House of Commons

Committee of Public Accounts

High Speed 2 Annual Report and Accounts

Tenth Report of Session 2017–19

HC 454

House of Commons

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Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Summary

During 2016–17 High Speed 2 Limited (HS2 Ltd.) made £1.76 million of unauthorised payments to staff—a shocking waste of taxpayers' money—through compulsory and voluntary redundancy schemes offered at enhanced terms well in excess of those authorised by the Department for Transport (the Department). There is no means for these sums to be recovered. The unauthorised schemes were able to proceed because weak internal processes at HS2 Ltd prevented key decision-making and scrutiny bodies from receiving accurate information. HS2 Ltd lacks basic financial controls in other important areas, heightening the risk of fraud and financial errors such as duplicate payments. This situation is exacerbated by an excessively high rate of staff turnover. Both the Department and HS2 Ltd need to address these issues as a matter of urgency to ensure that this flagship infrastructure project is delivered successfully and that the company meets the high standards expected of it. We remain concerned that the relationship between the Department and HS2 Ltd was not robust enough to prevent this and that ultimately Simon Kirby, the then-Chief Executive of HS2 Ltd, has not been held to account for his actions.

Introduction

High Speed 2 Limited (HS2 Ltd) is a government-owned company which was established in 2009 to manage and deliver the £55.7 billion High Speed 2 rail link between London, Manchester and Leeds, via Birmingham. In 2016, HS2 Ltd's management decided to relocate staff from its London office to Birmingham, and chose to run a redundancy scheme for staff who would no longer be needed or who were unwilling to move. Despite David Prout, the then-Director General High Speed 2 Group within the Department for Transport, telling Simon Kirby, the then-Chief Executive, in April 2016 that it was only allowed to offer statutory redundancy terms, HS2 Ltd offered staff enhanced redundancy terms. HS2 Ltd committed to paying a total of £2.76 million in redundancy payments to 94 individuals. In comparison, statutory redundancy terms would have resulted in payments to the same individuals worth a total of only £1 million. The Comptroller & Auditor General issued a qualified audit opinion on the company's accounts in July 2017 as £1.76 million of the redundancy payments were unauthorised. Both the Comptroller & Auditor General and the Government Internal Audit Service found a number of significant weaknesses in HS2 Ltd's controls, which create risks of fraud and error.

Conclusions and recommendations

1. **It is unacceptable that High Speed 2 Limited (HS2 Ltd) ran compulsory and voluntary redundancy schemes which were not authorised and resulted in an irrecoverable loss of £1.**76m of taxpayers' money. As part of its relocation from London to Birmingham, HS2 Ltd ran a both compulsory and voluntary redundancy schemes during 2016–17. The framework document which governs HS2 Ltd states that the company is only allowed to offer statutory redundancy terms. HS2 Ltd sought permission from the Department for Transport (the Department) to offer staff enhanced redundancy packages, which the Department refused in April 2016. Despite this, HS2 Ltd ran the enhanced schemes anyway, committing to payments of £916, 000 to 67 individuals under the compulsory scheme, and £1.84 million to 27 individuals under the voluntary scheme. The Comptroller & Auditor General issued a qualified audit opinion on HS2 Ltd's accounts as these payments had been made without due authorisation. HS2 Ltd committed to paying £2.76 million, compared to the £1 million it would have paid as part of statutory redundancy. This means that £1.76 million of taxpayers' money was spent in contravention of the rules governing HS2 Ltd's finances.

   Recommendation: ***HS2 Ltd should, by the end of January 2018, write to the Committee outlining how it will ensure that all staff recognise that they are dealing with taxpayers' money and that they are required to comply with the specific rules and regulations governing its use.***

2. **We are concerned that there appears to be a culture within HS2 Ltd of failing to provide full and accurate information to those responsible for holding it to account.** The National Audit Office (NAO) found that the former Chief Executive of HS2 Ltd, Simon Kirby, had been sent an email by the Department on 14 April 2016 expressly disallowing the enhanced redundancy terms proposed by the company. This email was not shared with anyone else in the company, allowing incorrect information to be circulated. Both the HS2 Board and the Executive Committee were subsequently briefed by the then-HR director Peter Gregory that the Department had approved the redundancy scheme, which was factually incorrect. Separately, internal audit found that a presentation on the redundancy scheme from February 2016 had been altered to make it appear to the NAO that the enhanced terms had been raised with the Department then. HS2 Ltd told us that it is currently conducting a review into this matter and early findings suggest that this was the work of a rogue individual (who is no longer with the company) attempting to cover up a mistake.

   Recommendation: ***HS2 Ltd should ensure that all organisations overseeing the work of the company receive full and accurate information, and that proposals or requests to operate outside of the agreed framework document are reported to both the HS2 board and the Department. The Department must ensure that such notifications are fully considered, challenged and a formal response made to the HS2 board. Both organisations should ensure that appropriate sanctions are put in place for any failure to share full and accurate information.***

Where a departure has been requested from the normal governance rules by HS2 Ltd, a wholly-owned subsidiary of the Department, the Chief Executive, as Accounting Officer for HS2 Ltd, should confirm in writing that the departure complies with the responsibility for safeguarding public funds, as set out in Managing Public Money.

The Chief Executive must report this to the relevant board committee and must at the same time report it to the main board as an authorised departure from normal governance rules, otherwise no departure may be made under any circumstances.

The former Chief Executive of HS2 Ltd, Simon Kirby, had been specifically instructed by the Department that enhanced redundancy terms were not acceptable but apparently chose not to communicate this to anyone else within the company. Even though the former Chief Executive no longer has a contractual relationship with either the company or Department, they both should carefully consider whether any further action can now be taken against that individual.

3. **Despite running an infrastructure scheme worth £55 billion of taxpayers' money, HS2 Ltd does not have in place the basic controls needed to protect public money.** The NAO found serious weaknesses in basic financial controls at HS2 Ltd during its audit of the company's annual report and accounts. HS2 Ltd needs to make significant improvements to demonstrate probity, value for money and appropriate anti-fraud, bribery and corruption controls. HS2 Ltd is currently experiencing high levels of staff turnover. Although there is a general downward trend in turnover rates, the most recent figures still show that 18% of HS2 Ltd's employees left in the last twelve months. This makes it difficult for the company to embed a strong control environment.

