

July 2013

High Speed Two (HS2) Ltd

Framework Document

Contents

Section 1 - Introduction	4
This document	4
Founding legislation and status of HS2 Ltd	5
The functions, duties and powers of HS2 Ltd	6
Classification	6
Section 2 - Aims, Objectives and Targets	7
Section 3 - Responsibilities and Accountability	8
The Secretary of State	8
The Principal Accounting Officer of the Department	8
The Department’s representative on HS2 Ltd’s Board of Directors	9
HS2 Ltd Organisation Sponsor Team in the Department	9
The Chair of HS2 Ltd	10
The Board of HS2 Ltd	11
The Chief Executive	13
The Chief Executive’s role as Accounting Officer	14
The Chief Executive’s role as Consolidation Officer	15
The Chief Executive and assistance from employees	15
The Chief Executive’s role as Principal Officer for Ombudsman cases	15
Government-wide corporate guidance and documents	16
Section 4 - Planning and Control	17
The corporate plan	17
The business plan	17
Publication of plans	18
Reporting performance to the Department	18
Internal audit	18
Additional departmental access to HS2 Ltd	19
Section 5 - External Accountability	20
Annual reporting requirements	20
External audit	20
Section 6 - Staff Management	22
Staff costs and headcount	22
Pay and conditions of service	22
Pensions, redundancy and compensation	23
Section 7 - Reviewing the role of HS2 Ltd	24
Reviews	24
Winding up HS2 Ltd	24
Section 8 - HS2 Ltd’s Finances	25
Introduction	25
The Departmental Expenditure Limit (DEL)	25
Expenditure not proposed in the budget	25
Procurement	26

Novel, contentious or repercussive proposals	27
Risk management.....	27
Fees and charges.....	27
Section 9 - HS2 Ltd's income	29
Grant-in-aid and any ring-fenced grants	29
Fines, taxes and other receipts.....	29
Interest earned	29
Proceeds from disposal of assets.....	30
Gifts and bequests received	30
Receipts from the European Union.....	30
Reserves and borrowing.....	30
Section 10 - Non-Staff Expenditure	31
Capital expenditure.....	31
Transfer of funds within budgets.....	31
Gifts made, write-offs, losses and other special payments	32
Property leasing.....	32
Financial investments	32
Commercial insurance.....	32
Lending, guarantees, indemnities, letters of comfort and contingent liabilities	33
Section 11 - Management and Disposal of Fixed Assets.....	34
Register of assets.....	34
Disposal of assets	34
Section 12 - Budgeting Procedures.....	35
Setting the annual budget.....	35
General conditions for authority to spend	35
Section 13 - Banking.....	36
Banking arrangements.....	36
Signatures	37
Appendix A - Delegation of responsibilities	38
Appendix B - Staff pay and conditions of service	39
Appendix C - Recruitment	41
Principles.....	41
Processes.....	41
Appendix D - Fraud and theft reporting	43
Appendix E - Insurance	45
Appendix F - Government-wide corporate guidance and instructions	46

Section 1 - Introduction

This document

- 1.1 This framework document has been drawn up by the Department for Transport (the Department) in consultation with High Speed Two (HS2) Ltd, a body corporate established on 14 January 2009 by incorporation under the Companies Act and an Executive Non-Departmental Public Body. This document sets out the broad framework within which High Speed Two (HS2) Ltd must operate.
- 1.2 The document does not convey any legal powers or responsibilities. It is signed and dated by the Department and HS2 Ltd. Copies of the document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on the Department's and HS2 Ltd's respective websites. Hard copies will also be made available on request from either the Department or HS2 Ltd.
- 1.3 In this document unless otherwise stated:

"the Accounting Officer" is the Chief Executive of HS2 Ltd;

"the Accounts" means the annual statement of accounts required to be audited by the National Audit Office;

"the Board" means the Board of Directors of HS2 Ltd;

"the Chair" means the director who is appointed to serve as chair of the HS2 Board by the Secretary of State;

"the Department" means the Department for Transport;

"a Director" means a statutory director of HS2 Ltd;

"the FReM" means the Government Financial Reporting Manual issued by HM Treasury;

"the Government" means the UK Government;

"HM Treasury" means Her Majesty's Treasury;

"HS2 Ltd" means High Speed Two (HS2) Ltd, company number 06791686 (a non-Crown Executive NDPB);

"IFRS" means International Financial Reporting Standards;

"NDPB" means a Non-Departmental Public Body;

"Parliament" means the UK Parliament;

"the Principal Accounting Officer" is the Department's Permanent Secretary;
"the Secretary of State" means the Secretary of State for Transport;
"HS2 Ltd Organisation Sponsor Team" is the Department's Sponsorship Team for HS2 Ltd.

- 1.4 This document sets out the broad framework within which HS2 Ltd must operate (as stated above) and, in particular:
 - the rules and guidelines relevant to the exercise of the functions, duties and powers of HS2 Ltd;
 - the conditions under which any public funds are paid to HS2 Ltd by the Secretary of State; and
 - how HS2 Ltd is to be held to account for its performance.
- 1.5 This is not a legal or contractual document, but all parties agree to operate within its terms. To this purpose, the document is signed and dated by the Department and HS2 Ltd.
- 1.6 This document is reviewed periodically by the Department and HS2 Ltd in accordance with the timetable referred to in Section 7 below.
- 1.7 HS2 Ltd, or the Department, may propose amendments to this document at any time. Any significant amendments proposed by HS2 Ltd will be considered in the light of evolving departmental policy aims, operational factors and the track record of HS2 Ltd itself. The guiding principle is that the extent of flexibility and freedom given to HS2 Ltd should reflect both the quality of its internal controls and its operational needs. Legislative provisions take precedence over any part of the document. Significant variations to the document must be cleared with HM Treasury or the Cabinet Office as appropriate.
- 1.8 Any question regarding the interpretation of the document will be resolved by the Department after consultation with HS2 Ltd and, as necessary, with the Cabinet Office and/or HM Treasury.

Founding legislation and status of HS2 Ltd

- 1.9 HS2 Ltd is established by incorporation under the Companies Act, limited by guarantee. It has a sole member, the Secretary of State, for whom it is remitted to undertake work. HS2 Ltd is a separate legal entity from the Crown. HS2 Ltd is funded from the public purse by grants-in-aid from the Department. HS2 Ltd is also an Executive NDPB sponsored by the Secretary of State. HS2 Ltd is sponsored and wholly funded by the Department and the Board of Directors is appointed by the Secretary of State.

The functions, duties and powers of HS2 Ltd

- 1.10 HS2 Ltd is responsible for developing proposals and for promoting the UK's new high speed rail network. HS2 Ltd's main duties and powers are specified in the Company's constitution and in letters from the Secretary of State to the Chair of HS2 Ltd. The constitution is available from Companies House (on payment of a fee). HS2 Ltd should take all reasonable steps to ensure the letters of remit are also publicly available.
- 1.11 HS2 Ltd must also:
- inform, advise and assist the Secretary of State in relation to HS2 Ltd's functions;
 - keep proper accounts and prepare an annual statement of accounts (the Directors are required to comply with duties concerning annual accounts under the Companies Act).

Classification

- 1.12 For policy/administrative purposes HS2 Ltd is classified as an Executive NDPB. It is not a Crown Body.
- 1.13 For national accounts purposes HS2 Ltd is classified to the central government sector. In practice this means that the annual Accounts of HS2 Ltd are fully consolidated into the Department's Accounts.

