



Department
for Transport

Framework Document

*Between the Secretary of State for Transport
and*

High Speed 2 Limited

Moving Britain Ahead

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HS2 Ltd Framework Document

This document

1. This framework document has been drawn up by the Department for Transport in consultation with HS2 Ltd. It sets out the broad framework within which HS2 Ltd will operate.
 - 1.1. The document does not convey any legal powers or responsibilities, but the parties agree to operate in accordance with its terms. It is signed and dated by Clive Maxwell (Director General with responsibility for High Speed Rail) on behalf of the Secretary of State, and by Sir David Higgins (Chair) and Mark Thurston (Chief Executive) on behalf of HS2 Ltd.
 - 1.2. 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 HS2 Ltd pages of the GOV.UK website.
 - 1.3. Any question regarding the interpretation of the document will be resolved by the Secretary of State after consultation with HS2 Ltd and, as necessary, with the Cabinet Office and/or HM Treasury.
 - 1.4. Interim variations to this document can be proposed by either the Department for Transport or HS2 Ltd and must be cleared by the Department and HM Treasury with Cabinet Office agreement as appropriate. This Framework Document supersedes and replaces the version signed by the parties in December 2014.
 - 1.5. A list of statutory guidance and relevant publications referred to in the document is set out in Appendix 1.

Purpose of HS2 Ltd

2. HS2 Ltd is a corporate body established on 14 January 2009 by incorporation under the Companies Act 2006, and limited by guarantee. It is an Executive Non-Departmental Public Body tasked with delivering the High Speed 2 project. The Secretary of State is its 'sole member', for whom it is remitted to undertake work (the Secretary of State's sole member status is referred to as the 'shareholder' function throughout this document, as it is equivalent to the rights of a sole shareholder). HS2 Ltd is a separate legal entity from the Crown and is therefore not a Crown Body.

- 2.1 HS2 Ltd has been established to develop, promote and deliver the UK's new high speed rail network. HS2 Ltd's main duties and powers are specified in Section 4 of the Company's constitution (which is available from Companies House on payment of a fee) and in the Development Agreement (see 2.2 below).
- 2.2 The Department for Transport and HS2 Ltd have also entered into a *Development Agreement* which will be the principal mechanism for managing the relationship between the Department as funder and sponsor of the High Speed 2 project and HS2 Ltd as delivery entity for the project. This Framework Document and the *Development Agreement* should be considered together in order to understand the controls environment and the operational relationship between HS2 Ltd and the Department. The relative precedence of any duplication, ambiguity or inconsistency that arises between this framework document and the *Development Agreement* shall be determined by the Secretary of State after consultation with HS2 Ltd and, as necessary, with the Cabinet Office and/or HM Treasury. A redacted version of the *Development Agreement* is available on the HS2 Ltd pages of the GOV.UK website.

Partnership relationship

3. The Department for Transport is the responsible department for HS2 Ltd.
 - 3.1 The Department for Transport and HS2 Ltd will have an open and honest, trust-based partnership supported by the principles set out in the Cabinet Office guidance '*Partnerships between Departments and Arms-Length Bodies; Code of Good Practice*' and the Department's own guide: '*DfT's Approach to Delivery Body Partnership*'. As such, both parties will ensure that they clearly understand the strategic aims and objectives of the other party. Both parties will also commit to keeping each other informed of any significant issues and concerns.
 - 3.2 The HS2 Ltd Shareholder Team in the Department for Transport is the primary contact for HS2 Ltd in terms of the management of this Framework Document. They are the main source of advice to the responsible minister on the discharge of his or her shareholder responsibilities in respect of HS2 Ltd. They also support the Department for Transport Principal Accounting Officer (PAO) on their responsibilities with respect to HS2 Ltd.

Governance and accountability: roles and responsibilities

Ministerial responsibility

4. The Secretary of State for Transport will account for HS2 Ltd business in Parliament, and keep Parliament informed about the performance of HS2 Ltd by ensuring HS2 Ltd's Annual Report and Accounts are laid before Parliament each year.

4.1 As sole shareholder in HS2 Ltd the Secretary of State also has specific shareholding responsibilities that include:

- Ensuring that HS2 Ltd is guided and monitored in the public and taxpayer interest.
- Approving the amount of capital contribution to be paid to HS2 Ltd and securing Parliamentary or HM Treasury approval if necessary.
- Holding the HS2 Ltd Board to account for its governance of the Company and its performance.
- Appointing the HS2 Ltd Chair and annually reviewing their performance, and appointing Non-Executive Directors.
- Removing a member of the Board from their position if given due cause in accordance with the relevant provisions of the Companies Act 2006 and/or subject to the terms of their appointment letter.
- Exercising the right to amend the Memorandum and Articles of the Company at any time.

Contact and engagement

5. The relationship between the Department for Transport and HS2 Ltd is critically important and needs careful management. The quality of this relationship influences the ability of the Company to do its job, and is important in ensuring value for money and proper accountability. Effective partnerships between the Department and HS2 Ltd should be characterised by trust, mutual respect, communication, evidence based assurance and by being clear about what the Department can expect from HS2 Ltd and what HS2 Ltd can expect from the Department.