   Recommendation: ***HS2 Ltd should return to the Committee within 12 months to explain how it has addressed all the concerns relating to its financial controls raised by the Committee and the National Audit Office.***

4. **HS2 Ltd and the Department still do not appear to understand the risks to the successful delivery of the programme, which is currently forecast to exceed the funding available by £1.**8 billion. During our evidence session, the Department was unable to identify the three top risks facing the HS2 programme, explaining that it primarily relied on HS2 Ltd to identify and deal with risks. HS2 Ltd told us that although progress was being made in reducing costs, the forecast cost of phase 2 of the HS2 programme still exceeded funding by a significant amount. It stated that it intends to bring the scope of phase 2a back within the funding envelope by October 2022 and has identified £3.5 billion of savings on phase 2b, although forecast costs still exceed available funding.

   Recommendation: ***HS2 Ltd and the Department should, before the end of January 2018, write to the Committee to explain how they are ensuring that they have a clear shared understanding of, and approach to addressing, the key risks to successful delivery.***

1 Redundancy schemes at HS2 Ltd

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Transport (the Department) and High Speed 2 Ltd (HS2 Ltd).[1]

2. HS2 Ltd is a government-owned company which was established in 2009 to manage and deliver the £55.7 billion High Speed 2 rail link between London, Manchester and Leeds, via Birmingham. HS2 Ltd is governed by its framework document, which sets out what it is allowed to do and what it needs authority from the Department or HM Treasury to do. HS2 Ltd has been allowed by HM Treasury greater flexibility in setting staff salaries than would usually be afforded to bodies in central government, to make it easier to hire the specialist staff it needs. However, the framework document only allows HS2 Ltd to offer staff statutory redundancy terms, rather than civil service terms. In 2016, HS2 Ltd decided to relocate staff from its London office to Birmingham as part of a wider restructuring programme, and chose to run a redundancy scheme for staff who would no longer be needed or who were unwilling to move.[2]

3. In February 2016, HS2 Ltd proposed to the Department a compulsory redundancy scheme offering redundancy statutory terms to staff. In March 2016, it requested permission from the Department to offer enhanced redundancy terms to staff as part of the scheme. HS2 Ltd told us that it requested these enhanced redundancy terms in order to ensure that staff who were being made redundant stayed with the company for the full period of their notice and the Birmingham office was set up and replacement staff recruited. Despite the stated rationale of retaining staff while they served out their notice, HS2 Ltd confirmed that nine individuals were given gardening leave because the total value of their voluntary redundancy packages would otherwise have been in excess of the £95,000 civil service cap. The Comptroller and Auditor General reported that "in substance this allowed exit packages of more than £95,000 to be paid".[3]

4. The Department replied to HS2 Ltd's then-Chief Executive, Simon Kirby, on 14 April 2016, refusing the request to offer enhanced terms and stating that the company was only allowed to offer statutory redundancy terms. However, HS2 Ltd proceeded to offer staff enhanced redundancy terms, both as part of its compulsory redundancy scheme and also in a subsequent voluntary redundancy scheme. HS2 Ltd committed to making payments of £916, 000 to 67 individuals under the compulsory scheme, and £1.84 million to 27 individuals under the voluntary scheme. These payments total £2.76 million, whereas statutory redundancy terms would have resulted in payments to the same individuals of only £1 million. HS2 Ltd were unable to explain to us why the former Chief Executive allowed these unauthorised payments to be made. It confirmed that it had received legal advice that these sums could not now be recovered.[4]

5. The National Audit Office (NAO) identified that these redundancy payments had been made without due authorisation and in contravention of the terms laid out in HS2 Ltd's framework document. The Comptroller and Auditor General issued a qualified

1 Report of the Comptroller and Auditor General on the 2016–17 Accounts of High Speed Two (HS2) Limited, 19 July 2017
2 Q 43, C&AG's Report, paras 1–6
3 Qq 42,43, 59, 113, 114; C&AG's Report, paras 20, 21
4 Q 13, C&AG's Report paras 17–25

audit opinion on the company's accounts in July 2017 as £1.76 million of the redundancy payments were unauthorised and had therefore been made in contravention of the purposes intended by Parliament.[5]

6. HS2 Ltd was able to offer enhanced redundancy terms to staff because key individuals and bodies charged with oversight of the company were not provided with accurate information. HS2 Ltd confirmed to us that the Department's rejection of the company's request to offer enhanced redundancy terms was only sent by email to the former Chief Executive of HS2 Ltd and did not appear to have been shared with anybody else within the company. In response to our questions as to whether any further action could be taken against the former Chief Executive for knowingly allowing the unauthorised payments to be made, the Department told us that it was unlikely as they no longer had any contractual relation with him. It did, however, agree to take legal advice on what courses of action were open to them and to provide a summary of this advice to us.[6]

7. The previous HR director Peter Gregory (who is no longer with HS2 Ltd) briefed HS2 Ltd's remuneration committee, board and executive committee that the Department had authorised the enhanced redundancy terms, which was factually incorrect. HS2 Ltd told us during the evidence session that it did not know why the former HR director had done this as it had found no documentary evidence to support his briefing. As neither the board nor executive committee were aware that the Department had refused to allow the enhanced redundancy schemes, there was no effective internal challenge. The Department told us that the evidence suggested that the unauthorised payments had been made because of "a number of failures within the company; it does not necessarily point to a single individual as having been wholly responsible for that failure".[7]

8. We heard further examples of inaccurate information being circulated within HS2 Ltd. The Department commissioned the Government Internal Audit Service to conduct a review of HS2 Ltd in response to the NAO's audit findings. HS2 Ltd told us that this review found evidence that an employee of HS2 Ltd had deliberately altered information provided to the NAO on two occasions. The first related to a presentation originally made by HS2 Ltd to the Department in February 2016, which suggested running a redundancy scheme on statutory terms. However, the version sent to the NAO in February 2017 had been changed to make it appear that HS2 Ltd had raised the issue of enhanced redundancy terms in this presentation. The second related to another, later document (dated August 2016) that had been altered when sent to the NAO in April 2017, again with the apparent intention of showing that the Department had been told of the enhanced redundancy schemes when this was not in fact the case. HS2 Ltd told us that an internal investigation was ongoing, but that initial findings suggested that these alterations had been made by a 'rogue individual' (who has since left the company) acting on their own initiative to cover a mistake, rather than acting on instructions from higher up within the company.[8]

5 C&AG's Report, paras 3, 5
6 Qq 26–30, 71–74
7 Qq 51, 75
8 Qq 24, 31–39, 70, 124, 125

2 Managing the risks to delivering the programme

9. High Speed 2 Limited (HS2 Ltd) told us that it turned over in the region of £800 million in 2016–17 and had a budget of £1.8 billion this financial year. The National Audit Office (NAO) found evidence of weaknesses in HS2 Ltd's controls in a number of areas, which heightens the risk of errors in the company's finances and also creates a greater risk of internal fraud. HS2 Ltd told us that they accepted the NAO's findings, in particular noting that there had been flaws in the purchase-to-pay system where multiple people could access the system and issues with raising purchase orders. This and other issues creates serious risks of fraud, corruption and error, with an accompanying risk that the company will not provide taxpayers with value for money. HS2 Ltd told us that many of these weaknesses had developed because the company had grown quickly over the previous few years and its systems had failed to keep pace with these changes. It told us that it was taking steps to address the control weaknesses highlighted by the NAO and that the company's accounting system was being upgraded. The Department for Transport (the Department) told us that it expects HS2 Ltd to ensure that every person it employs understands the standards of probity expected and to provide assurance that appropriate training has been provided.[9]