Section 2 - Aims, Objectives and Targets

- 2.1 HS2 Ltd's overall aims and objectives are set out in the Company's constitution. This information is supplemented by correspondence from the Secretary of State to the Chair¹.
- 2.2 HS2 Ltd's Corporate and Business Plans must set out key targets and milestones to achieve its objectives (see Section 4).

¹ <http://assets.hs2.org.uk/sites/default/files/inserts/HS2%20Ltd%20remit%20130627.pdf>

Section 3 - Responsibilities and Accountability

The Secretary of State

- 3.1 The Secretary of State is accountable to Parliament for the activities and performance of HS2 Ltd. The Secretary of State may, where appropriate, act through officials in the Department in carrying out the following responsibilities:
- agree the strategic objectives and the policy framework within which HS2 Ltd must operate (as set out in this framework document and associated documents);
 - keep Parliament informed about the performance of HS2 Ltd by ensuring HS2 Ltd's Annual Report and Accounts are laid before Parliament each year;
 - approve the amount of grant-in-aid to be paid to HS2 Ltd and securing Parliamentary or HM Treasury approval if necessary;
 - carry out responsibilities specified in this framework, including approving the activities of HS2 Ltd to make arrangements for the remuneration, pensions, allowances and expenses of Directors and staff; and
 - annually review the performance of the Chair.

The Principal Accounting Officer of the Department

- 3.2 The Department's Principal Accounting Officer is accountable to Parliament for the issue of any grant-in-aid or other resources provided to HS2 Ltd.
- 3.3 The Department's Principal Accounting Officer, designates the Accounting Officer for HS2 Ltd. The Accounting Officer designation may be withdrawn if the Department's Principal Accounting Officer believes that the incumbent is no longer suitable for the role.
- 3.4 In particular the Department's Principal Accounting Officer must ensure that:
- the strategic aims and objectives of HS2 Ltd have regard to the Department's wider strategic aims;
 - the financial and other management controls applied by the Department to HS2 Ltd are appropriate and sufficient to safeguard public funds and for ensuring that HS2 Ltd's compliance with those controls is effectively monitored;

- the internal controls applied by HS2 Ltd conform to the requirements of regularity, propriety and good financial management; and
 - any grant-in-aid to HS2 Ltd is within the ambit and the amount of the Request for Resources and that Parliamentary authority has been sought and given.
- 3.5 The responsibilities of a departmental Principal Accounting Officer are set out in Chapter 3 of HM Treasury's *Managing Public Money*.

The Department's representative on HS2 Ltd's Board of Directors

- 3.6 The Secretary of State may appoint a senior civil servant as a departmental representative with observer status on the Board of HS2 Ltd. The key role of the departmental representative is to support the relationship between the Department and HS2 Ltd by providing factual information and representing ministers' interests.

HS2 Ltd Organisation Sponsor Team in the Department

- 3.7 The HS2 Ltd Organisation Sponsor team is the primary point of contact in the Department for HS2 Ltd on corporate issues.
- 3.8 In support of the Department's Principal Accounting Officer, the Organisation Sponsor Team:
- advises the Principal Accounting Officer, in liaison with the Department's Group Finance Directorate, on the exercise of his responsibilities as at paragraph 3.2 – 3.5 above;
 - considers matters provided for in legislation, this document or other guidance that require departmental approval;
 - ensures (through consultation with the Department's Audit and Risk Assurance Division) that HS2 Ltd appoints an appropriately qualified Head of Internal Audit who may be externally procured;
 - informs HS2 Ltd of relevant Government policy in a timely manner, advises on the interpretation of that policy and issues specific guidance to HS2 Ltd as necessary;
 - monitors, challenges and supports the activities and performance of HS2 Ltd; and
 - ensures that the financial and other resource implications of decisions made by HS2 Ltd have been fully considered.

The Chair of HS2 Ltd

- 3.9 The Non-Executive Chair is appointed by the Secretary of State for a three to five year term. Subject to satisfactory performance the Chair may be appointed for a further term as long as his/her total period of service does not exceed ten years. All ministerial appointments and any extension(s) come under the remit of the Commissioner for Public Appointments and they are made using the process from the Commissioner's Code of Practice.
- 3.10 The Chair, in accordance with HS2 Ltd's constitution, advises the Secretary of State on matters relating to HS2 Ltd. The Chair aims to ensure that the policies and actions of HS2 Ltd support the wider strategic policies of the Secretary of State and that HS2 Ltd's affairs are conducted with probity. The Chair shares with other Directors the corporate responsibilities set out in paragraphs 3.17 and 3.18, and in particular for ensuring that HS2 Ltd fulfils the aims and objectives agreed with the Secretary of State.
- 3.11 The Chair has the following leadership responsibilities:
- formulating the Board's strategy;
 - ensuring that the Board, in reaching decisions, takes proper account of guidance provided by the Department or the Secretary of State;
 - encouraging high standards of regularity and propriety;
 - ensuring that HS2 Ltd does nothing to bring the Secretary of State into disrepute; and
 - representing the views of the Board to the general public.
- 3.12 The Chair also has a responsibility to ensure that:
- the work of the Board of Directors is reviewed and is working effectively;
 - the Board has a balance of skills appropriate to directing the HS2 Ltd business, as set out in the *Government Code of Good Practice on Corporate Governance*;
 - Directors are fully briefed on terms of appointment, duties, rights and responsibilities;
 - he or she, together with the other Directors, receives appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice;
 - the Secretary of State is advised of HS2 Ltd's needs when Board vacancies arise;

- he or she assesses the performance of individual Directors when they are considered for re-appointment; and
 - there is a code of practice for Directors in place consistent with the Cabinet Office *Code of Conduct for Board Members of Public Bodies*.
- 3.13 Communications between the Board and the Secretary of State are normally through the Chair. The Chair must ensure that the other Directors are kept informed of such communications.

The Board of HS2 Ltd

- 3.14 All ministerial appointments and any extension(s) come under the remit of the Commissioner for Public Appointments and they are made using the process from the Commissioner's *Code of Practice for Ministerial Appointments to Public Bodies*. The Commissioner may, in exceptional circumstances, agree that Departments may depart from this Code where he believes that this is justified in the public interest.
- 3.15 The Secretary of State must ensure a sufficient number of Directors to enable good corporate governance and appoint Directors for three to five year terms. Subject to satisfactory performance a Director may be appointed for a further term as long as his/her total period of service does not exceed ten years.
- 3.16 The Secretary of State has delegated authority to the HS2 Ltd Board to appoint up to three executive directors (in addition to the Chief Executive who is appointed under the terms set out in Section 3.22) on the following conditions:
- Executive appointments must be agreed by the whole HS2 Ltd Board of Directors; and
 - Executive appointments must be agreed by the Department's Organisation Sponsor Team who must be given reasonable notice of a proposed appointment. The Department has the authority to instruct the Board not to appoint anyone it considers to be unsuitable and must provide clear reasons for this.
- 3.17 Legal duties are imposed on the Directors by virtue of their holding office as a Director, including duties under company, employment, and health and safety law.
- 3.18 The Board has corporate responsibility for ensuring that HS2 Ltd fulfils the aims and objectives agreed with the Department and for promoting the efficient and effective use of staff and other resources by HS2 Ltd. To this end, and in pursuit of its wider corporate responsibilities, the Board must:

- comply at all times with the Directors' code of practice (see Section 3.12 above) and with the rules relating to the use of public funds and to conflicts of interest;
 - not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
 - comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments, and any requirements of the Bribery Act 2010;
 - act in good faith and in the best interests of HS2 Ltd;
 - establish the overall strategic direction of HS2 Ltd within the policy and resources framework determined by the Secretary of State;
 - ensure that any statutory or administrative requirements for the use of public funds are complied with; that the Board operates within the limits of its authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account guidance issued by the Department;
 - ensure that the Board receives and reviews regular financial information concerning the management of HS2 Ltd; is informed in a timely manner about any concerns about the activities of HS2 Ltd, and provides positive assurance to the Department that appropriate action has been taken on such concerns;
 - put in place delegations of functions to the Chief Executive, any employee or a committee as appropriate;
 - ensure that HS2 Ltd acts in accordance with the principles of *The UK Corporate Governance Code*, so far as applicable;
 - ensure that effective arrangements are in place to provide assurance on risk management and internal control, including regular review of the organisation's risk register and seeking clarification and additional information from the risk owners where appropriate; and
 - ensure the business is fit for purpose in terms of delivering its objectives. It should consider the resources, skills & capability it will need to deliver the programme.
- 3.19 Board minutes must be published on the HS2 Ltd website, subject to any confidentiality requirements.
- 3.20 A register of the business interests of the Board must be published on the HS2 Ltd website and regularly updated.

- 3.21 In cases which involve legal proceedings being taken against HS2 Ltd Directors, as a result of their official duties or when acting in an official capacity, liability indemnity has been granted as provided in the contracts of appointment from the Department.

The Chief Executive

- 3.22 The Chief Executive is appointed by the Permanent Secretary of the Department, following an open competition for which the HS2 Ltd Chair is a selection panel member. The initial appointment and any extension(s) must be made in line with the *Code of Practice* issued by the Commissioner for Public Appointments.
- 3.23 The Chief Executive must exercise the following responsibilities in particular:

on planning and monitoring -

- establish, in agreement with the Department and the Board, the corporate and business plans for HS2 Ltd having regard to the Department's wider strategic aims;
- inform the Department of the progress of HS2 Ltd's objectives and programmes;
- provide timely forecasts and monitoring information on performance and finance to the Department;
- promote the efficient and effective use of staff and other resources;
- notify the Department promptly if overspends or underspends are likely and propose corrective action; and
- notify the Department in a timely fashion of any significant problems, whether financial or otherwise, whether detected by internal audit or by other means.

on advising the Board -

- advise the Board on the discharge of its responsibilities as set out in this document and in any other relevant instructions and guidance that may be issued from time to time;
- advise the Board on the performance of HS2 Ltd compared with its aims and objectives;
- ensure that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed as far as this is practical;

- take action, as set out in the HM Treasury publication *Managing Public Money*, if the Board, or its Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity, or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical.

The Chief Executive's role as Accounting Officer

- 3.24 The Chief Executive is designated as the Accounting Officer for HS2 Ltd by the Department's Principal Accounting Officer, acting on behalf of HM Treasury.
- 3.25 The Chief Executive as Accounting Officer is personally responsible for safeguarding the public funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of HS2 Ltd. In addition, he or she should ensure that HS2 Ltd as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management, that are set out in *Managing Public Money* and the supporting guidance on spending controls produced by the Cabinet Office.
- 3.26 As Accounting Officer the Chief Executive must exercise the following responsibilities in particular:

on accounting for the activities of HS2 Ltd -

- sign the Accounts and ensure that proper records are kept relating to the Accounts and that the Accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State;
- produce a Statement of Accounting Officer's responsibilities, for inclusion in the Annual Report and Accounts;
- sign a Governance Statement regarding the system of internal control, for inclusion in the Annual Report and Accounts;
- receive and act in accordance with a budget delegation each year from the Department and operate within that delegation (see also Appendix A);
- ensure that effective procedures for handling complaints about HS2 Ltd are established and made widely known within HS2 Ltd;
- act in accordance with the terms of this document, *Managing Public Money* and other instructions and guidance issued from time to time by the Department, HM Treasury and the Cabinet Office;

- give evidence, normally with the Principal Accounting Officer of the Department, when summoned before the Public Accounts Committee on the NDPB's stewardship of public funds; and
- Ensure official requests and information required under the Freedom of Information Act are completed in an accurate and timely manner.

The Chief Executive's role as Consolidation Officer

- 3.27 For the purposes of Whole of Government Accounts the Chief Executive of HS2 Ltd is appointed by HM Treasury as the Consolidation Officer for HS2 Ltd.
- 3.28 The Consolidation Officer is personally responsible for preparing the consolidation information that sets out the financial results and position of HS2 Ltd, for arranging for its audit and for sending the information and the audit report to the Principal Consolidation Officer nominated by HM Treasury.
- 3.29 The Consolidation Officer must comply with the requirements of the Consolidation Officer Memorandum and must, in particular:
- ensure that HS2 Ltd has in place and maintains sets of accounting records that provide the necessary information for the consolidation process; and
 - prepare the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments) in accordance with the consolidation instructions and directions - "Dear Consolidation Officer" (DCO) and "Dear Consolidation Manager" (DCM) letters - issued by HM Treasury on the form, manner and timetable for the delivery of such information.

The Chief Executive and assistance from employees

- 3.30 The Chief Executive may obtain the assistance of employees of HS2 Ltd in performing the day-to-day administration of his/her Accounting Officer and Consolidation Officer responsibilities. However, he or she must not assign absolutely to any other person any of the responsibilities set out in this document.

The Chief Executive's role as Principal Officer for Ombudsman cases

- 3.31 The Chief Executive is the Principal Officer for handling cases involving the Parliamentary Commissioner for Administration (Ombudsman). As Principal Officer, he or she must inform the Permanent Secretary of the Department of any complaints about HS2 Ltd accepted by the Ombudsman for

investigation, and about the proposed response of HS2 Ltd to any subsequent recommendations from the Ombudsman.

Government-wide corporate guidance and documents

- 3.32 The Chairman, Board and Chief Executive of HS2 Ltd must comply with all the relevant requirements of the guidance listed at Appendix F.

Section 4 - Planning and Control

The corporate plan

- 4.1 HS2 Ltd must submit annually, normally in March, to the Department for approval a draft of its updated corporate plan covering three years ahead unless otherwise agreed. The plan must also be agreed by the HS2 Ltd Board.
- 4.2 The plan must reflect the duties of HS2 Ltd and, within those duties, any priorities requested by the Secretary of State. In particular, the plan must demonstrate how HS2 Ltd contributes, where appropriate, to the achievement of the Department's priorities.
- 4.3 HS2 Ltd's corporate plan must set out:
 - the key objectives and associated key performance targets for the three forward years, and its strategy for achieving those objectives;
 - a review of its performance in the preceding financial year, together with comparable outturns for the previous two to five years (if applicable), and an estimate of performance in the current year;
 - alternative scenarios (if applicable) to take account of factors which may significantly affect the execution of the plan but which cannot be accurately forecast; and
 - other matters as agreed between the Department and HS2 Ltd.
- 4.4 The main elements of the plan, including the key performance targets, must be agreed between the Department and HS2 Ltd in the light of the Department's decisions on policy and resources taken in the context of the Government's wider public expenditure plans and decisions.

The business plan

- 4.5 HS2 Ltd must submit annually to the Department for approval a draft of its business plan covering the financial year ahead. The plan must be agreed by the HS2 Ltd Board. It must take account of the approved funding provision from the Department and include a budget of estimated payments and receipts. Alongside the business plan, HS2 Ltd must provide the Department with a profile of expected expenditure and draw-down of departmental funding over the financial year.