The Department for Transport

6. Department for Transport officials will support the Secretary of State by providing advice and assist him/her in carrying out his/her duties, acting on his/her behalf as appropriate. In this regard there are two separate functions:

- The Shareholder Team, under the Department for Transport Director General responsible for Resources and Strategy, will manage the Department's corporate and shareholder relationship with HS2 Ltd. The Shareholder Team advises, and as appropriate, acts on behalf of the Secretary of State in holding the Board to account for its stewardship of HS2 Ltd and its delivery of high value performance for the travelling public, taxpayers and the wider community, including:

- Challenging and supporting the HS2 Ltd Board in achieving its corporate objectives.
 - Establishing and maintaining a strong relationship with the HS2 Ltd Board, ensuring it is well led and functioning effectively.
 - Advising the Secretary of State in appointing the HS2 Ltd Board Chair and any other DfT appointed Non-Executive Director (NED).
 - Maintaining an overview of the HS2 Ltd Board's corporate development plans and governance arrangements.
 - Ensuring shareholder interests are protected under this Framework Document and any other shareholder agreements.
 - Monitoring HS2 Ltd Board performance and ensuring the Board is effectively addressing risks and opportunities.
 - Providing the Board with the wider political and policy context as appropriate.
- The Sponsor Team, under the Department's Director General responsible for High Speed Rail, will manage policy on the Government's relationship as client and sponsor (i.e. delivery of the railway issues) with HS2 Ltd including:
 - Acting as a focal point of contact for HS2 Ltd, providing clear and timely communications about central requirements.
 - Acting as the HS2 Ltd champion within the Department, being an advocate across Government, and in relation to other key stakeholders.
 - Assisting the HS2 Ltd Chief Executive in working through the implications of any recommendations emerging from formal reviews that cover the organisation.
 - Advising the HS2 Ltd Chief Executive of central policy developments that might impact on the organisation, steering their activities to ensure HS2 Ltd effectively supports the delivery of Departmental objectives.
 - Establishing and maintaining a good relationship with the HS2 Ltd Chair and Chief Executive.
 - Providing assurance to the Permanent Secretary and the relevant Department for Transport Board (supported by the Group Audit and Risk Assurance Committee (GARAC) and Internal Audit) on the effectiveness of HS2 Ltd governance structures and processes.

- Managing the specified frameworks as set out in the Development Agreement in relation to HS2 Ltd delivery of objectives and targets, their approaches to risk management and business case approval, and information flow requirements.

6.1 Together, these two teams will be responsible for liaising with HS2 Ltd on all aspects of its work and are the first point of contact between the Government and HS2 Ltd. Clear separation between the two teams will ensure clarity and transparency in decision making. The Shareholder and Sponsor teams will ensure that HS2 Ltd does not receive conflicting instructions from the Department, and will work together to ensure clarity and consistency in all advice, decisions and instructions provided to HS2 Ltd.

The Principal Accounting Officer in the Department for Transport

7. The Principal Accounting Officer in the Department for Transport designates the Chief Executive of HS2 Ltd as the HS2 Ltd Accounting Officer. The respective responsibilities of the Principal Accounting Officer and all accounting officers for arm's length bodies are set out in Chapter 3 of the HM Treasury guidance '*Managing Public Money*' which is sent separately to the Accounting Officer on appointment. 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.

7.1 The Principal Accounting Officer is accountable to parliament for the issue of any capital contribution or other resources provided to HS2 Ltd. In particular, the Department's Principal Accounting Officer must ensure that:

- The financial and other management controls applied by the Department to HS2 Ltd are appropriate and sufficient to safeguard public funds and that HS2 Ltd 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.
- Any capital contribution to HS2 Ltd is within the ambit and the amount of the Request for Resources and that Parliamentary authority and/or HM Treasury approval has been sought and given.

7.2 The Principal Accounting Officer is also responsible for advising the responsible minister:

- On an appropriate framework of objectives and targets for HS2 Ltd in the light of the Department's wider strategic aims and priorities.
- On an appropriate budget for HS2 Ltd in the light of the Department's overall public expenditure priorities.

- How well HS2 Ltd is achieving its strategic objectives and whether it is delivering value for money.

7.3 In addition, the Principal Accounting Officer is responsible for ensuring arrangements are in place in order to:

- Monitor HS2 Ltd activity and spending.
- Address significant problems in HS2 Ltd, making such interventions as are judged necessary.
- Periodically carry out an assessment of the risks both to the Department for Transport and to the delivery of HS2 Ltd objectives and activities.
- Inform HS2 Ltd of relevant Government policy in a timely manner.
- Bring concerns about the activities of HS2 Ltd to the attention of the Chief Executive and/or HS2 Ltd Chair, and to the attention of the Department if necessary, with explanations and assurances that appropriate action has been taken.

Responsibilities of the HS2 Chief Executive as Accounting Officer

8. As Accounting Officer the Chief Executive 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 Box 3.1 of *Managing Public Money*.

8.1 The responsibilities of the Accounting Officer include:

- Signing the accounts, ensuring that proper records relating to the accounts are maintained and retained, and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State.
- Preparing and signing a Governance Statement covering corporate governance, risk management and assurance, for inclusion in the Annual Report and Accounts.
- Producing a Statement of Accounting Officer's responsibilities, for inclusion in the Annual Report and Accounts.
- Ensuring that effective procedures for handling complaints about HS2 Ltd are established and made widely known within the organisation, and that official requests and/or information required under the Freedom of Information Act **and**

Environmental Information Regulations are completed in an accurate and timely manner.

- Acting in accordance with the terms of this document, *Managing Public Money* and other instructions and guidance issued from time to time to HS2 Ltd by the Department, the Treasury and the Cabinet Office.
- Giving evidence, normally with the Principal Accounting Officer, when summoned before the Public Accounts Committee, Transport Select Committee (or any other relevant parliamentary authority) in relation to the stewardship of public funds by HS2 Ltd.