10. HS2 Ltd has been established for eight years and receives substantial financial backing from the government; it is not a thrifty start-up. We therefore asked why the company seemed to be struggling to ensure that it reaches the high standards expected of it. HS2 Ltd told us that the culture of the company was not a problem in itself, but that there was a lack of organisational maturity. It told us that the company's relocation to Birmingham has had a disruptive effect and, between September 2016 and September, staff turnover at HS2 Ltd was eighteen per cent. HS2 Ltd told us that turnover rates were declining, but still compared unfavourably to an industry average of eight to twelve per cent. As a result of these issues, only around 280 people out of a total of around 1,500 staff have been with HS2 Ltd for more than three years. HS2 Ltd told us that these issues had prevented it from 'upskilling' the finance team as soon as it would have liked. However, it has made a number of senior appointments in the last few months which it hopes will form a team to lead the company for the next ten to fifteen years.[10]

11. In terms of the broader High Speed 2 rail programme, the Department told is that it was now 80% confident that phase 1 (the rail link between London and Birmingham) would open in December 2026. However, neither the Department nor HS2 Ltd were able to provide us with a clear statement as to what the top three risks to successful delivery of the programme were. The Department told us that it "look[s] to the company first and foremost to identify and deal with risks", but that there were a number of higher level risks that HS2 Ltd could not handle on their own. The Department explained that it needed to work with Network Rail and other rail industry bodies to ensure that the High Speed 2 programme integrated effectively with the other major projects taking place on the rail

9 Qq 16, 89, 93, 100, 109
10 Qq 90, 91, 93, 95

network. HS2 Ltd added that it was concerned by risks of integrating the trains, tracks and stations into the wider rail network and the pressure that such a large project will place on the civil engineering supply chain in the UK.[11]

12. HS2 Ltd confirmed that at present the forecast cost of phase 2 of the High Speed 2 rail programme, exceeded available funding by £1.8 billion. However, it stated that it had made significant progress as there had been a point where the cost forecast were £6 billion higher than funding. It told us that it intended "to bring the scope of phase 2a back within the funding envelope by October 2022". HS2 Ltd also confirmed that the route for phase 2b had been finalised and that it had identified £3.5 billion of savings for that part of the programme. The Department agreed that HS2 Ltd was making significant progress in reducing the costs of phase 2 and ensuring that it would be delivered within budget.[12]

11 Qq 96–100
12 Q 101–103

Formal Minutes

Wednesday 13 December 2017

Members present:

Meg Hillier, in the Chair

Geoffrey Clifton-Brown	Shabana Mahmood
Chris Evans	Nigel Mills
Gillian Keegan	Gareth Snell

Draft Report (*High Speed 2 Annual Report and Accounts*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 12 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Tenth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 20 December 2017 at 2.00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 30 October 2017 *Question number*

Bernadette Kelly, Permanent Secretary, Department for Transport, **Steve Allen**, Chief Financial Officer, and **Mark Thurston**, Chief Executive, HS2 Ltd Q1–139

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

INQ numbers are generated by the evidence processing system and so may not be complete.

1 Stop HS2 (HSA0001)

Published correspondence

The following correspondence was also published as part of this inquiry:

1 Correspondence with Department for Transport relating to High Speed 2 Ltd.'s Annual Report and Accounts

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401
Third Report	Hinkley Point C	HC 393
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397
Sixth Report	The growing threat of online fraud	HC 399
Seventh Report	Brexit and the UK border	HC 558
Eighth Report	Mental health in prisons	HC 400
Ninth Report	Sheffield to Rotherham tram-trains	HC 453
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347

HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: High Speed 2 Annual Report and Accounts, HC 454

Monday 30 October 2017

Ordered by the House of Commons to be published on 30 Oct 2017.

Watch the meeting

Members present: Meg Hillier (Chair); Bim Afolami; Heidi Allen; Geoffrey Clifton-Brown; Martyn Day; Luke Graham; Nigel Mills.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Rebecca Sheeran, Director, NAO, Matt Kay, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-139

Witnesses

I: Bernadette Kelly, Permanent Secretary, Department for Transport, Steve Allen, Chief Financial Officer, HS2 Ltd, and Mark Thurston, Chief Executive, HS2 Ltd.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

HOUSE OF COMMONS

Report by the Comptroller and Auditor General on the 2016-17 Accounts of High Speed 2 (HS2) Ltd

Examination of witnesses

Witnesses: Bernadette Kelly, Steve Allen and Mark Thurston.

Q1 **Chair:** Welcome back to the Public Accounts Committee on Monday 30 October 2017. We are looking at HS2's accounts in this session. That is partly because of the staggering facts of overpaid redundancy payments coming into the public domain, but since the report's been published, of course there has been a development, in that Mr Allen, who is one of our witnesses today, has resigned.

I should introduce Mark Thurston from HS2 Ltd and Steve Allen, also from HS2 Ltd, in addition to Ms Kelly, who was a witness before.

Mr Allen, can you tell us why you felt the need to resign from HS2 Ltd?

Steve Allen: Having looked at the Report from the National Audit Office in July, and the subsequent internal audit report that Ms Kelly commissioned, it was clear to me that teams that at the time were under my responsibility at HS2 had unfortunately ended up misleading the executive and the board of HS2, and therefore it was right for me to take responsibility for that fact and offer my resignation.

Q2 **Chair:** So, it was the misleading—I shall just make it clear, to anyone who is watching who might not have picked it up, that the NAO received information in a slide display that was different from what had been sent to the Department. So, information was provided that had been altered somewhere along the line. Is that what made you feel the need to resign, or is it the fact that a lot of people got overly large redundancy payments, as outlined in the NAO Report?

Steve Allen: No, it was not anything to do with what has been alleged as a cover-up, and I can categorically say that I have done everything I could to co-operate with the NAO and, indeed, the internal audit inquiry. I have been completely open and transparent about what I knew about these payments at the time and subsequently. So, no, it was not anything to do with changes to information that had been provided to either of those inquiries. It was just a question of the overall responsibility for the situation that had arisen, in terms of authorising this redundancy scheme in the first place.