Publication of plans

- 4.6 Subject to any commercial information considerations, the corporate and business plans must be published on HS2 Ltd's website.

Reporting performance to the Department

- 4.7 HS2 Ltd must operate management information and accounting systems which enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in its agreed corporate and business plans.
- 4.8 The performance of HS2 Ltd in helping to deliver the Government's policies, including the achievement of key objectives, must be reported to the Department on a regular basis, including through regular meetings between the HS2 Ltd Chair and Chief Executive and the Secretary of State.
- 4.9 HS2 Ltd must provide the Department with such financial or other corporate information as is required for departmental management purposes.
- 4.10 HS2 Ltd must take the initiative in informing the Department of changes in external conditions which make the achievement of objectives more or less difficult, or which may require a change to the budget or objectives set out in the corporate or business plans.
- 4.11 HS2 Ltd must regularly report its most significant risks to the Department.
- 4.12 The performance of HS2 Ltd against key targets must be reported in both the Annual Report and Accounts (and comply with Section 5) and the annual corporate plan.

Internal audit

- 4.13 HS2 Ltd must establish and maintain arrangements for internal audit in accordance with HM Treasury's *Public Sector Internal Audit Standards* (PSIAS). The internal audit arrangements for HS2 Ltd must have regard to the Department's Group Internal Audit operating model (operational detail to be agreed between the Head of Internal Audit (HIA) of HS2 Ltd and the Department's Group HIA).
- 4.14 HS2 Ltd must establish an Audit and Risk Management Committee (A&RMC) as a sub-committee of its Board in accordance with *Government Code of Good Practice on Corporate Governance*, and HM Treasury's *Audit and Risk Assurance Committee Handbook*. The chair of the A&RMC must be a Non-Executive Board Director with relevant experience, and, as far as possible, other committee members should be Non-Executive Board Directors. The A&RMC approves, inter alia, the internal audit programme,

monitors progress against it and considers the issues arising from the auditor's work.

- 4.15 HS2 Ltd must arrange for periodic quality reviews of its internal audit service in accordance with PSIAS. The Department must consider whether it can rely on these reviews to provide assurance on the quality of internal audit. However, HS2 Ltd must allow the Department access to carry out independent reviews of internal audit in HS2 Ltd.
- 4.16 HS2 Ltd must allow the Department's Audit & Risk Assurance Division access to all documents prepared by the internal auditor for HS2 Ltd, including where the service is contracted out. The HS2 Ltd HIA annual opinion on the overall control framework must be forwarded to the Department's Group HIA in accordance with the timetable notified by the Group HIA for completing year-end reporting.
- 4.17 In addition, irrespective of any requirement to report to HM Treasury, HS2 Ltd must forward to the Department an annual report on fraud and theft suffered by HS2 Ltd, and notify it of any unusual or major incidents as soon as possible, in accordance with Appendix D.

Management Assurance Return

- 4.18 In line with good practice and departmental requirements HS2 Ltd must produce both a mid-year and full year Management Assurance Return (MAR) in a format prescribed by the Department. The MAR must be presented to and agreed by the HS2 Ltd Audit and Risk Management Committee. The MAR must then be sent to the Department for review and comment by the Department's Audit and Risk Management Committee.
- 4.19 An action plan to address identified weaknesses in the internal control environment must be produced and used to show demonstrable improvement (year on year) of the organisation's control environment to the HS2 Ltd A&RMC.

Additional departmental access to HS2 Ltd

- 4.20 In addition to the access referred to in the paragraphs above HS2 Ltd must allow the Department access to all HS2 Ltd's records and personnel for purposes such as (but not necessarily limited to) audits or operational investigations.

Section 5 - External Accountability

Annual reporting requirements

The accounts directions

- 5.1 A draft of the Annual Report and Accounts must be submitted to the Department by the date directed by the Department's Group Finance in order to comply with the Department's year-end timetable and enable consolidation of accounts.
- 5.2 HS2 Ltd must prepare Accounts for the financial year ended 31 March 2013 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the FReM which is in force for the financial year for which the accounts are being prepared, together with any additional disclosure or other requirements as agreed with the Department. Any material departure from the FReM should be discussed and agreed with the Department, HM Treasury and the National Audit Office.

External audit

- 5.3 The Comptroller & Auditor General (C&AG) audits HS2 Ltd's annual accounts, which must be laid in Parliament alongside his report. The C&AG
 - will consult the Department and HS2 Ltd on whom – the NAO or a commercial auditor – shall undertake the audit(s) on his behalf, though the final decision rests with the C&AG;
 - has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from HS2 Ltd;
 - will share with the Sponsor Department information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within HS2 Ltd; and
 - will, where asked, provide Departments and other relevant bodies with Regulatory Compliance Reports and other similar reports which Departments may request at the commencement of the audit and which are compatible with the independent auditor's role.
- 5.4 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which HS2 Ltd has used its resources in discharging

its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, HS2 Ltd shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

Section 6 - Staff Management

- 6.1 HS2 Ltd has responsibility for the recruitment and management of its staff, subject to compliance with any wider government HR policy requirements and as set out in correspondence, from time to time, by the Department's Director of Human Resources. To this end HS2 Ltd must ensure that:
- it complies with the Cabinet Office business appointment rules;
 - its rules for the recruitment and management of staff create an inclusive culture in which diversity is fully valued, where appointment and advancement is based on merit, and discrimination is not tolerated;
 - the level and structure of its staffing, including grade distribution and numbers of staff, is appropriate to its functions and the requirements of efficiency, effectiveness and economy;
 - the performance of its staff at all levels is satisfactorily appraised and the performance measurement systems of HS2 Ltd are reviewed from time to time;
 - its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the objectives of HS2 Ltd;
 - proper consultation with staff takes place on key issues affecting them;
 - adequate grievance and disciplinary procedures are in place;
 - whistleblowing procedures are in place, consistent with the Public Interest Disclosure Act 1998; and
 - a code of conduct for staff is in place.

Staff costs and headcount

- 6.2 Departmental approval is required for changes to the numbers of staff employed by HS2 Ltd over and above those set out in the approved corporate and business plans. Appendix C provides further details on recruitment.

Pay and conditions of service

- 6.3 The staff of HS2 Ltd, whether on permanent or temporary contract, is subject to levels of remuneration and terms and conditions of service (including pension provision) within the general pay structure agreed with the Department. This is set out in Appendix B. HS2 Ltd does not have

delegated power to amend these terms and conditions without prior agreement from the Department.

- 6.4 HS2 Ltd posts are individually defined as set out under the conditions in Appendix C. A list of these posts must be maintained by HS2 Ltd, a copy of which is held by the Department's Organisation Sponsor Team, reflecting any changes imposed by central guidance or Government policy. This list must be provided to the Secretary of State at the end of the financial year.
- 6.5 The travel expenses of the HS2 Ltd Board are tied to the rates allowed to senior staff of HS2 Ltd. Reasonable actual costs are reimbursed.

Pensions, redundancy and compensation

- 6.6 HS2 Ltd must meet the statutory and/or Government requirements on pension provision for its staff.
- 6.7 Any proposal by HS2 Ltd to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office above statutory requirements or as set out in approved terms and conditions, requires the prior approval of the Department. Proposals on severance must comply with the rules in Chapter 4 of *Managing Public Money*.
- 6.8 Proposals on severance payments must comply with the rules in Annex 4.13 of *Managing Public Money*, and any proposals for extra-contractual payments of any kind to staff must be cleared with the Department and HM Treasury.