8.2 The Chief Executive's responsibilities to the Department for Transport include:

- Producing the HS2 Ltd corporate and business plans in the light of the Department's goals and objectives for high speed rail as set out in the *Development Agreement* and submitting them for approval by the Department.
- Informing the Department of progress in meeting these objectives and in demonstrating how resources, including staff, are being used effectively to achieve them.
- Ensuring that timely forecasts and monitoring information on performance and finance are provided to the Department in line with the requirements and processes set out in the *Development Agreement*.
- Ensuring that the Department is notified promptly if over or under spends against the yearly budget and business plan are likely.
- Ensuring that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Department in a timely fashion.

8.3 The Chief Executive's responsibilities to the HS2 Ltd Board include:

- Advising the Board on the discharge of the HS2 Ltd Board responsibilities as set out in this document, in Section 4 of the HS2 Ltd constitution, in the *Development Agreement* and in any other relevant instructions and guidance that may be issued from time to time.
- Advising the HS2 Ltd Board on HS2 Ltd's performance compared with its aims and objectives.
- Ensuring that financial considerations are taken fully into account by the HS2 Ltd Board at all stages in reaching and executing its decisions, and that standard financial appraisal techniques are followed.

- Taking action as set out in paragraph 3.8.6 of *Managing Public Money* if the HS2 Ltd 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.
- 8.4 The Chief Executive will report to the Department's Director General responsible for High Speed Rail (the Senior Responsible Officer for the HS2 project) on all programme (HS2 railway) matters relating to the Development Agreement. The Chief Executive will report in the first instance to the HS2 Ltd Shareholder Team in regard to all matters relating to the operation of HS2 Ltd under this Framework Document. The Chief Executive should not advise Ministers directly without first informing the Director General responsible for High Speed Rail (in person or via the Sponsor Team) or the Department's Shareholder Team.
- 8.5 The Chief Executive may obtain the assistance of employees of HS2 Ltd in performing the day-to-day administration of his/her Accounting Officer responsibilities. The Chief Executive must not assign absolutely to any other person any of the responsibilities set out in this document, unless both the HS2 Ltd Board and the Director General responsible for High Speed Rail are satisfied that a particular matter (e.g. a conflict of interest or reputational risk) warrants that specific responsibilities should be assigned to another HS2 Ltd Board member, who in such instances will then report on those responsibilities directly to the HS2 Ltd Chair.

Responsibilities of the HS2 Ltd Board

9. The HS2 Ltd Board has corporate responsibility for ensuring that the organisation is fit for purpose in terms of delivering the aims and objectives agreed with the Department. The Board must ensure that in delivering those objectives, they consider the skills and capability HS2 Ltd will need to deliver the programme, and manage and promote the efficient and effective use of staff and other resources.
- 9.1 In terms of corporate control, the Board is specifically responsible for:
- Establishing and taking forward the agreed goals and objectives of HS2 Ltd (i.e. to deliver the specified scope of the HS2 railway on time and within budget) and holding the Executive to account for the effective and efficient delivery of the corporate and business plans, consistent with its overall strategic direction and within the policy and resources framework determined by the Secretary of State.
 - Ensuring that there are appropriate Board committees in place including an Audit & Risk Assurance Committee(s), Remuneration Committee and Health and Safety Committee.

- Ensuring that effective arrangements are in place to provide assurance on risk management (including regular review of the HS2 Ltd risk register and seeking clarification and additional information from the risk owners where appropriate), governance and internal control, and assuring itself of the effectiveness of the internal control and risk management systems.
- Ensuring that the Department for Transport is kept informed of any changes which are likely to impact on the strategic direction of the organisation or on the attainability of its targets, and determining the steps needed to deal with such changes, in liaison with the Department.
- Putting in place delegations of functions to the Chief Executive, any employee or a committee as appropriate.
- Reaching decisions that take account of guidance issued by the Department.

9.2 In relation to the management of public funds, the Board must:

- Ensure that any statutory or administrative requirements for the use of public funds as set out in *Managing Public Money* are complied with.
- Operate within its statutory limits and within any delegated authority agreed with the Department for Transport, and in accordance with any other conditions relating to the use of public funds.
- Receive and review regular financial information concerning the management of HS2 Ltd in a timely manner and address any concerns about the activities of HS2 Ltd, providing positive assurance to the Department that appropriate action has been taken in relation to those concerns.
- Demonstrate high standards of corporate governance at all times, including by using an independent audit committee to help the Board to address key financial and other risks.

9.3 Subject to any confidentiality requirements which may require redactions to be made, Board minutes must be published on the HS2 Ltd pages of the GOV.UK website, within three months of the applicable Board meeting.

Responsibilities of the HS2 Ltd Chair

10. The Chair is responsible for ensuring that HS2 Ltd fulfils the aims and objectives agreed with the Department and the Secretary of State and operates in accordance with HS2 Ltd's constitution and the *Development Agreement*. The HS2 Ltd Chair advises the Secretary of State on matters relating to HS2 Ltd. Communications between the HS2 Ltd Board and the Secretary of State are normally through the Chair. The Chair must ensure that all other

Directors are kept informed of such communications. The Chair shares with other Directors the corporate responsibilities set out in Section 9 of this document.

10.1 The Chair has the following leadership responsibilities:

- Ensuring that HS2 Ltd delivers its obligations under this Framework Document and the *Development Agreement*, and has an effective strategy for achieving this.
- Ensuring that its affairs are conducted with probity.
- Ensuring that the HS2 Ltd Board, in reaching decisions, takes account of guidance provided by the Secretary of State and the Department.
- Delivering high standards of regularity and propriety and promoting the efficient and effective use of staff and other resources.
- Representing the views of the HS2 Ltd Board to the general public.
- Reporting annually on his/her own performance - supported by feedback including peer review - to the Secretary of State and sharing this with the Department's Shareholder Team.