Q3 **Chair:** But the National Audit Office Report came out earlier this year. You didn't choose to resign then, so why was it that the second report tipped you into resignation?

Steve Allen: It was because, having reflected, it seemed the appropriate thing to do to look at the internal audit report, which was commissioned on behalf of the Department, and, having looked at all the circumstances in the round, once we'd received that internal audit report, I made my decision.

Q4 **Chair:** So, back in July, when you knew that people had been overpaid in redundancy to such a large extent, including £95,000 for being on gardening leave, to take them well over their statutory redundancy payments, you didn't think that was cause for you to resign, or for anyone else in your organisation to leave, at that point?

Steve Allen: At that point, some of the people who would have been involved directly in putting in place the redundancy scheme had already left—

Q5 **Chair:** Funnily enough, they had left, had they? So they left. Had some of those who left pocketed big redundancy payments?

Steve Allen: None of the people who were involved in agreeing this redundancy scheme have received any payments under the scheme.

Q6 **Chair:** But the people who have received the redundancy payments have gone off with that taxpayer money in their pockets—more than they were owed under their contract. Is there any prospect of getting it back, Mr Allen?

Steve Allen: It is important to say that the people who received payments under this scheme have not done anything wrong. They received payments in line with their contractual terms and in line with the scheme that was in place at the time. I do not think there was any question that any of them had done anything wrong or that there was, therefore, a case for—

Q7 **Chair:** But they received more money than they were due under the rules. The Treasury sets very clear rules, and the package at HS2 is an enhanced package with certain job securities that balances out against redundancy payments that might be conceived to be normal in other parts of the sector. Am I right?

Steve Allen: They received payments that were in line with their contractual terms and in line with the terms of the redundancy scheme that was being operated by HS2, so I do not think that those individuals can be seen to have done anything wrong.

Q8 **Chair:** To be absolutely clear, Mr Thurston, that redundancy money—that taxpayers' money that has gone out—is not going to come back and has gone to line the pockets of certain individuals who were made redundant from HS2. There is no way that the taxpayer will ever recoup that money. Just to be really clear for the record.

Mark Thurston: That is correct.

Q9 **Chair:** Are you happy about that?

Mark Thurston: No, we are not. It is worth saying up front that we got this wrong as a company. We knew that we needed permission from the Department to run the enhanced scheme. The company at the time was working on the premise that it had approval for that enhanced scheme; it did not. That is something we got wrong. For that we have apologised, and we have accepted all the NAO's recommendations around our end-of-year accounts. We are putting most of those actions in place—many of them are already complete—and Mr Allen has been critical in dealing with a lot of the issues that came out of the Report and the accounts that the NAO have filed.

Q10 **Geoffrey Clifton-Brown:** There has been a certain amount of change of personalities, so can we be very clear who the accounting officer for HS2 was at the time and who the accounting officer was for the Department at the time? Simon Kirby was the chief executive and he resigned on 8 December 2016, so he was the accounting officer, was he not, throughout the period when the payments took place, or when they were agreed? Is that correct?

Mark Thurston: Yes, he resigned earlier in the year but he left the company on 8 December and he would have been the accounting officer up until that point.

Q11 **Geoffrey Clifton-Brown:** The accounting officer has a very strict role. He is responsible for the probity of all taxpayers' funds. So this is a very serious role, which you have now taken over. The Department's accounting officer at the time was your predecessor, Ms Kelly, Philip Rutnam.

Bernadette Kelly: That is correct.

Q12 **Geoffrey Clifton-Brown:** Moving on from the Chair's question, can we just establish the facts? Under a redundancy scheme on enhanced terms, without receiving authority as required by your framework document—the Department's framework document with HS2—commitments were made to 94 individuals, totalling £2.76 million, and in the C&AG's estimate this was a whacking £1.7 million in excess of the amounts payable on the statutory rates that were authorised by the Department. Do you accept those figures, Mr Thurston?

Mark Thurston: Yes, I recognise those numbers.

Q13 **Geoffrey Clifton-Brown:** So £1.76 million of taxpayers' money has been paid out on an unauthorised basis and, as we heard from the Chair's question, cannot be recovered. Is that correct?

Mark Thurston: That is correct.

Q14 **Chair:** Can I just interject? We know that a colleague of ours—the right hon. Cheryl Gillan—has been tabling parliamentary questions and, in an amazing coincidence, she received answers to those questions at five minutes past four this afternoon, while we were in session. Why has this information not been in the public domain before, Ms Kelly?

Bernadette Kelly: I am not aware of those two parliamentary question having been answered at five past four. I believe the questions were received late last week, so I imagine they are being processed in the normal way and as urgently as you would expect for a parliamentary question.

Q15 **Geoffrey Clifton-Brown:** Just before I get into the meat of the subject, we have heard, Mr Allen, that you have resigned. As I understand it, you become the accounting officer when Mr Thurston is unable to discuss matters with CH2M. Is that correct, and what interim arrangements will be put in place now that you have resigned? As we know, Mr Thurston cannot take part in those discussions; nor, indeed, can the chairman.

Steve Allen: I was appointed accounting officer specifically in respect of matters concerning CH2M at the time that Roy Hill was appointed interim chief executive. He was accounting officer for all other matters while he was interim chief executive. That arrangement continued for six months after Mr Thurston was appointed, because he had also come from CH2M. That was in place for a period of six months from 1 March, and Mark is now accounting officer for all purposes.

Q16 **Geoffrey Clifton-Brown:** Mr Thurston, having your accounts qualified in this highly unusual way and having a highly unusual internal audit really gives us notice that this is a pretty serious matter. Would you not agree?

Mark Thurston: I absolutely agree. As I said, we conceded from the outset that we got this wrong: the company proceeded with the scheme when it should not have done so. The company has accepted that and co-operated fully with the NAO, both at the time of the audit and since. We continue to meet the NAO every month, so they can see the measures we are taking to put corrective action in place to deal with some of our controls issues. If you read the NAO Report, as I am sure you have, you'll see that it talks not just about failings in the company, but about a lack of understanding of the framework document. We are doing work to improve the understanding of the framework document inside High Speed 2 Ltd.

We take our responsibility for managing public money very seriously. Last year, High Speed 2 Ltd was a business that turned over something in the region of £800 million, including what it spent on land and property. Our budget this year, including land and property, will be over £1.8 billion. We are very aware of the responsibility that we have as an arm's length body of the Department to manage public money. Rest assured that we have done a lot of work since the NAO Report. We found the NAO Report really helpful, as was the internal audit report. It has really helped us.

Chair: The NAO Report was really helpful, but if this hadn't happened in the first place, the NAO would not have needed to look at it.