Section 7 - Reviewing the role of HS2 Ltd

Reviews

- 7.1 The role of HS2 Ltd must be reviewed by the Department, as a minimum, on a three-yearly basis or sooner in the event of a significant change in the scope or direction of its primary aims. These reviews ensure that HS2 Ltd is delivering effectively against its aims and objectives.
- 7.2 This Framework Document will be reviewed by the Department and HS2 Ltd at least every three years or following a review of HS2 Ltd's functions as provided for above, or at any point with the agreement of the Department and HS2 Ltd.

Winding up HS2 Ltd

- 7.3 If HS2 Ltd is wound up, the Department must put in place orderly arrangements for this purpose. In particular it should ensure that the assets and liabilities of HS2 Ltd are passed to any successor organisation and accounted for properly. If there is no successor organisation, the assets and liabilities will revert to the Department. To this end, the Department must:
 - ensure that procedures are in place in HS2 Ltd to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residuary body;
 - specify the basis for the valuation and accounting treatment of HS2 Ltd's assets and liabilities;
 - ensure that arrangements are in place to prepare closing accounts and pass them to the National Audit Office for external audit, and that funds are in place to pay for such audits. It is for the National Audit Office to lay the final accounts in Parliament;
 - arrange for the most appropriate person to sign the closing accounts. In the event that another Body takes on HS2 Ltd's role, responsibilities, assets and liabilities, the succeeding Body's Accounting Officer should sign the closing accounts; and
 - meet any winding-up costs that HS2 Ltd cannot meet within its remaining in-year budget.
- 7.4 HS2 Ltd must provide the Department with full details of all agreements where HS2 Ltd or its successors have a right to share in the financial gains of developers. It should also pass to the Department details of any other forms of claw-back due to HS2 Ltd.

Section 8 - HS2 Ltd's Finances

Introduction

- 8.1 The following sections of this document set out in greater detail certain aspects of the financial framework within which HS2 Ltd is required to operate.
- 8.2 The terms and conditions set out in these sections may be supplemented by guidelines or, to the extent that legislation may so provide, directions issued by the Secretary of State in respect of the exercise of any individual functions, powers and duties of HS2 Ltd.
- 8.3 HS2 Ltd must satisfy the conditions and requirements set out in this document, together with such other conditions as the Secretary of State may from time to time impose. HS2 Ltd expenditure will also comply with departmental, HM Treasury and Cabinet Office controls over such expenditure as amended and updated from time to time.

The Departmental Expenditure Limit (DEL)

- 8.4 HS2 Ltd's resource and capital expenditure forms part of the Department's Resource DEL and Capital DEL respectively (DEL control totals). HS2 Ltd is paid by grant-in-aid on a monthly basis, following a formal request from HS2 Ltd to the Organisation Sponsor Team and as set out in Section 9.
- 8.5 Annual budgets are allocated to HS2 Ltd by the Department as part of a formal *Delegation of Responsibilities* letter.
- 8.6 In addition, HS2 Ltd is expected to manage its resource and capital expenditure so as to stay within any longer term totals for project costs that may be set by Government from time to time and to deliver the project on a value for money basis.

Expenditure not proposed in the budget

- 8.7 HS2 Ltd must not, without prior written departmental approval, enter into any undertaking to incur expenditure which will result in the breach of HS2 Ltd's budget allocations.
- 8.8 The HS2 Ltd business plan must indicate where activities, and related expenditure incurred, may extend beyond the timeline of the business plan.

Procurement

- 8.9 HS2 Ltd adheres to its own procurement policies which must be compliant with any policies or guidance issued by the Cabinet Office, the Department's procurement policies and governance requirements, and EU procurement directives. They must also achieve value for money.
- 8.10 Contracts must, wherever possible, be placed on a competitive basis and tenders accepted from suppliers who provide best overall value for money. This policy should form the basis of the HS2 Ltd procurement policy.
- 8.11 Contractual Authority is delegated by the Principal Accounting Officer to the Chief Executive. The Chief Executive may sub-delegate authority in writing to other staff within HS2 Ltd, provided this is to named individuals in specific posts who have confirmed in writing that they have accepted the Contractual Authority conditions.
- 8.12 Contractual Authority is subject always to the availability of funds and the necessary financial and business case approval. Contractual Authority may not be exercised by any individual in cases where they are also responsible for giving financial approval.
- 8.13 Contractual Authority carries an absolute requirement for accountability, together with an exposure to audit. In particular, Contractual Authority implies that the delegated holder is confirming:
- Fairness (demonstrated by competition);
 - Legality (compliance with the EU and UK Government Procurement Directives);
 - Contractual risk (that the formal terms and conditions will protect HS2 Ltd against key contractual risks);
 - Value for money (that value for money has been achieved by optimising the combination of whole-life cost and quality); and
 - Governance (procurement procedures have been adhered to).
- 8.14 To support the above HS2 Ltd must maintain a system for ensuring that all contractual agreements are correctly entered into. HS2 Ltd must ensure that all contracts are correctly defined according to public sector definitions and then subject to the relevant spending controls.
- 8.15 All single-tender or restricted contracts above £2000 in value, including contract extensions, are subject to approval by the Executive Committee or the HS2 Ltd Board.
- 8.16 Where any of the above contracts would entail contractual commitments to significant levels of spending in future years for which Spending Review

plans have not been set, it must be referred back to the Department in order that appropriate clearance can be sought from ministers and HM Treasury.

- 8.17 The procurement, management and retention of consultants must comply with current Government and departmental procedures (consultancy is defined in the Cabinet Office Controls Guidance, version 3.1, annex 11.1).
- 8.18 The Department will ensure that HS2 Ltd is made aware of any new departmental policy or reporting requirements with regard to procurement and consultancy.

Novel, contentious or repercussive proposals

- 8.19 HS2 Ltd must obtain the approval of the Department before:
- incurring any expenditure for any purpose which is or might be considered novel or contentious (as set out in *Managing Public Money*), or which has or could have significant future cost implications, including on staff benefits;
 - making any significant changes in the scale of operation or funding of any initiative or particular scheme previously approved by the Department; or
 - making any change of policy or practice which has wider financial implications (e.g. because it might prove repercussive among other public sector bodies).

Risk management

- 8.20 HS2 Ltd must ensure that the risks which it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and must maintain a risk management strategy, in accordance with the HM Treasury guidance *Management of Risk: Principles and Concepts* (referred to as *The Orange Book*).
- 8.21 HS2 Ltd must adopt and implement policies and practices to safeguard itself against fraud and theft, in line with HM Treasury's Guidance on Tackling Fraud.
- 8.22 HS2 Ltd must take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.

Fees and charges

- 8.23 To the extent that HS2 Ltd has the power to impose them, fees or charges for any services supplied by HS2 Ltd must be determined in accordance

with HM Treasury’s guidance in Chapter 6 of *Managing Public Money*, and with legislative requirements (e.g. the Freedom of Information Act).

Section 9 - HS2 Ltd's income

Grant-in-aid and any ring-fenced grants

- 9.1 Any grant-in-aid provided by the Department for the year in question is voted in the Department's Supply Estimate and subject to Parliamentary control. The grant-in-aid is normally paid in monthly instalments based on written applications showing evidence of need.
- 9.2 Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds must be kept to a minimum level consistent with the efficient operation of HS2 Ltd. Grant-in-aid not drawn down by the end of the financial year lapses. Subject to approval by Parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end, the Department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year-end, such as creditors.
- 9.3 In the event that the Department provides HS2 Ltd with separate grants for specific (ring-fenced) purposes, it would issue the grant as and when HS2 Ltd needed it based on a written request. HS2 Ltd must provide evidence that the grant was used for the purposes authorised by the Department. HS2 Ltd must not have uncommitted grant funds in hand, nor carry grant funds over to another financial year.