10.2 In terms of the effectiveness of the HS2 Ltd Board, the Chair has an obligation to:

- Ensure the Board is working effectively and the work of the HS2 Ltd Board and the performance of its individual members is reviewed annually, and recorded in writing.
- Provide feedback and evidence of any effectiveness review of the HS2 Ltd Board and its members to the Secretary of State and the Department's Shareholder Team.
- Report to the Secretary of State any concerns in relation to the balance of skills appropriate to directing the organisation's business, as set out in the '*Government Code of Good Practice for Corporate Governance*'.
- Report any concerns over HS2 Ltd Board effectiveness to the HS2 Nominations Committee and (if necessary) to the Secretary of State and the Department's Shareholder Team
- Ensure all non-executive Board members are fully briefed on their terms of appointment, duties, rights and responsibilities.
- Ensure all Board members receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice.

- Ensure the Secretary of State is advised by the HS2 Nominations Committee of Board needs (e.g. in relation to required skills, knowledge, or particular areas for improvement) when non-executive Board vacancies arise.
- Assess the performance of non-executive Board members annually and when they are being considered for re-appointment (bearing in mind re-appointments are not automatic) by providing a formal written performance appraisal to the Department's Shareholder Team.
- Ensure there is a HS2 Ltd Board operating framework in place setting out the role and responsibilities of the Board consistent with the *Government Code of Good Practice for Corporate Governance*.
- Ensure there is a code of practice for all HS2 Ltd Board members in place, which is consistent with the Cabinet Office '*Code of Conduct for Board Members of Public Bodies*'.

Responsibilities of individual HS2 Ltd Board members

11. Legal duties are imposed on all Directors appointed to the HS2 Ltd Board by virtue of their holding office as a 'Director', including duties under Company, employment, and health and safety law. Under the terms of their appointment, each Non-Executive Director is protected by an indemnity which will apply in connection with any claim made against such Director as a result of that Director exercising their official duties and/or acting in their official capacity.

11.1 In fulfilling their duties, individual HS2 Ltd Board members must:

- Comply at all times with the *Code of Conduct for Board Members of Public Bodies* and with the rules relating to the use of public funds and to conflicts of interest.
- Comply with HS2 Ltd's rules on the acceptance of gifts and hospitality, on business appointments, and with any requirements of the Bribery Act 2010.
- Not misuse information gained in the course of their public appointment for personal gain or for political profit, nor seek to use the opportunity of their public appointment to promote their private interests or the interests of persons or organisations connected to them.
- Comply with their statutory duties under the *Companies Act 2006*.

11.2 A register of the business interests of the Board must be published by HS2 Ltd on the HS2 Ltd pages of the GOV.UK website and be regularly updated.

Governance and accountability: reporting and auditing requirements

Annual Report & Accounts

12. HS2 Ltd must keep proper accounts and must prepare and publish an Annual Report of its activities together with its audited Accounts after the end of each financial year. HS2 Ltd shall provide finalised and audited Accounts to the Department each year, in accordance with the timescales specified by the Department in order for the Accounts to be consolidated within the Department for Transport's annual reporting requirements. 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.

12.1 The HS2 Ltd Annual Report must:

- Outline HS2 Ltd activities and performance during the previous financial year and set out forward plans in summary form.
- Provide information on performance against key financial targets in the notes to the accounts.
- Comply with the Treasury's *Financial Reporting Manual* (FReM) and relevant Cabinet Office controls. Any risk of a departure from the FReM should be discussed with the Department's Sponsor Team, who will also seek guidance or agreement from HM Treasury, Cabinet Office and the National Audit Office as necessary.
- Prepare the accounts in accordance with the relevant statutes and specific accounts directions issued by the Department and/or by HMT Treasury and the Cabinet Office.
- Cover any corporate, subsidiary or joint ventures under its control.

12.2 The report and accounts shall be laid in parliament and made available on the HS2 Ltd pages of the GOV.UK website, in accordance with the guidance in the FReM.

12.3 HS2 Ltd Board Directors are required to comply with duties concerning Annual Accounts under the Companies Act (2006).

Internal audit

13. HS2 Ltd must establish and maintain its own arrangements for internal audit in accordance with the *Treasury's Public Sector Internal Audit Standards* (PSIAS) and with regard to the Department's Group Internal Audit operating model. HS2 Ltd must establish an Audit and Risk Assurance Committee (A&RAC) as a sub-committee of the HS2 Ltd 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&RAC 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&RAC will approve the internal audit programme, monitor progress against it, and consider the issues arising from the auditor's work.

13.1 In relation to internal audit, 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, and HS2 Ltd must allow the Department access to carry out independent reviews of internal audit in HS2 Ltd).
- Ensure that HS2 Ltd is satisfied with the competence and qualifications of the Head of Internal Audit (HIA) and with the requirements for approving appointments in accordance with the PSIAS.
- Supply to the Department for Transport the audit strategy, periodic audit plans and annual audit report, including the HS2 Ltd Head of Internal Audit (HIA) opinion on risk management, control and governance in accordance with the required Departmental timetable for completing year-end reporting.
- Supply to the HIA in the Department for Transport the HS2 Ltd HIA opinion on the overall control framework, in accordance with the required Departmental timetable for completing year-end reporting.
- Keep records of, and prepare and forward to the Department for Transport an annual report on fraud and theft suffered by HS2 Ltd and notify the Department of any unusual or major fraud or theft incidents as soon as possible.
- Ensure that the Department for Transport's internal audit team have complete access to all documents prepared by the internal auditor for HS2 Ltd, including where the service is contracted out, and to all relevant records.
- Allow the Department for Transport, and the Government Internal Audit Agency when operating on the Department's behalf, access to all HS2 Ltd records and personnel for purposes such as (but not necessarily limited to) audits or operational investigations.

