Chair of the Committee of Public Accounts  
House of Commons  
London  
SW1A 0AA

Dear Chair,

High Speed 2 Limited – Annual Report and Accounts

I am writing to you in advance of the PAC hearing into HS2 Ltd’s 2016/2017 Annual Report and Accounts.

The NAO qualified its opinion on regularity of HS2 Ltd’s accounts as a result of HS2 Ltd operating both compulsory and voluntary redundancy schemes without receiving authority from the Department for Transport or HM Treasury. As Principal Accounting Officer at the Department, I immediately commissioned a diagnostic audit into the governance, risk and control arrangements of the HS2 redundancy programmes. This audit, conducted by the Government Internal Audit Agency (GIAA), is now complete and a copy of the report is attached to this letter. Please note we are sharing this GIAA report with the Public Accounts Committee and placing a copy on the Department’s website on an exceptional basis, in order to demonstrate the seriousness with which we are taking this breach of controls and the action which is being taken.

The GIAA report makes clear that the primary cause of failure is of control and governance within HS2 Ltd regarding this redundancy scheme. HS2 Ltd introduced an enhanced redundancy package which was prohibited by their Framework Document, and did not have approval from the Department for Transport or HM Treasury. The report highlights a number of other contributory causes relating to HS2 Ltd as well as my Department and makes a number of recommendations.

Both HS2 Ltd and the Department for Transport take the weaknesses highlighted by the NAO and GIAA reports extremely seriously. The report has been reviewed and discussed at HS2 Ltd’s Board and they have taken immediate steps to strengthen their controls in response.

HS2 Ltd is strengthening its Financial and Human Resources controls. It has undertaken a full review of its governance structures and delegations, and strengthened the terms of reference for key approving bodies within HS2 Ltd such as the Executive Committee and Board. HS2 Ltd is also strengthening its induction programme to ensure a greater awareness of the principles for Managing Public Money and the relationship with the Department.
Within the Department we are strengthening our shareholder function to ensure more effective corporate control oversight of HS2 Ltd. We are also drafting a protocol which sets out how the Department and HS2 Ltd should communicate regarding issues and decisions related to the discharge of corporate controls.

I will be working closely with the NAO to assess the progress HS2 Ltd and my Department are making in implementing these actions.

It is important to stress that there is no evidence that the failure of corporate controls relating to this redundancy scheme is an indication of a more systemic failure of control on the wider HS2 programme. The project has a comprehensive governance and assurance regime in place for all our key investment decisions, including procurements. This includes internal and external HS2 Ltd assurance, the use of the Department’s Project Representative, Project Assessment Reviews conducted by the Cabinet Office, and Cabinet Office/HM Treasury Major Projects Review Group Panels. Since the project’s last appearance at the PAC in September 2016 significant progress has been achieved on both phases of the project. For Phase 1 we received Royal Assent in February and the contracts were awarded for the Main Civils Works in July. For Phase 2, the Phase 2a bill was deposited in July and the Government confirmed the route for Phase 2b.

Yours sincerely,

Bernadette Kelly CB
Permanent Secretary