Fines, taxes and other receipts

- 9.4 HS2 Ltd has no power to impose taxes or fines.
- 9.5 Civil penalties may not be imposed by HS2 Ltd.
- 9.6 HS2 Ltd must ensure that any other funds received are notified to the Department.

Interest earned

- 9.7 Any interest earned on cash balances arising from grant-in-aid or other Exchequer funds must be treated as a receipt from an Exchequer source. Depending on the budgeting treatment of this receipt, and its impact on HS2 Ltd's cash requirement, it may lead to commensurate reduction of grant-in-aid or be required to be surrendered to the Consolidated Fund via the Department.

Proceeds from disposal of assets

- 9.8 Disposals of land, buildings and other assets are dealt with under Section 11.

Gifts and bequests received

- 9.9 HS2 Ltd is free to retain any gifts, bequests or similar donations. These must be treated as receipts² and offset against the grant-in-aid.
- 9.10 Before accepting any such gift, HS2 Ltd must consider if there are any associated costs in doing so or any conflicts of interests arising. HS2 Ltd must keep a written record of all gifts, bequests and donations and of their estimated value and whether they are disposed of or retained. These must be produced upon departmental request. Any treatment of gifts or similar should be in line with best practice as set out in *Managing Public Money*.

Receipts from the European Union

- 9.11 Grants from the European Union (EU), if retained by HS2 Ltd, should match the corresponding spend by HS2 Ltd, but both expenditure and income should be scored against an 'EU net payments' line.
- 9.12 Payments for services provided to the EU may be offset against the relevant expenditure in the usual way.

Reserves and borrowing

- 9.13 No grant or grant-in-aid can be paid into any reserve held by HS2 Ltd. Funds in any reserve may be a factor for consideration when grant-in-aid is determined.
- 9.14 No money can be borrowed by HS2 Ltd, other than that reasonably required for efficient day-to-day management and operation of the Company's duties (such as corporate credit cards etc.).

² Donated assets do not attract a cost of capital charge, and a release from the donated assets reserve should offset depreciation in the operating cost statement.

Section 10 - Non-Staff Expenditure

Capital expenditure

- 10.1 Subject to being above an agreed capitalisation threshold (as set out in the accounting policies of the statutory accounts of HS2 Ltd), all expenditure on the acquisition or creation of fixed assets must be capitalised on an accruals basis. Expenditure to be capitalised includes:
- (a) the acquisition, reclamation or laying out of land;
 - (b) the acquisition, construction, preparation or replacement of buildings and other structures or their associated fixtures and fittings; and
 - (c) the acquisition, installation or replacement of movable or fixed plant, machinery, vehicles and vessels.
- 10.2 Proposals for large-scale individual capital projects or acquisitions will normally be considered within HS2 Ltd's corporate planning process. Regular reports on the progress of projects must be submitted to the Department.
- 10.3 When committing to capital expenditure HS2 Ltd must work within its approved overall resources limit, statutory authority and policy framework agreed with the Department.
- 10.4 All capital expenditure must be assessed for value for money, using standard investment appraisal techniques, and, where the value of the proposed expenditure exceeds the delegated authority of the Chief Executive as amended from time to time, must be signed off by the Board. Where departmental approval is needed, as per the budget delegation letter, capital expenditure will be assessed in line with the Department's Business Case Approval Framework.
- 10.5 The High Speed Two project needs to purchase land and property during the course of its work. At present the Department undertakes such purchases and holds the associated capital budget, with HS2 Ltd acting in an advisory capacity.

Transfer of funds within budgets

- 10.6 Unless financial provision is subject to specific departmental or HM Treasury controls (e.g. where provision is ring-fenced for specific purposes), transfers between budgets within the total capital budget, or between budgets within the total revenue budget, do not need departmental approval.

Gifts made, write-offs, losses and other special payments

- 10.7 Gifts by management to staff are subject to the requirements of the Cabinet Office guidance on non-pay rewards.
- 10.8 HS2 Ltd must keep a register of gifts, write-offs, losses and other special payments. These include losses due to fraud, extra-contractual (including negotiated severance deals), ex-gratia and compensation payments as defined in *Managing Public Money*. All such transactions that exceed the financial delegated authority levels to HS2 Ltd must be referred to the Department for review and HM Treasury for approval, where appropriate.

Property leasing

- 10.9 Prior departmental approval must be secured for all property leases.
- 10.10 Before entering into any lease (including an operating lease), HS2 Ltd must demonstrate that the lease offers better value for money than purchase.

Financial investments

- 10.11 HS2 Ltd must not make any investments in traded financial instruments nor must it aim to build up cash balances or net assets in excess of what is required for operational purposes.

Commercial insurance

- 10.12 HS2 Ltd must not take out any insurance without the prior approval of the Department, other than third party insurance required by the Road Traffic Acts and any other insurance which is a statutory obligation or which is permitted in *Managing Public Money* (Chapter 4.4 and Annex 4.4).
- 10.13 The Department must consider on a case-by-case basis whether, in the case of a major loss or third-party claim, an addition to budget out of the Department's funds and/or an adjustment to HS2 Ltd's delegated budget is appropriate.
- 10.14 HS2 Ltd standard conditions of contract require contractors of HS2 Ltd to indemnify appropriate parties in respect of personal injury, loss or damage to property, financial loss resulting from advice given or omitted to be given and any other loss arising from a contractor's act or omission.

Lending, guarantees, indemnities, letters of comfort and contingent liabilities

- 10.15 HS2 Ltd must not, without the Department's prior written consent, lend money, charge any asset or security, give any guarantee or indemnity or letter of comfort, or enter into any contingent liability, whether or not in a legally binding form.

Section 11 - Management and Disposal of Fixed Assets

- 11.1 This section does not apply to the purchase and management of operational property.

Register of assets

- 11.2 HS2 Ltd must maintain an accurate and up-to-date register of its fixed assets.

Disposal of assets

- 11.3 HS2 Ltd must dispose of assets which are surplus to its requirements save that it may not dispose of land without the consent of the Department. Assets must be sold for best price, taking into account any costs of sale. High-value assets must be sold by auction or competitive tender, unless otherwise agreed by the Department, and in accordance with *Managing Public Money*, Chapter 4.10.
- 11.4 HS2 Ltd may normally retain receipts derived from the sale of assets provided that:
- (a) the Department and HM Treasury are content for HS2 Ltd to retain these receipts;
 - (b) they are used to finance other capital spending;
 - (c) the Department receives prior notification of individual sales; and
 - (d) total sales in any financial year do not exceed three per cent of HS2 Ltd's grant-in-aid.
- 11.5 If, notwithstanding the above, HS2 Ltd disposes of assets which have been purchased, improved or developed with Exchequer funds and the receipts amount to more than £1 million, or where the disposal has unusual features of which Parliament should be aware, Parliamentary approval must be secured for the receipts to be reinvested. The receipts must therefore be surrendered to the Department, which must then submit an Estimate seeking approval for the receipts to be appropriated in aid by the Department and for a corresponding increase in HS2 Ltd's grant-in-aid. If the proposed new investment exceeds HS2 Ltd's relevant delegated authority the Department's approval is needed. If the proposed new investment is novel or contentious, HM Treasury's approval is also needed.