External audit

14. The Comptroller & Auditor General (C&AG) audits HS2 Ltd's Annual Accounts, which must be laid in Parliament alongside his report. 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. HS2

Ltd will provide access, so far as is possible in conditions to grants and contracts, to documents held by grant recipients, contractors and sub-contractors as may be required for C&AG examinations. HS2 Ltd 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.

14.1 In carrying out their duties, the C&AG will:

- Consult the Department and HS2 Ltd on whether the NAO or a commercial auditor will undertake audit activities on his/her behalf (though the final decision rests with the C&AG).
- Have a statutory right of access to relevant documents held by another party in receipt of payments or contributions from HS2 Ltd, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000.
- Share with the Department at the end of the audit, information identified during the audit process and the audit report (together with any other outputs), in particular on issues impacting on the Department's responsibilities in relation to financial systems within HS2 Ltd.
- Where asked, provide the Department and other relevant bodies with Regulatory Compliance Reports and other similar reports which the Departments may request at the commencement of the audit and which are compatible with the independent auditor's role.

14.2 In the event that HS2 Ltd has established or has control over subsidiary companies, HS2 Ltd will, in light of the provisions in the Companies Act 2006, ensure that the C&AG is appointed auditor of those Company subsidiaries, and that their accounts are consolidated within its own.

Management and financial responsibilities

Managing Public Money and other government-wide corporate guidance and instructions

15. HS2 Ltd is funded from the public purse by capital contribution from the Department and shall follow the principles, rules, guidance and advice in *Managing Public Money*, unless agreed otherwise by the Department who will liaise as necessary with HM Treasury. Any difficulties or potential bids for exceptions should be referred to the Department's Shareholder Team in the first instance.

15.1 Once the budget has been approved by the Department (and subject to any restrictions imposed by statute or the Secretary of State's instructions), HS2 Ltd shall have authority to incur expenditure approved in the budget without further reference to the Department, as established in the *Development Agreement* and its annexes and detailed in the Operational Delegation Letter (which sets the parameters within which HS2 Ltd has delegated authority to undertake various

functions covering procurements, contract changes, change control and land and property acquisitions) and the Financial Delegations Letter (which sets out the budget delegations from the Director General for the High Speed Rail Group to the Chief Executive and Accounting Officer for HS2 Ltd).

15.2 In doing so, HS2 Ltd will also:

- Comply with the financial requirements as set out in the *Development Agreement* and its annexes.
- Comply with *Managing Public Money* regarding novel, contentious or repercussive proposals.
- Provide the Department with information about its operations, the performance of individual projects or any other expenditure as the Department may reasonably require.
- Ensure continuous improvement in line with the appropriate expectations set out in the *Government Commercial Operating Standards*.

Corporate Governance

Board appointments - the Chair, the Chief Executive and Board members

16. In line with the government's '*Corporate governance in central government departments: Code of Good Practice*', the HS2 Ltd Board will consist of a Chair, a Chief Executive and up to three executive members that have a balance of skills and experience appropriate to directing HS2 Ltd's business. The HS2 Ltd Board should include non-executive members to ensure that executive members are supported and constructively challenged in their role.

16.1 The HS2 Ltd 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 their total period of service does not exceed ten years. The appointment, re-appointment or extension of the HS2 Ltd Chair role is regulated by the Commissioner for Public Appointments and made in accordance with the Government's '*Governance Code for Public Appointments*'. Other non-executive Directors are appointed for a period of three to five years by the responsible minister. Such appointments will also comply with the *Governance Code for Public Appointments*.

16.2 The Chief Executive is appointed by the Chair of HS2 Ltd following an open competition, with representation from the Department throughout the selection process, and with approval from the Secretary of State. The performance objectives and remuneration terms for the Chief Executive will be set by the Chair of the HS2 Ltd Board (in consultation with the HS2 Ltd Remuneration Committee). The initial

appointment and any extensions must be made in line with the '*Code of Practice issued by the Commissioner for Public Appointments*'.

- 16.3 The Secretary of State must ensure a sufficient (and majority) number of Non-Executive Directors to enable good corporate governance and will appoint them for three to five year terms. Subject to satisfactory performance a Non-Executive Director may be appointed for a further term as long as their total period of service does not exceed ten years. The HS2 Ltd Board may nominate up to three Executive Directors (in addition to the Chief Executive) to sit on the Board. Any nominations must be approved by the Secretary of State and HM Treasury. The Secretary of State may remove any HS2 Ltd Director
- 16.4 The Department for Transport Director General responsible for High Speed Rail may nominate a standing representative of the Department 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.

Risk management

17. HS2 Ltd shall ensure that the risks it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the Treasury guidance *Management of Risk: Principles and Concepts* (referred to as *The Orange Book*).
- 17.1 HS2 Ltd should adopt and implement policies and practices to safeguard itself against fraud and theft, in line with the HM Treasury guidance *Tackling Internal Fraud*. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract with. HS2 Ltd should not make capital contribution payments (nor award any other grant) to any other firm without prior agreement from the Department.
- 17.2 HS2 Ltd will have regard, where appropriate, to the Department for Transport's Risk Management Policy and Guidance launched in 2018. This will include working with the Department's Governance Division Risk Team to implement and operate the 'Delivery Body Risk Escalation protocol' as set out in the policy.
- 17.3 A Non-Executive HS2 Ltd Board Director will also chair the Board's Health & Safety Committee and Remuneration Committee, to provide independent advice and assurance, with other members being drawn from across other HS2 Ltd Board members.