Q17 **Geoffrey Clifton-Brown:** Mr Allen, you were there throughout this time.

Steve Allen: That is correct.

Q18 **Geoffrey Clifton-Brown:** Presumably you must have made reports to the board. The board meets once a month.

Steve Allen: Yes.

Q19 **Geoffrey Clifton-Brown:** You presumably provide a budget to the board once a month.

Steve Allen: That is correct, yes.

Q20 **Geoffrey Clifton-Brown:** Did those budgets not have any variances between what was paid and what was budgeted for redundancy payments?

Steve Allen: The budgets presented to the board did not go into the level of detail of redundancy payments.

Q21 **Geoffrey Clifton-Brown:** And you had a remuneration committee. What about that?

Steve Allen: The remuneration committee were given overall briefing about the progress of the relocation—the office move from London to Birmingham—which was why we had put in place the redundancy arrangements in the first place. But they were not briefed specifically about the redundancy payments, because their terms of reference are about remuneration, not redundancies.

Q22 **Geoffrey Clifton-Brown:** But the remuneration committee must have known that these were not authorised. If they knew they were not authorised, surely that is a serious enough matter to bring to the board's attention.

Steve Allen: The remuneration committee—and, indeed, the board and the executive—were all briefed by the HR director that the Department had given its approval to the enhanced scheme, and so proceeded on the basis that the scheme was authorised. Of course, that turned out to be incorrect, but the board and the executive proceeded on the basis that, as they were briefed by the HR director, the scheme was authorised because it had been agreed by the Department.

Q23 **Geoffrey Clifton-Brown:** So the HR director lied to the board, then? If the HR director reported to the board that these were authorised payments, but in fact they were not, surely the HR director lied to the board.

Steve Allen: I don't believe he thought he was lying to the board at the time. I think he was also under the impression that that approval had been given. But, yes, it ended up that misleading statements were given to the board, the remuneration committee and the executive.

Q24 **Geoffrey Clifton-Brown:** The Government Internal Audit Agency's audit report states: "The Redundancy scheme appears to have been first raised with the Department in February 2016. A presentation dated 29/2/16 was sent to the Department entitled 'HS2 Ltd Relocation Support Proposal'. This did not contain reference to enhanced terms." Is that correct?

Steve Allen: We believe that now to be the case, yes.

Q25 **Geoffrey Clifton-Brown:** During March 2016, there was considerable discussion between the Department and HS2, including a discussion with the Permanent Secretary—the accountable officer. Most of that was verbal, and it resulted in a formal submission to the Permanent Secretary on 9 March 2016. Ms Kelly, I know you were not in place, but you must have been aware of what conversations took place between your predecessor and HS2 Ltd over this matter that resulted in the formal submission being made in March 2016.

Bernadette Kelly: I am only aware in so far as these matters have been set out in either the NAO or GIAA reports. I was not personally involved in these matters at that point at all. However, it is very clear that the formal submission to the Permanent Secretary at that time was to seek approval for a redundancy scheme on statutory terms only. That is the basis on which a redundancy scheme was approved by the Department.

Q26 **Geoffrey Clifton-Brown:** We then move on to a month later—13 April 2016, to be precise. HS2 Ltd requested permission to run an enhanced scheme, as they believed the statutory scheme was unattractive to employees—quite why they would have done that, I do not know. On 14 April 2016, there was a direct email from a senior official at the Department to a very senior official at HS2 that was acknowledged and accepted on the same day. It said that this was "a red line" for the Department. Mr Allen, who was the very senior official at HS2 who received that email?

Steve Allen: It was the then chief executive who received that email.

Q27 **Geoffrey Clifton-Brown:** Mr Kirby?

Steve Allen: That's right.

Q28 **Geoffrey Clifton-Brown:** So he knew that he was not allowed to operate an enhanced scheme.

Steve Allen: He certainly received that email from the Department, but it was not copied to anybody in HS2 or, I understand, in the Department at the time.

Q29 **Geoffrey Clifton-Brown:** Surely that is absolutely no excuse. The chief executive—the accounting officer—knew that he was not allowed to operate a scheme that was enhanced above normal civil service terms. Surely that is no excuse.

Steve Allen: I was not seeking to make an excuse. I was just explaining that that email was not shared with anybody within HS2.

Q30 **Geoffrey Clifton-Brown:** So you did not know about it at the time, either.

Steve Allen: No. I only became aware of it through the discussions with the NAO as part of the end-of-year audit. I saw that email for the first time, I think, in April this year.

Q31 **Geoffrey Clifton-Brown:** If we go back to the previous correspondence on 29 February, this is even more serious, in a way. Initially, the presentation to the Department made no reference to enhanced redundancy terms. However, a presentation with the same title and content and dated the same day—29 February 2016—was sent to the NAO in February 2017 by HS2 and forwarded to the Department in April 2017 with an additional slide illustrating enhanced redundancy terms inserted. Somebody deliberately altered that documentation, did they not?

Mark Thurston: Somebody did, and we have instigated a review around the individual. There were two presentations, in fact, that the GIAA report identifies where we had two versions of the same presentation: one, as you say, from last year, which was shared with the Department, and one that was shared with the NAO earlier this year. What I have done since is instigate a review of emails and other documents around the particular individual. That review is not complete, but it will be within a week or so, and all the signs are that it is isolated to an individual and to those documents. That individual is no longer with the company; they left this summer. It points to someone who maybe realised a mistake had been made in an earlier presentation, because it was not as clear, as you say, and was looking to make it clear later on. We have not got fully to the bottom of that review just yet, but the signs of what we have done thus far are that it is contained to one individual and just those documents.

Steve Allen: It is worth adding that as soon as we became aware of those documents having been changed, we shared that with the NAO and the Government Internal Audit Agency as part of their review.

Q32 **Geoffrey Clifton-Brown:** This was not an isolated case, was it? The Government's auditors asked HS2 to further investigate this presentation in the light of the evidence on the February 2016 document. HS2 Ltd have confirmed that this presentation was also edited and the slides used at August 2016 did not refer to enhanced terms but the version sent in April 2017 did. So we have another alteration of another document, have we not?

Mark Thurston: As I have said, we have identified two documents that were changed between 2016 and 2017—both from the same individual. As I have said, it is the same individual who appears to have done that. The review we have done around that particular individual's emails and files points to that being the only incident. We are fully aware of that and we hope that once we close that review, it will prove that that is the extent of this issue. It does not point to any wider issue within the company.

Q33 **Chair:** You said that that individual has left the organisation.

Mark Thurston: They have, yes.

Q34 **Chair:** Did they get sacked or did they choose to leave?

