the right individuals, the Department would need to be prepared to offer the sort of package required to make the role of Chief Executive attractive. Research would be required to ensure the remuneration of the Senior Executive team and Board Non-Executives would be considered in light of industry expectations, and sufficiently competitive to meet this goal.

The role of HS2 Ltd should include acting as a promoter of the project, and active engagement with the public and industry stakeholders as project champions. Credibility to perform this function would be given by the leadership of a Board made up of sufficiently experienced individuals, with the knowledge necessary to deliver the project.

Any new board members would be appointed in an OCPA accredited process, and receive adequate training and induction, to ensure that they were able to provide the high level guidance necessary to steer the project to completion. The length of terms of the Chair and NED roles could be staggered, with 3, 4 and 5 year contracts, to improve continuity of Board membership by preventing a wholesale change on a regular basis.

SUMMARY

HS2 Ltd provided independent professional expertise and advice to the Secretary of State, informing the decision on whether to proceed with the high speed rail link between London and the West Midlands.

During the development phase of the project HS2 Ltd would produce a route design of the line from London to the West Midlands to the standard required for parliamentary scrutiny as well as other work necessary to support the passage of the Hybrid Bill. Elements of the current role would, however, remain important in producing a report on routes from Birmingham to Leeds and Manchester and undertaking informal and formal consultation.

The Secretary of State for Transport set the remit of HS2 Ltd, and the achievements of the NDPB make a major contribution to the Department's priorities. It would therefore be important that the Department and HS2 Ltd work together to put in place the arrangements necessary to ensure continuing success in the delivery of high speed rail.

Discussions during the review process highlighted that a very clear cut system of governance and delegations would best enhance the prospects for the success of this major project. This would assist the Department in providing assurances on how work would be undertaken. It would also benefit HS2 Ltd in increasing its ability to attract individuals who would lead the work, and give it clarity in approaching its work.

If it is decided to proceed with the project, further consideration will need to be given to the full range of skills and experience which would be needed on the HS2 Board to address its evolving and expanding role.

It is important that HS2 Ltd is transparent in its dealings with the public and with stakeholders. It is recommended that an improvement in transparency accompanies the release of the Annual Report for 2011-12.

This report therefore recommends that certain aspects of the above are agreed between the Department for Transport and HS2 Ltd by the following dates:

Activity	Completion
Commence Open Board recruitment	At Decision
Confirm Financial Delegations	End Jan 2012
Revised Framework Document	End Feb 2012
Project Development Agreement	End Feb 2012
Terms of Reference	End Feb 2012
Sponsors Requirements	End Mar 2012
Amended Publication Scheme	End Mar 2012
Improved availability of documents	End Mar 2012