Financial Management

Corporate and Business Plans

18. HS2 Ltd shall submit annually to the Department a proposed draft of their corporate plan (including proposed key performance indicators) covering three years ahead for approval. HS2 Ltd must agree with the Department the key matters to be addressed in the plan and the timetable for its publication. The plan shall demonstrate how HS2 Ltd contributes to the achievement of the Department's priorities with regard to high speed rail, and how the HS2 railway will be delivered. It will be approved by the Department, and shall reflect any additional priorities set by the Secretary of State.

18.1 The first year of the corporate plan, amplified as necessary, shall inform the business plan. The business plan shall be updated to include key targets and milestones for the year immediately ahead and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Department, including numbers of HS2 Ltd staff. Subject to any commercial considerations, the corporate plan should be published on the HS2 Ltd pages on the GOV.UK website and separately be made available to staff.

18.2 Subject to the agreement of the parties as to the key matters that should be addressed in the plan (as stated in clause 18 above), the following key matters should be included in the plans:

- Key objectives and associated key performance targets for the forward years, and the strategy for achieving those objectives.
- Key non-financial performance targets.
- A review of performance in the preceding financial year, together with comparable outturns for the previous (two to five) years, and an estimate of performance in the current year.
- Medium term financial projections for the forthcoming three years.
- Alternative scenarios and an assessment of the risk factors that may significantly affect the execution of the plan but that cannot be accurately forecast.
- Any other matters as agreed between the Department and HS2 Ltd.

18.3 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.

Business planning and delegated authorities

19. HS2 Ltd must submit annually to the Department for approval a draft business plan and budget covering the financial year ahead. The business plan must be agreed by the HS2 Ltd Board and must take account of the approved funding provision from the Department and include a budget of estimated payments and receipts. The budget must provide the Department with a profile of expected expenditure and draw-down of Departmental funding over the financial year.
- 19.1 In the light of consideration of the draft business plan and budget, and decisions by the Department on the updated draft corporate plan, the Department will then issue each year:
- A formal statement of the annual budgetary provision allocated by the Department in the light of competing priorities across the Department and of any forecast income approved by the Department.
 - A statement of any planned change in policies affecting HS2 Ltd.
- 19.2 HS2 Ltd's delegated financial authorities and budget delegation are governed by the *Development Agreement* and set out the *Financial Delegation Letter*, which will be sent annually from the Department to HS2 Ltd.
- 19.3 As Accounting Officer, the HS2 Ltd Chief Executive will receive and act in accordance with a budget delegation each year from the Department and operate within that delegation, and in accordance with framework set out in the *Development Agreement* and within the limits of the annual *Financial Delegation Letter* issued at the start of the financial year by the Director General responsible for High Speed Rail.
- 19.4 Any capital contribution provided by the Department must be noted in the Department's Supply Estimate and is subject to Parliamentary control.

Investment and spending

20. 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, the *Development Agreement* and its annexes or this document, HS2 Ltd has authority to incur expenditure approved in the budget without further reference to the Department, on the following conditions:
- HS2 Ltd must refer any novel, contentious or repercussive spending proposals (as defined by *Managing Public Money*) back to the Department for consideration.
 - 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 *Operational Delegations Letter*

issued by the Department.

- 20.1 HS2 Ltd must have appropriate procedures and controls in place to govern and approve investment decisions. If any question arises as to whether a spending proposal should require additional approval, then (as required) HS2 Ltd should refer it in the first instance to the Department for advice.
- 20.2 Where an area of spending has been identified as needing further approval, HS2 Ltd should put in place procedures to monitor progress with the required approvals process, refrain from committing spending until approvals have been received, and report regularly to the Department on these areas of spending.
- 20.3 Where business cases are required for project expenditure, they will be produced and updated in accordance with the *HM Treasury Green Book* and the *Departments Guide to Drafting a Business Case*, the *Development Agreement* and *WebTAG* guidance.

Capital contribution and ring-fenced grants

21. 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 capital contribution on a periodic basis.
 - 21.1 Capital contribution provided by the Department for the year in question will be voted in the Department's Supply Estimate and be subject to Parliamentary control. Capital contribution will normally be paid in monthly instalments on the basis of written applications from HS2 Ltd showing evidence of need. HS2 Ltd will comply with the general principle, that there is no payment in advance of need. Cash balances accumulated during the course of the year from capital contribution or other HM Treasury funds shall be kept to a minimum level consistent with the efficient operation of HS2 Ltd and the effective delivery of the HS2 project. Subject to approval by Parliament of the relevant Estimates provision, where capital contribution is delayed to avoid excess cash balances at the year-end, the Department will make available in the next financial year any such capital contribution that is required to meet any liabilities at the year-end, such as creditors.
 - 21.2 In the event that the Department provides HS2 Ltd with a separate capital contribution for a specific ring-fenced activity or purpose, it will issue the contribution as and when HS2 Ltd needed it on the basis of a written request. HS2 Ltd must provide evidence that the contribution was used for the purposes on which it was authorised by the Department.
 - 21.3 No grant or capital contribution can be paid into any reserve held by HS2 Ltd. Funds in any reserve may be a factor for consideration when the need for a capital contribution is determined.

- 21.4 Any additional income, for example interest earned, income from disposal of assets, gifts or bequests received, income from the European Union, rental income, or income from third parties must be managed in accordance with the HMT guidance *Managing Public Money*.
- 21.5 No money can be borrowed nor loaned 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).
- 21.6 HS2 Ltd must not, without the Department's prior written consent, provide grants, lend money, charge any asset or security, give any guarantee or indemnity (except, in the case of indemnities, those given in the normal course of business), or letter of comfort (except in the normal course of business), whether or not in a legally binding form.