Mark Thurston: We parted company. That person was an internal member of staff—part of the HR team. I have been making a number of changes to the organisation since I joined the company in March this year.

Q35 **Chair:** So it was a restructuring move—they have got away scot-free?

Mark Thurston: We did not understand that those documents had been changed until after the individual had left.

Q36 **Chair:** There is no comeback?

Mark Thurston: We are looking to have an interview with the individual to find out exactly what the rationale was. It points to someone realising that they had made a mistake and that they needed to make that clearer in the set of presentations. Obviously, had that slide been in those presentations the previous year, I think it would have been a lot clearer to the Department at the time that we were looking to pay enhanced terms. It was not there; the same slide was inserted in both presentations. As I have said, my intent is that we get to the bottom of that over the next few days.

Q37 **Chair:** What would have been the consequence to that individual if they had not altered the slide and you had found that the original slide did not highlight this? You are still investigating this, but would there have been a consequence for that individual—a senior HR professional losing their job—as a result?

Mark Thurston: Clearly that would have been a very serious offence. To go and change a slide deck at two points in time—

Q38 **Chair:** Or, indeed, to have the slide deck wrong in the first place and not highlighting the differential package?

Mark Thurston: It would be supposition. On the detail that is not in the earlier set of slides that went to the Department, clearly the reflection of the individual's concern was that that additional sum would have made even clearer to the Department the nature of the terms that we were looking to pursue the redundancy scheme on.

Chair: It sounds like people knew exactly what was happening with these enhanced redundancy payments—or somebody did.

Q39 **Geoffrey Clifton-Brown:** This is shocking, really, Mr Thurston. It is shocking reputational damage for HS2. Surely somebody in your organisation must have realised that something was going wrong before the C&AG came along to expose all this. Was there nobody in your organisation, Mr Allen? Did nobody in your financial department realise that these emails, reports and slideshows had been tampered with?

Steve Allen: As far as we have been able to ascertain thus far, the emails were changed relatively recently—probably sometime between February and April of this year. So it appears that it was only as a result of the questions that were being asked by the National Audit Office that these presentations were changed.

Q40 **Geoffrey Clifton-Brown:** Ms Kelly, you had David Prout, who sat on the board to observe goings on. Did he know anything about any of these enhanced payments?

Bernadette Kelly: He clearly would not have known as a member of the board because, as Mr Allen has explained, that information was not provided to the board in terms that it would have recognised that what was being proposed was a scheme that did not have authorisation. Clearly, as a board member, he would not have been aware. He did become aware, as the senior responsible official in the Department, that enhanced terms were being sought by HS2 Ltd, and he was the author of the email to Simon Kirby making it very clear that the Department would not approve such terms.

Q41 **Geoffrey Clifton-Brown:** Can you give us the date? On what date did he become aware?

Bernadette Kelly: Yes, that is the email of 14 April referred to in the GIAA report.

Q42 **Geoffrey Clifton-Brown:** Let's go into what was actually at stake here. Redundancy compensation was paid at one month's salary per years of service, in line with civil service terms, but before any redundancies were finalised the civil service had changed that scheme to three weeks' notice. So it would have been quite possible, would it not, to have agreed these redundancy terms on three weeks' rather than a month's payment for every year served?

Mark Thurston: It is worth remembering why the scheme was put together in the first place, and it might be helpful to explain for a minute what the purpose of the scheme was. The company had got to a point in its life where it was moving—

Chair: From London to Birmingham.

Mark Thurston: From a development to a delivery organisation. There was a fundamental restructuring of the organisation, but we were moving the centre of the organisation from London to Birmingham, as you say, Chair. We were going through a significant change in the organisation at the time, and we put in place both a compulsory scheme and a redundancy scheme.

The principle at the time was that if the company had complied with the requirements of its framework document, which was on statutory terms, that would not have been sufficient to retain the key people that the company needed at that critical point in its activity. The enhanced terms were seen as a means by which we could retain key people in our London offices while we continued to recruit new people into the Birmingham office. That was the premise of the scheme, which in itself was sound, and that was what was developed. Clearly, where the company got it wrong was that it did not make sure that got formally approved by the Department, as we have discussed.

Q43 **Geoffrey Clifton-Brown:** Are you really telling us that you would not have been able to recruit staff of a sufficient calibre because you needed enhanced redundancy terms, when the whole of the civil service and the whole of the rest of Government were acting under the civil service scheme? Are you really telling us that you would not have been able to recruit staff because you needed to pay them enhanced redundancy payments?

Mark Thurston: Sorry, I probably did not make myself clear. It was about retaining the staff we had. Many of the staff had not been with the company for very long—they had only one or two years' service—and if they knew they were going to be made redundant on statutory terms, they would leave the organisation before we had replaced them in their roles with new colleagues who had joined the company in Birmingham. It was not about not being able to recruit new people; it was about retaining the people in the organisation at that point in time. That was the rationale for the enhanced terms.

Q44 **Geoffrey Clifton-Brown:** This goes to the very basis of recruiting them in the first place. They had signed a contract. Furthermore, if you had any idea that you were moving from London to Birmingham, why did you not put them on a flexible contract so that they could be asked to move from London to Birmingham? That way you would not have had to pay any redundancy payments at all.

Mark Thurston: At the time many of these people joined the company—the decision to go to Birmingham was in the back end of 2015. That was a significant change. We now have over 800 people in our Birmingham office.

Q45 **Chair:** It was not predicted at all early on that you might have to move location because of the change—

Mark Thurston: I can only assume—I was not there. Steve may be able to comment better, but—

Q46 **Chair:** It is not unusual for highly paid rail executives to move around the country for work. That is surely par for the course.

Mark Thurston: And many people started, and continued, to commute between London and Birmingham.

Q47 **Geoffrey Clifton-Brown:** I have two questions on this. First, they were under contract, so regardless of whether the scheme was enhanced or not, if it had not been enhanced, they would, under contract, have got the amount to which they were entitled in redundancy. So in effect you paid this £1.7 million unnecessarily, did you not—or your predecessors did?

Mark Thurston: The people were under contract on statutory redundancy terms.

Geoffrey Clifton-Brown: Yes.

Mark Thurston: Had we entered into the redundancy and consulted with the staff to change the organisation to make people redundant—the concern at the time was, as I understand it, that the statutory terms, which was effectively a week's salary for one year's service, would not have kept people in the company and they would have left the company prematurely—

Q48 **Chair:** How many months prematurely?

Mark Thurston: Well, that would depend on individual roles, but the reality was—

Q49 **Chair:** Is it worth the amount of the redundancy payment? If you are paying £95,000 just for the gardening leave, let alone the rest, that is a very expensive way of keeping people on, surely.

