

Meeting minutes

Audit and Risk Assurance Committee

Meeting date Tuesday, 14 May 2024
Meeting location Hybrid: MS Teams / The Podium / Snowhill
Meeting time 10:00-12:30

Members	Attendees	Apologies
Stephen Hughes Committee Chair	Mike Blackburn Deputy Chief Financial Officer	██████████ NAO
Keith Smithson Non-Executive Director	██████████ (observer) NAO	Emma Head Chief Railway Officer
	██████████ (items 4, 5 and 6) Head of Financial Control and Governance	██████████ GIAA
	Joanna Davinson Non-Executive Director	██████████ GIAA
	██████████ (item 7) CFO Business Manager	██████████ P-Rep
	Alan Foster Chief Financial Officer	
	██████████ Finance Director	
	Roger Mountford Non-Executive Director	
	██████████ Head of CFO Office Special Projects	
	Nelson Ogunshakin Non-Executive Director	
	Non Owen Company Secretary	
	██████████ DfT	
	██████████ (item 6) Euston Partnership Managing Director	
	Tim Smart (item 4) Phase Two Managing Director	
	██████████ GIAA	

1 Welcome, Declarations of Interest and Values Moment

- 1.1 The Chair welcomed members and attendees to the meeting and confirmed a quorum was present.
- 1.2 Each member of the Committee confirmed that there were no additional conflicts of interest to be declared.
- 1.3 The Committee received a values moment from the Head of CFO Office Special Projects.

2 Introduction and POAP (ARAC_24-012)

- 2.1 The CFO introduced the Annual Report and Accounts (ARA) 2023/24 and Plan on a Page to demonstrate the progress to deliver the ARA. The Committee were reminded why it had been necessary to convene an out of cycle meeting, to provide sufficient time for review noting additional complexities affecting accounting treatments and judgements following the Network North announcement.
- 2.2 The following points were raised and noted:
 - 2.2.1 The Committee note the POAP provided a comprehensive summary of the key milestones and the process and preparation to reach the final version of the report.
 - 2.2.2 The Committee Chair reiterated the role of this Committee in recommending to the Board the ARA is ready for their final review and therefore asked that any material changes be escalated to the Committee ahead of the June meeting as soon as possible.
 - 2.2.3 **The Committee suggested that that the sections within the Governance Statement referring to the Sub-committees of the Board be shared with each Committee Chair to endorse prior to the next submission.**

Action: [REDACTED]

- 2.3 The Committee noted the progress made and the next steps required prior to publication.

3 Key accounting judgements 23/24 (ARAC_24-013)

- 3.1 The Committee received and noted the Key accounting judgements 23/24 made by Management in preparation of the 2023/24 Annual Report and Accounts (ARA) and received an overview from the Finance Director on the key points.
- 3.2 The Committee welcomed the clearly presented paper and noted the key judgment papers as provided in the meeting pack. The Finance Director provided further narrative on specific Key Judgements Overview table and during the discussion, the following comments were raised:
 - 3.2.1 **The Committee requested that for the final review it would be made clear in materials the role of the ARAC, i.e., to review, challenge, and endorse the ARA prior to recommending onto the HS2 Ltd Board and Accounting Officer.**

- 3.2.2 Application of capitalisation from the point of hybrid Bill to the point of the Network North announcement.
 - 3.2.3 The continued holding of contingent liability pending a decision on IR35 and the tax rate to be applied.
 - 3.2.4 Irrecoverable VAT covered by contingent liability.
 - 3.2.5 Areas which have been reclassified as part of the work, which has been welcomed by Management. The Committee requested that the terminology of “incorrectly classified” is expressed as “change in treatment” to better represent the position.
 - 3.2.6 Areas of accounting required to be reflected in the Group DfT Accounts rather than in HS2 Ltd.
- 3.3 The Committee noted the updates.

4 Impairment of Phase 2a and Phase 2b West 23/24 (ARAC_24-014)

- 4.1 The Phase Two Managing Director and Head of Financial Control and Governance joined the meeting.
- 4.2 The Committee noted the following Phase Two papers, as included within the meeting pack covering:
 - 4.2.1 Phase 2 Impairment.
 - 4.2.2 Provision for Remediation works on Phase 2.
- 4.3 The Phase Two Managing Director introduced the paper setting out the rationale for the impairment of Phase 2 (2a and 2b West) and provide the calculation and timeline.
- 4.4 The Head of Financial Control and Governance summarised the issue, accounting rules, HS2 judgement, conclusion and quantification.
- 4.5 The Committee noted that since the Network North announcement in October 2023, all expenditure incurred on works against Phase 2a and Phase 2b West that cannot be reused will be classed as ‘abortive expenditure’ as HS2 Ltd is no longer expected to gain economic benefit. The capitalised expenditure currently accounted for as AUC will be impaired and reported as Resource (RDEL) non-cash Impairment whilst any future expenditure associated with the cancellation of Phase 2 will be reported as Resource (RDEL). In terms of the ARA, Phase 2 expenditure in Note 3, will be shown as Resource Expenditure rather than Capital Expenditure
- 4.6 During the discussion, the Committee raised and noted the following comments:
 - 4.6.1 The Committee discussed the cancellation of Phase 2 however that there has been investment to date which will hold future value and assets which need consideration for expropriation or future sale for use for example. The NAO advised that future scenarios are being considered.

4.6.2 The Committee noted [REDACTED]

4.6.3 The Committee noted that there is work to understand value of work done for the benefit of the UK however for the purposes of the HS2 Ltd accounts it is important to be clear on Section 172 of the Director Duties for HS2 Ltd Board Members.