Reporting performance to the Department

22. HS2 Ltd shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and business plans to the frequency and format specified in the *Development Agreement*. HS2 Ltd shall inform the Department of progress in achieving its objectives, and shall report financial and non-financial performance, including performance in helping to deliver ministers' objectives, according to the requirements set out in *Development Agreement*.
- 22.1 The Department's shareholder and Sponsor Teams will liaise regularly with HS2 Ltd to review its financial performance against plans, achievement against targets and expenditure against its Departmental Expenditure Limits and Annually Managed Expenditure allocations.

Commercial insurance

23. HS2 Ltd must not take out any insurance without the prior written approval of the Department other than; third party insurance required by the Road Traffic Acts, Employers Liability insurance, Public Liability (non-contracting or railway operations), and Directors & Officers Liability insurance on commercial terms, and any other insurance which is a statutory obligation or which is permitted in *Managing Public Money* Chapter 4 and Annex 4.4.
- 23.1 The Department has already granted HS2 Ltd approval to procure an owner-controlled insurance policy for Phase one and Phase 2a of the railway.
- 23.2 The Department must consider on a case-by-case basis whether, in relation to 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 current budget is appropriate.

23.3 HS2 Ltd standard conditions of contract require contractors of HS2 Ltd to indemnify HS2 Ltd in respect of personal injury and/or loss or damage to property caused by such a contractor.

Disposal of assets

24. HS2 Ltd must dispose of assets which are surplus to its requirements save that it may not dispose of land without the written 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 in writing by the Department, and in accordance with *Managing Public Money (including Crichel Downs Rules)*, Chapter 4.10 and section 17 of the Development Agreement.

24.1 HS2 Ltd may normally retain receipts derived from the sale of non-land and property assets provided that:

- The Department and HM Treasury are content for HS2 Ltd to retain these receipts.
- They are used to finance other capital spending.
- The Department receives prior written notification of individual sales.
- Total sales in any financial year do not exceed three per cent of HS2 Ltd's capital contribution.

24.2 If, notwithstanding the above, HS2 Ltd disposes of individual or composite 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 made 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, contentious or repercussive, then HM Treasury's approval is also needed.

Land and Property management

25. All property records and electronic boundaries for land and property shall be entered onto e-PIMS (the mandatory Government property recording system), within ten business days of the completion of any transaction.

- 25.1 HS2 Ltd will frequently and regularly update e-PIMS as land and property is acquired and disposed.
- 25.2 HS2 will ensure that property deeds and other files (including reports of consultants, lawyers, surveyors, valuers and engineers whom they employ) relating to acquisitions, estate management, facilities management and sales are retrieved by HS2 Ltd from those consultants within a reasonable time of the completion of any transaction and shall be recorded by HS2 Ltd and the whereabouts of those records shall be recorded on e-PIMS.
- 25.3 HS2 Ltd shall demonstrate to the Department for Transport and/or the Government Internal Audit Agency that it has the financial and staff resources to comply in full with property recording on e-PIMS and has in place training and succession planning for property recording staff “

Wider financial compliance

26. HS2 Ltd must comply with all of the requirements and controls set out in *Managing Public Money* and *Cabinet Office Spending Controls* in the course of its operation and business, including in relation to capital and operational expenditure, transfer of funds within budgets, gifts made, write offs, losses and any other special payments, property leasing and financial investments. Where further guidance is required then HS2 Ltd should raise the matter with the Department who will liaise with HMT Treasury on its behalf. Furthermore, HS2 Ltd shall not enter into any joint venture arrangements (or other analogous arrangements) without the prior written approval of the Department.
- 26.1 Any financial receipts classified as fees, charges, fines, penalties or taxes, or any other receipts, must be managed in accordance with *Managing Public Money*. HS2 Ltd must ensure that any other funds received are notified to the Department.
- 26.2 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/she must ensure that the arrangements for safeguarding public funds and are carried out efficiently, economically and effectively.

Staff and resources

Responsibilities for staff

27. Within the arrangements described in this Framework Document or otherwise approved by the Secretary of State and HM Treasury, HS2 Ltd will have responsibility for the recruitment, retention and motivation of its staff. Subject to compliance with any wider government HR policy requirements set out in the HM Treasury *Guidance Note: Public*

Sector Pay and Terms, and as set out from time to time in correspondence from the Department's Director of Human Resources.

27.1 HS2 Ltd must ensure that:

- It complies with the Cabinet Office business appointment rules and *Managing Public Money*.
- The rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit, following fair and open competition; and there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age.
- The level and structure of HS2 Ltd staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness.
- The performance of HS2 Ltd staff at all levels is satisfactorily appraised and the performance measurement systems in use are regularly reviewed.
- HS2 Ltd staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve HS2 Ltd's objectives.
- Proper consultation with staff takes place on key issues affecting them.
- Appropriate grievance and disciplinary procedures are in place, and whistleblowing procedures are in place consistent with the Public Interest Disclosure Act 1998.
- A code of conduct for staff is in place based on the Cabinet Office's *Model Code for Staff of Executive Non-departmental Public Bodies*.
- Subject to its delegated authorities, HS2 Ltd shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

27.2 Departmental approval is required for changes to the staff budget over and above that set out in the approved corporate and business plans. The *HS2 Ltd Remuneration Framework* provides further details on recruitment.