Mark Thurston: I think it is worth remembering what the company has achieved over that period. We have now taken—

Chair: We are just focusing on the fact that these redundancy payments were made in an unauthorised fashion. We can talk about HS2 and delivery in other sessions.

Q50 **Geoffrey Clifton-Brown:** I want to come back to the elements of the scheme, but since we have got on to this, my colleague Mr Mills made a good point. Were you not, in effect, operating not a redundancy scheme but a golden handcuff scheme, to try to prevent people from leaving? You were paying them unauthorised payments to try to prevent them from leaving.

Mark Thurston: The intent was that the enhanced redundancy scheme would be sufficient to keep people in the company until we had found an opportunity to backfill some of those important roles in our Birmingham office. That was the nature of the redundancy scheme. That was the premise on which the scheme was based.

Q51 **Chair:** Can I ask about the HR director? We will come back to Mr Thurston in a moment. Mr Allen, you said earlier that the HR director believed that these payments were authorised. What advice did the HR director receive to come to that conclusion?

Steve Allen: What I said was that he certainly briefed me, the executive and the board that the Department had authorised the scheme on enhanced terms. Looking back now, I don't know what he based that briefing on, because we cannot find any documentary evidence that supports it, but it is clear, because the email was in response to it, that there were ongoing discussions between the HS2 HR team and departmental officials after the permanent secretary's decision at the end of March.

Q52 **Chair:** So what happened to the HR director?

Steve Allen: He is no longer with the company.

Q53 **Chair:** Did he resign, or did he get sacked? Mr Thurston?

Mark Thurston: I arrived at the beginning of March, and my clear brief from my chairman and the DG at the time was that my focus should be on completing this change programme to get the organisation set up properly for—

Q54 **Chair:** In Birmingham?

Mark Thurston: In Birmingham. We were on that process—

Q55 **Chair:** So what happened to the HR director, Mr Thurston?

Mark Thurston: I agreed with him in May that he would not be part of the future of the organisation.

Q56 **Chair:** So he got redundancy?

Mark Thurston: He hasn't taken redundancy.

Q57 **Chair:** He's left, or—

Mark Thurston: He's not been paid. He's now left the company.

Q58 **Chair:** Without redundancy?

Mark Thurston: Without redundancy.

Chair: Well, there is one small glimmer.

Q59 **Geoffrey Clifton-Brown:** I want to get back to the main terms of the scheme, where it had not complied with the norm. We have heard about the first part: you paid one month's salary per year's service. Secondly, all individuals received a lump sum payment in lieu of notice—a so-called PILON—based on their full notice period, but was it true that in many cases, significant notice had been given and worked? The payment was given for notice in lieu when they had actually worked their notice, and presumably been paid for it. They were, in effect, paid twice.

Mark Thurston: They were not paid twice. There were eight individuals who, based on their redundancy payment and their notice period, were entitled to moneys above the £95k cap. The £95k cap, just to be correct about that, is a civil service cap for redundancies. We were aware of that at the time; the HR team at the time then agreed that those individuals who were entitled to more than that would take a combination of their redundancy payment and their pay, but their payment in lieu of notice was effectively gardening leave. They were stood down from their positions, and they worked their notice.

Steve Allen: Just to help explain, there were actually two redundancy schemes that we are talking about here. There was a scheme on compulsory terms. That was paid out to 70 people, who, because it was a compulsory scheme, did not receive any pay in lieu of notice, or anything other than the redundancy payment itself. Then there was a voluntary scheme where people were paid in lieu of notice and got a redundancy payment, and that will be paid to 26 people total when it has reached its full term. So only a subset of the people who received redundancy in total received any pay in lieu of notice, not everybody.

Q60 **Geoffrey Clifton-Brown:** Can I be very clear—this is not what we have been led to believe by the NAO—that no individuals in these redundancy schemes were paid for notice in lieu where they had already worked that notice and been paid for working it? There were no double payments in that respect—the so-called PILON payments?

Mark Thurston: No one has been paid twice for the same thing. They have either been paid a combination of their entitlement to redundancy or payment in lieu of notice. Those are the only two payments they have received.

Q61 **Geoffrey Clifton-Brown:** But they wouldn't have received a payment in lieu if they had worked their notice out, because that is what that payment is for?

Mark Thurston: No.

Q62 **Geoffrey Clifton-Brown:** Nobody? None of them?

Mark Thurston: No. Nobody. Some people worked part of their notice and took the rest as gardening leave; some took it all as gardening leave.

Q63 **Geoffrey Clifton-Brown:** Okay. So, under the terms of the Civil Service Compensation Scheme, "exit packages are capped at £95,000 per individual, and Cabinet Office approval is required for payments above that level. To ensure that lump sums payable did not exceed the £95,000 cap", you or "HS2…paid, for those whose compensation and PILON calculated as above would have exceeded £95,000"—okay, you say there wasn't any notice in view, but you paid an "additional salary for a period of gardening leave, during which individuals were paid but not asked to work." Surely this all amounted to a payment in excess of £95,000, which you were not authorised to make?

Mark Thurston: That is correct and that's what we've conceded; we got that wrong. We shouldn't have gone above the cap; we shouldn't have paid those individuals in the way we did. It comes right back, really, to the premise of the meeting—we should have stayed with the statutory terms. That's something we didn't get approval for and we should have sought special approval, from both the Department and the Treasury, if we were going to exceed that, so we fully accept that position.

Q64 **Geoffrey Clifton-Brown:** Are both of you, Mr Thurston and Mr Allen, really saying about these enhanced payments that at no point before they were agreed did either the remuneration committee or the board know that they were being offered—because of course once they were offered, legally they couldn't be withdrawn, could they?

Mark Thurston: Certainly once we'd consulted with staff—we went into formal consultation with staff of both the schemes, as Steve has explained—it was very hard for us to deviate from that. We took legal advice on that. Certainly, in my time at the company we have taken legal advice around that, and there was strong advice that we should continue with the schemes as they were consulted on with staff.

My understanding is that the REMCOM were briefed on the nature of the scheme, and that the REMCOM would have briefed the board; but again, the whole premise was that the scheme was approved. That's the bit we got wrong, because they weren't approved.

Q65 **Geoffrey Clifton-Brown:** In case anybody thinks that I am being unkind to both of you, Ms Kelly, you had put in place a framework document—I have it in front of me here. There have been some comments that HS2 was not aware of what was in that framework agreement, although I didn't spend very long reading it and I found that in paragraph 6.9, which is the paragraph relating to pensions, redundancy and compensation, there was your instruction—would you agree?—to HS2. Paragraph 6.9 of the framework document says, "Proposals on severance payments must comply with 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." That is pretty clear, is it not? You had given HS2 a very clear instruction that they were not to make payments on an enhanced basis. Is that correct?