Section 12 - Budgeting Procedures

Setting the annual budget

- 12.1 Each year, in the light of decisions by the Department on HS2 Ltd's draft corporate plan, the Department must send to HS2 Ltd:
- A formal statement of the annual budget allocated to HS2 Ltd by the Department in the light of competing priorities across the Department; and
 - A statement of any planned changes in policies affecting HS2 Ltd.
- 12.2 HS2 Ltd's approved annual business plan for the year must take account of both its approved funding provision and any forecast receipts, and include a budget of estimated payments and receipts. Alongside the business plan, HS2 Ltd must provide the Department with a profile of expected expenditure and draw-down of departmental funding over the year.
- 12.3 Any grant-in-aid provided by the Department must be noted in the Department's Supply Estimate and is subject to Parliamentary control.

General conditions for authority to spend

- 12.4 Once HS2 Ltd's budget has been approved by the Department and subject to any restrictions imposed by Statute, the Secretary of State, Government policy or this document, HS2 Ltd has authority to incur expenditure approved in the budget and / or any subsequent amendments without further reference to the Department, on the following conditions:
- HS2 Ltd must comply with the conditions set out in Section 8.17 regarding novel, contentious or repercussive proposals;
 - HS2 Ltd must provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department reasonably requires;
 - HS2 Ltd must comply with the conditions set out in the *Delegation of Responsibilities* letter issued by the Department as referred to in Section 8.5.

Section 13 - Banking

Banking arrangements

- 13.1 HS2 Ltd's Accounting Officer is responsible for ensuring that HS2 Ltd's banking arrangements are in accordance with the requirements of *Managing Public Money*, Section 5.11 and Annex 5.6. In particular he or she must ensure that the arrangements safeguard public funds and are carried out efficiently, economically and effectively.

Signatures

1) On behalf of the Department -

David Prout, Director General for High Speed Rail

Signature:

Date: 31 July 2013

2) On behalf of HS2 Ltd -

Douglas Oakervee, Chair

Signature:

Date:

Alison Munro, Chief Executive Officer

Signature:

Date:

Appendix A - Delegation of responsibilities

- A.1 Subject to Section 10 above, paragraph A5 below and within its statutory authority and the budget and policy framework agreed with the Department (and any other relevant provisions within this document), the terms, conditions and limits of HS2 Ltd's delegated authority are as set out in the annual *Delegation of Responsibilities* letter, including full delegated authority to deal with losses, claims, gifts and special payments and to enter into contracts for goods and services.
- A.2 HS2 Ltd must have a financial scheme of delegation, including an approved signatory list / approved workflow delegation, which is approved by its Board and periodically assessed by its internal audit function.
- A.3 The Department may review HS2 Ltd's financial scheme of delegation at any point and may require amendments to it.
- A.4 HS2 Ltd must make any amendments required by the Department as soon as reasonably practicable.
- A.5 Note that payments that are considered novel, contentious or repercussive (as per Section 8.19) are not covered by standing delegations, even if they are within delegated limits. This includes for instance extra-contractual payments to staff (such as settlements in respect of staff grievances and severance payments beyond the normal conditions of service). Such cases must be notified to the Department at an early stage, as HM Treasury clearance is required before any offer with financial implications is made. The Organisation Sponsor Team will liaise with Group Finance who will seek HM Treasury approval on behalf of HS2 Ltd.

Appendix B - Staff pay and conditions of service

- B.1 Staff can be hired by HS2 Ltd on the conditions set out below.
- B.2 Should HS2 Ltd wish to hire staff outside of these conditions, prior agreement must be obtained from the Department through the Organisation Sponsor Team, and remuneration packages must be in accordance with the *Civil Service Management Code*, public sector pay and pensions policy, and agreed with the Department.
- B.3 Public sector pay policy requires Cabinet Office approval for posts attracting remuneration above £90,000. HS2 Ltd needs approval from the Department and the Cabinet Office for appointing staff above this threshold. Posts attracting remuneration above £142,500 need to be approved by the Chief Secretary to the Treasury in line with the Cabinet Office's *Guidance for approval of senior pay*.
- B.4 HS2 Ltd is not a Crown body and therefore does not employ civil servants. HS2 Ltd's Remuneration Committee has proposed, and the Department has agreed, the following pay ranges. The minimum levels are appropriate for individuals who will take time to become fully effective. The maximum level recognises that HS2 Ltd is not paying additional market premium rates required to recruit scarce skills from a small market of suitably qualified professionals.

Grade	Zone	Job Ref Level*	Min	Market Median	Max
Senior Manager	A	19	£58,687	£64,556	£76,293
	B	18	£51,658	£56,824	£67,156
	C	17	£45,010	£49,511	£58,513
Manager	A	16	£39,954	£43,949	£49,942
	B	15	£35,000	£37,827	£43,750
Advisor	A	14	£32,428	£35,671	£38,914
	B	13	£28,881	£31,769	£34,657
	C	12	£25,543	£28,097	£30,651
Assistant	A	11	£23,528	£25,892	£28,245
	B	10	£21,053	£23,158	£25,263
	C	9	£17,000	£18,500**	£20,000

*The Job Reference Level is based on the Hay Group's system of job evaluation, which scores roles and places them in a grade or job reference level.

**Level 9 was not market tested, so the median is the range midpoint.

- B.5 The Department has agreed that HS2 Ltd may offer the following benefits:
- Statutory minimum notice periods;

- Statutory redundancy pay;
- Flexi-leave only for assistant/advisor staff or those with a statutory entitlement;
- 30 days leave (pro rata for part time staff);
- No entitlement to privilege days;
- Access to a stakeholder pension where HS2 Ltd will match employee contributions up to five per cent;
- HS2 Ltd may offer a bonus scheme to staff for outstanding personal performance. The design and operation of this scheme must be agreed with the Department and meet current Government policy and guidance.

B.6 In addition to pay and the above benefits, the Department has agreed that HS2 Ltd may offer a cash allowance in lieu of a wider benefits package. This recognises both the general market position on benefits but also the benefits packages offered by other rail and infrastructure operators.

Level	Percentage of base salary
Senior Manager	20%
Manager	15%
Advisor	15%
Assistant	5%

- B.7 The remuneration packages above exclude the Chief Executive and Executive Team for whom recruitment and remuneration issues are subject to individual prior agreement with the Department.
- B.8 Any changes to the remuneration packages set out in this Annex require the prior approval of the Department.

Appendix C - Recruitment

Principles

- C.1 As part of its wider programme to reduce wasteful expenditure and help reduce the fiscal deficit, the government has put in place a freeze on most external recruitment to the public sector. Any exceptions to this freeze must be clearly defined as ‘urgent front line’ or ‘business critical’ posts, as set out in Cabinet Office guidance.
- C.2 In order to maintain consistency with wider public sector recruitment policies, the Department has decided to apply the same robust controls to HS2 Ltd as it does to the rest of the Department.
- C.3 The Department will therefore consider all forward plans for recruitment to HS2 Ltd and also whether proposed external recruitments have been defined as exceptions. The detailed definitions of ‘urgent front line’ and ‘business critical’ are for the Chief Executive of HS2 Ltd to determine and be able to justify.