Pay and conditions of service

28. HS2 Ltd staff are subject to levels of remuneration and terms and conditions of service (including pensions) within the general pay structure approved by the Department in

liaison with HM Treasury and Cabinet Office. These are set out in a separate *HS2 Ltd Remuneration Framework*. HS2 Ltd has no delegated power to amend these terms and conditions and must ensure:

- HS2 Ltd posts are individually defined as set out under the conditions in the *Remuneration Framework*.
- The travel expenses of all HS2 Ltd employees are subject to a travel expenses policy whereby reasonable actual costs are reimbursed in accordance with the HM Treasury *Guidance Note: Public Sector Pay and Terms and Managing Public Money* except where prior approval has been given by the Department to vary such rates.
- Staff terms and conditions should be set out in an Employee Handbook.
- HS2 Ltd shall comply with the EU Directive on contract workers – the Fixed-Term Employees (Prevention of Less Favourable Treatment) Regulations.

Pensions, redundancy and compensation

29. HS2 Ltd must meet the statutory and/or Government requirements on pension provision for its staff, as set out in *Managing Public Money*, *Cabinet Office Spending Controls* and the requirements set out in the *HS2 Ltd Remuneration Framework*. Any proposal by HS2 Ltd to deviate from the requirements set out in the *Remuneration Framework* requires the prior approval of the Department, who will liaise with HM Treasury as necessary.

29.1 Proposals on severance must comply with the rules in Chapter 4 and Annex 4.13 of *Managing Public Money*.

Relationships with devolved administrations or other bodies

30. HS2 Ltd's relationships with the devolved administrations of Scotland, Wales and Northern Ireland must follow the principles set out in the *Memorandum of Understanding and Supplementary Agreement* between the Westminster Parliament and those administrations, and relevant Concordats which are in force.

Review of HS2 Ltd status

31. HS2 Ltd will be subjected to a 'tailored review' every five years (sometimes referred to as a 'quinquennial review'). These reviews ensure that HS2 Ltd is delivering effectively against its aims and objectives.

31.1 A tailored review may be conducted sooner in the event of a significant change in the scope or direction of HS2 Ltd's primary aims.

31.2 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. In the event of a requirement to review the document earlier (precipitated by a specific event or issue) then this can be conducted with the agreement of the Department and HS2 Ltd.

Arrangements in the event that HS2 Ltd is wound up

32. The sponsor Department shall put in place arrangements to ensure the orderly winding up of HS2 Ltd. In particular it should ensure that HS2 Ltd's assets and liabilities are passed to any successor organisation and accounted for properly. In the event that there is no successor organisation, the assets and liabilities should revert to the sponsor Department.

32.1 In winding up HS2 Ltd, the Department shall:

- 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 residual body.
- Specify the basis for the valuation and accounting treatment of HS2 Ltd assets and liabilities.
- Ensure that arrangements are in place to prepare closing Accounts and to pass them to the Comptroller & Auditor General for external audit, and that sufficient funds are in place to pay for such audits. It shall be for the Comptroller & Auditor General to lay the final accounts in Parliament, together with his report on the accounts.
- Arrange for the most appropriate person to sign the closing Accounts. In the event that another body takes on the role of HS2 Ltd responsibilities, assets and liabilities; the succeeding Accounting Officer should sign the closing Accounts. In the event that the Department inherits the role, responsibilities, assets and liabilities of HS2 Ltd, then the Principal Accounting Officer should sign.

32.2 HS2 Ltd shall 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.

APPENDIX 1

Statutory guidance and relevant publications

Guidance referred to in this document:

Cabinet Office guidance *Partnerships between Departments and DBs: Code of Good Practice*
<https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice>

HM Treasury guidance *Managing Public Money*
<https://www.gov.uk/government/publications/managing-public-money>

Cabinet Office *Corporate governance in central government departments: Code of Good Practice*
<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

Cabinet Office *Code of Conduct for Board Members of Public Bodies*
<https://www.gov.uk/government/publications/board-members-of-public-bodies-code-of-conduct>

HM Treasury's *Financial Reporting Manual (FReM)*
<https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017>

Government Commercial Function guidance *Government Commercial Operating Standards*
<https://www.gov.uk/government/publications/commercial-operating-standards-for-government>

Cabinet Office guidance *Governance Code for Public Appointments*
<https://www.gov.uk/government/publications/governance-code-for-public-appointments>

Commissioner for Public Appointments guidance *Code of Practice issued by the Commissioner for Public Appointments*
<https://publicappointmentscommissioner.independent.gov.uk/regulating-appointments/governance-code/>

HM Treasury guidance *Management of Risk: Principles and Concepts* (referred to as *The Orange Book*)
<https://www.gov.uk/government/publications/orange-book>

HM Treasury guidance on how to appraise and evaluate policies, projects and programmes (*The Green Book: appraisal and evaluation in central government*)
<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

HM Treasury guidance *Tackling Internal Fraud*

http://webarchive.nationalarchives.gov.uk/20130102192905/http://www.hm-treasury.gov.uk/d/managing_the_risk_fraud_guide_for_managers.pdf.pdf

DfT *Guide to Drafting a Business Case* and *WebTAG* guidance

<https://www.gov.uk/government/publications/transport-business-case>

Cabinet Office's *Controls Guidance (spending controls)*

<https://www.gov.uk/government/publications/cabinet-office-controls/cabinet-office-controls-guidance-version-40>

Cabinet Office's *Model Code for Staff of Executive Non-departmental Public Bodies*.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80082/PublicBodiesGuide2006_5_public_body_staffv2_0.pdf

HM Treasury *Public Sector Internal Audit Standards*

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

HM Treasury *Guidance Note: Public Sector Pay and Terms*

<https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note/guidance-note-public-sector-pay-and-terms>

HS2 Ltd *Development Agreement*

<https://www.gov.uk/government/publications/hs2-development-agreement-july-2017>