4.6.4 The Committee requested clarification that the values for impairment based on the AUC balances is as of 31 October 2023 (rather than as of November as stated in the paper) and that this wouldn't have a material implication.

4.6.5 The Committee noted the requirement for cessation of Phase 2 design, delivery and enabling works as soon as practicable and avoiding unnecessary expenditure whilst ensuring an orderly, regular, and safe cessation of activities.

4.6.6 The Committee noted further work to understand absence of receipting to counterbalance expenditure noting the tension between funding and accounting treatment. As part of this Management will also explore whether there is any element of landowner agent to be factored in.

4.7 The Phase Two Managing Director left the meeting.

4.8 The Committee noted the update.

5 Constructive loss (ARAC_24-015)

5.1 The Committee received and noted paper providing information on the key accounting judgements made by Management and specifically the detail supporting the Constructive Loss to be reported in the 23/24 ARA.

5.2 The Finance Director reminded the Committee that in accordance with the Managing Public Money guidance 'constructive losses' include both impairment costs and costs on activity that is no longer needed or useful.

5.3 The Committee noted the key points from the paper and the following observations were raised and noted:

5.4 The following key points were raised and noted:

5.4.1 The Committee acknowledged that the significance of the figure to be included and the potential for this to attract scrutiny and a discussion took place on how this might be managed, noting that it would be expected the DfT would treat this in the same way within their own accounts.

5.4.2 The CFO concurred and advised that he was due to meet with the Director General of Corporate Delivery of the DfT and would raise this to ensure that DfT were thinking about this and managing developments in this regard.

- 5.4.3 The Committee discussed the possibility for retention of the value to provide consistency, however a commitment would be required from the DfT for HS2 Ltd not to incur constructive loss/impairment.
- 5.4.4 The Committee noted that there is awareness of what any future Government might instruct.
- 5.4.5 The Committee noted the importance of ensuring any future losses incurred in 2024/25 are articulated as being resultant of Network North.
- 5.5 The Committee noted the paper.

6 Impairment of Euston Station Design 23/24 (ARAC_24-016)

- 6.1 The Euston Partnership Managing Director joined the meeting.
- 6.2 The Committee received and noted the following Euston papers, as included within the meeting pack:
 - 6.2.1 Euston Impairment.
 - 6.2.2 Euston Remains an HS2 Asset.
- 6.3 The Head of Financial Control and Governance summarised the issue, accounting rules, HS2 judgement, conclusion and quantification.
- 6.4 The Committee were reminded of the rationale for impairment of the Euston Design in the financial year 2020/21 when HS2 had been instructed to develop an alternative scheme consisting of 10 platforms (Option 3). Furthermore, in April 2021, following a successful Affordability Review, the DfT confirmed RIBA 2 concept design would commence on the revised 10-platform single stage delivery proposal and the appropriate impairment recorded in the accounts.
- 6.5 The Committee were advised that Management had been working closely with DfT for some weeks to value the impairment and that this had been reduced to £151 million since the paper was issued to the Committee.
- 6.6 It was noted [REDACTED]
- 6.7 The Committee noted the Assessment of the Value of Impairment covering:
 - 6.7.1 Excluded Works (3rd Party works that do not form part of the stations design).
 - 6.7.2 Agnostic Works (Works which will be required regardless of final Euston design).
 - 6.7.3 Abortive Works (Design works that cannot be re-used due to change in scope).
 - 6.7.4 Ongoing works (whilst options for the delivery of Euston are explored).
- 6.8 It was noted that only Abortive Works costs would be impaired.

6.9 The Committee requested [REDACTED]
[REDACTED]n.

6.10 The Committee discussed [REDACTED]
[REDACTED].

6.11 The Committee noted the additional paper [REDACTED]
[REDACTED]
[REDACTED]

6.12 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

The Euston Partnership Managing Director left the meeting.

7 ARA report status (ARAC_24-017)

7.1 The CFO Business Manager joined the meeting to present the Annual Report and Accounts 23/24 submission.

7.2 The Committee were asked to note the progress made in delivering this year's ARA and were invited to provide early comment on the current draft.

7.3 The CFO Business Manager provided a summary of the modular status of the ARA narrative.

7.4 The Committee commented that the current draft feels fairly balanced and that further DfT and NAO feedback would be incorporated and reflected.

7.4.1 The following points of feedback were provided:

7.4.2 There was currently no reference to the Network North decision or the substantive constructive loss in the Executive Chair summary.

7.4.3 Whether the reference to the activity of the Non-Executives and in particular the Deputy Chair was strong enough.

7.4.4 A request for inclusion to recognise the contribution of the previous CEO.

7.4.5 Amendment of the organogram making accountabilities more high level.

7.4.6 Draw out impairment in the report narrative.

7.4.7 Explain the judgements which have been applied to the assessed performance against Key Performance Indicators (KPIs).

7.4.8 Cross check the narrative with other documents due to be published for consistency of wording on the consequences of the Network North decision.

- 7.4.9 Consider the placement of the Health and Safety section and strengthen the wording of HSPI performance.
- 7.5 The Committee welcomed this review of the ARA and requested that any further comments be received by 17 May, so they can be incorporated in the next iteration.

8 Any Other Business

- 8.1 The Committee thanked and commended Management for the quality of the papers and discussion held during the meeting.
- 8.2 The Committee requested escalation of any material matters prior to the next meeting.
- 8.3 There being no further business, the meeting closed.