Processes

- C.4 There are two key processes through which the Department will consider recruitment to HS2 Ltd:
- *Annual business planning:* Through the annual business planning process, HS2 Ltd and the Department will agree HS2 Ltd’s priorities and associated headcount, including urgent front line and business critical posts. HS2 Ltd has flexibility to recruit posts within the headcount limit agreed in its business plan, subject to the conditions set out in this document.
 - *In-year:* If HS2 Ltd identifies a need to increase its headcount above the agreed limit during the course of the year, it must submit a business case to the Organisation Sponsor Team for approval. The business case should set out the posts that need to be filled with a clear and full explanation of the reasons and the associated budgetary impact. The Department will decide whether to approve the increase in headcount through an appropriate assessment process.
- C.5 HS2 Ltd must obtain the Department’s approval for any novel, contentious or repercussive proposals regarding recruitment, e.g. any change of recruitment policy or practice which has wider implications for the Department or because it might prove repercussive among other public sector bodies.

- C.6 Throughout the year HS2 Ltd must provide recruitment data, including data on specific recruitment campaigns and contingent labour recruitment, to the Department in line with approval and reporting requirements in place at the time. This data must be provided ahead of recruitment commencing.
- C.7 This data should also include known forward plans for end to end deployment so detailing how long people are needed, and the exit strategies, where appropriate, for temporary labour. HS2 Ltd will do this by providing a table of individual posts ahead of recruitment and should consider skills transfer where contingent labour is involved.
- C.8 HS2 Ltd must control and manage appointments in line with policies in place at the time (e.g. for tax arrangements).
- C.9 The Organisation Sponsor Team will ensure that HS2 Ltd is made aware of any new policy or reporting requirements with regard to recruitment.

Appendix D - Fraud and theft reporting

- D.1 HS2 Ltd must keep a record of all frauds and thefts (“frauds”), and provide to the Department by the end of April each year an annual report of all frauds discovered in the year. Individual frauds reported to the Department earlier in the year may be referred to in summary in the annual report if these have already been reported in the prescribed form.
- D.2 Frauds below the following de minimis levels need not be reported individually, but can be aggregated and reported as a single figure by value of losses incurred and number of frauds discovered, split between separate headings for fraud and theft. This is to ensure that the Department has sufficient information with which to answer Parliamentary Questions.
- D.3 In the case of fraudulent exploitation of assets and information, and abuse of position (including corruption), there is no de minimis limit because even where no actual loss has occurred, there is a risk that reputational damage may have been caused.
- D.4 De minimis limits apply as follows:

Individual frauds / thefts	
Expenses / allowances / pay	£250
Theft by staff	£250
Fraud by staff	£250
Theft by outsider	£2,500
Fraud by supplier	£2,500

- D.5 Frauds above the de minimis level (and all novel frauds) must be reported as soon as possible with as much of the following information as time and circumstances permit:
- when the fraud occurred;
 - what happened;
 - (if applicable) why HS2 Ltd considers the fraud novel or unusual;
 - information about the perpetrator – staff or external;
 - suspected / estimated or actual level of loss;
 - action taken to date and planned:
 - to investigate the fraud

- to rectify control failures and prevent recurrence
 - against the perpetrator;
 - the extent of any Police involvement; and
 - how soon a full report will be available.
- D.6 The Department must then decide whether a full report is necessary, and any other action that it considers should be taken. Cases which are novel or unusual are brought to the attention of HM Treasury by the Department so that any lessons can be shared quickly.
- D.7 Full reports of frauds with losses above £10,000 should be accompanied by a narrative suitable for publication, the content of which should cover the main system weaknesses which allowed the fraud to occur, the method by which the fraud was discovered, the value of the fraud, action taken against the perpetrator, and action taken to reduce the risk of recurrence.
- D.8 Frauds of this magnitude may be reported to HM Treasury as part of the annual fraud returns by the Department where there are important lessons to be learned. From time to time the Department will make lessons learned from the Fraud Report available to publicly sponsored bodies.

Appendix E - Insurance

- E.1 Where there is a legal requirement to insure commercially, HS2 Ltd must do so; for example, if it is required to insure to comply with the Road Traffic Acts.
- E.2 HS2 Ltd is not permitted to insure in other circumstances without the prior approval of the Department.
- E.3 In compliance with *Managing Public Money*, HS2 Ltd must only take out commercial insurance where doing so provides value for money for the taxpayer and it must seek the Department's approval to do so. If there is no value for money case for commercial insurance, it should seek an exemption certificate from the Department. *Managing Public Money* provides further details at Annex 4.4.
- E.4 In the case of major losses, additions to grant-in-aid out of the Department's overall provision will be considered. The Department undertakes to provide a minimum of 80 per cent of the repair or replacement cost of assets, where the damage or loss is due to accidental or fire damage or theft, on condition that:
- HS2 Ltd can demonstrate there is a continuing requirement for the asset, i.e. its availability is needed to deliver its business objectives;
 - HS2 Ltd has implemented all the necessary risk management and review processes and these are subject to ongoing maintenance and review; and
 - HS2 Ltd can demonstrate that it cannot meet the costs from underspends or re-allocations within its budget for the year in question.

Appendix F - Government-wide corporate guidance and instructions

HS2 Ltd must comply with the following general guidance documents:

- This document
- ‘Managing Public Money’ and its annexes, issued by HM Treasury
http://www.hm-treasury.gov.uk/psr_mpm_index.htm
- ‘The Financial Reporting Manual (FrEM)’, issued by HM Treasury
http://www.hm-treasury.gov.uk/otherhmt_frem.htm
- ‘Non-Departmental Public Bodies - a Guide for Departments’ (the “NDPB Guide”), issued by the Cabinet Office
<http://www.civilservice.gov.uk/about/resources/public-bodies.aspx>
- ‘Cabinet Office Controls’, guidance issued by the Cabinet Office
<http://www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance>
- ‘Public Sector Internal Audit Standards’, issued by HM Treasury
<https://www.gov.uk/government/publications/public-sector-internal-audit-standards> Appropriate adaptations of sections of ‘Corporate governance in central government departments: Code of good practice’, issued by HM Treasury and Cabinet Office
http://www.hm-treasury.gov.uk/psr_governance_corporate.htm
- ‘Management of Risk: Principles and Concepts’ (‘The Orange Book’), issued by HM Treasury
http://www.hm-treasury.gov.uk/orange_book.htm
- ‘Policy and Standards Framework – Best practice guidance’, issued by the Cabinet Office
<http://www.cabinetoffice.gov.uk/resource-library/policy-and-standards-framework-best-practice-guidance>
- Guidance on tackling fraud issued by HM Treasury
http://www.hm-treasury.gov.uk/psr_managing_risk_of_fraud.htm
- Relevant ‘Dear Accounting Officer’ letters, issued by HM Treasury
http://www.hm-treasury.gov.uk/psr_governance_dao_letters.htm
- ‘Regularity, propriety and value for money’, issued by HM Treasury
http://www.hm-treasury.gov.uk/psr_governance_valueformoney.htm
- The Parliamentary Ombudsman’s Principles of Good Administration
<http://www.ombudsman.org.uk/improving-public-service/ombudsmansprinciples/principles-of-good-administration>
- The ‘Consolidation Officer Memorandum’, issued by HM Treasury
<http://www.hm-treasury.gov.uk>
- Relevant HM Treasury ‘Dear Consolidation Officer’ letters
<http://www.hm-treasury.gov.uk/>
- Other relevant guidance and instructions issued by HM Treasury in respect of Whole of Government Accounts
http://www.hm-treasury.gov.uk/psr_government_accounts.htm
- Other relevant instructions and guidance issued by the Department for Transport

- Recommendations made by the Public Accounts Committee or any other Parliamentary authority, which have been accepted by the Government and which are relevant to HS2 Ltd