Bernadette Kelly: That is correct; the framework document is very clear on that point.

Q66 **Geoffrey Clifton-Brown:** Mr Kirby, as the chief accountable officer at the time and the steward of public taxpayers' money who was responsible for this excess payment of £1.76 million—I have thought long and hard whether I ought to ask this question. Surely there is an element of fraud involved here, and should not action be taken against Mr Kirby for carrying out those actions?

Bernadette Kelly: On what basis do you think—

Q67 **Geoffrey Clifton-Brown:** Because he knowingly authorised a scheme to pay out excess sums of taxpayers' money when he knew that it wasn't authorised. He specifically knew that he had not been authorised to make those payments—

Bernadette Kelly: He specifically knew that the Department had not given authorisation for an enhanced scheme; that is correct. That is clear from the email communication that took place between him and Mr Prout. What I think the facts have not fully established is what he subsequently did with that information within the company, and what steps he took to ensure that only a statutory scheme was carried forward.

Q68 **Geoffrey Clifton-Brown:** So you are sitting there and saying you don't think any further action ought to be taken against Mr Kirby.

Bernadette Kelly: I am saying Mr Kirby has left the company and I'm saying that I think the steps that the company is rightly focusing on now are those that are in relation to strengthening its controls, so that there is no possibility that such a failure can happen again in the future, and in relation to individuals within the company—

Q69 **Chair:** Was Mr Kirby on the remuneration committee?

Steve Allen: No, the remuneration committee is only non-executive members of the board. He would have attended some of the meetings, but he wasn't a member of the committee.

Q70 **Geoffrey Clifton-Brown:** Ms Kelly, you speak in very confident terms that this could not happen again, but I put it to you that your Department's track record in dealing with non-departmental public bodies such as this, which had—still has—a whopping budget of £55.6 billion, is not great in terms of corporate governance and financial controls. Look at Network Rail; look at the tram scheme we have just heard about. I am not sure how you can be so confident that you have put controls in place that this could never happen again.

Bernadette Kelly: What I was seeking to make clear was, firstly, that we have taken this failure extremely seriously. That is why I commissioned the internal audit report as soon as we became aware of the NAO's qualification of HS2 Ltd's accounts. That audit—as I think the Committee can see, because we have shared it with you in full on an exceptional basis—is a very thorough and detailed piece of work, and Mr Thurston and I have are both now taking appropriate steps within our organisations to ensure that this sort of failure of control does not happen again. So I can assure you that, firstly, we are taking the matter extremely seriously and, secondly, that we are taking the response extremely seriously. Clearly, I cannot promise you that nothing will ever go wrong in any of our bodies in future, but I would want the Committee to understand just how seriously we take our responsibilities as a Department for ensuring that appropriate governance and oversight is in place to minimise the risk that such things will occur. However, as I say, in this case we need to come back to the point that a very clear control was in place in the shape of the framework document and a very clear authorisation was given by the Department for a statutory scheme only.

Q71 **Geoffrey Clifton-Brown:** I am sorry to labour this question, but Mr Kirby was paid £750,000 and he has made unauthorised payments that have defrauded the taxpayer of £1.76 million, and you are saying that no action should be taken against him.

Bernadette Kelly: I am saying that the action upon which I am now focused, and upon which Mr Thurston is now focused, is in relation to how the company can strengthen its internal controls—

Chair: Mr Clifton-Brown is asking a clear question. Could you answer the clear question?

Bernadette Kelly: As I say, Mr Kirby is no longer an employee of HS2 Ltd and therefore the steps available from the Department's perspective are quite limited—

Q72 **Chair:** Ms Kelly, in response to Mr Clifton-Brown's earlier question about whether there was a fraud issue here, you said very clearly that there was no record of what happened after that email was sent from your Department to Mr Kirby, saying that there was no authorisation for that scheme. It is inconceivable, I would say, that a chief exec of an organisation did not forward it on to somebody in HR, possibly to Mr Allen—somebody he might seek advice from as a busy, highly paid executive. Is that not a question you have asked HS2 Ltd—that it do a full trawl of whether it was forwarded—and if it was not, does that not mean that Mr Kirby is very much in the frame?

Bernadette Kelly: I certainly think it extraordinary that despite the very clear instruction from a senior official in the Department to Mr Kirby, the instruction was not acted upon. That is clearly extraordinary and extremely disappointing. I think what we understand, what the company understands from its own inquiries into the matter, is that the communication from the Department was not shared, certainly not with Mr Allen at that point in time.

Steve Allen: Absolutely. It was not shared with me. We have done a trawl of his emails and there is no record of its having been shared with anybody else within the company.

Q73 **Geoffrey Clifton-Brown:** That is no excuse, is it? The fact that he knew actually rather strengthens the case that action ought to be taken against him. Can I ask you again, Ms Kelly, whether any consideration has been taken by you or anybody else in the Department? Whether Mr Kirby still works for HS2 is irrelevant. He was contractually obliged to uphold the standards within the framework document when he was working for HS2. I would not have thought that that would preclude, legally, any action against him now. Has any consideration been given in the Department to taking action against him?

Bernadette Kelly: I would need to take legal advice on what courses of action were available, given that, as I say, he has no contractual relationship anymore with the Department, or with the Government. I have not taken legal advice on what course is available for that action.

Q74 **Geoffrey Clifton-Brown:** Could you give the Committee a note on what courses of action would be available if your chose to take any?

Bernadette Kelly: I can promise the Committee such a note.

Q75 **Geoffrey Clifton-Brown:** Thank you very much. As a final question, do you not think that it is absolutely shocking that taxpayers have been defrauded of £1.76 million by one individual? If he had read that document, he must have known perfectly well what he was doing. Do you not think that that is absolutely shocking and should never, ever be repeated?

Bernadette Kelly: I think it is absolutely shocking. I completely agree. I wholly condemn the fact that an unauthorised scheme was carried out within HS2 Ltd. That is why as accounting officer I wanted a full and thorough audit into exactly what had happened. What I would say about that audit's conclusion is that it points to a number of failures within the company; it does not necessarily point to a single individual as having been wholly responsible for that failure. Equally, though, I can understand the Committee's remarks and view of the matter.

Q76 **Geoffrey Clifton-Brown:** Your predecessor, Philip Rutnam, who was the accounting officer at the time—can you remind us what he is doing now?

Bernadette Kelly: He is now the permanent secretary at the Home Office.

Q77 **Geoffrey Clifton-Brown:** So he has moved on from the mess to another permanent secretaryship.

Bernadette Kelly: The Department at all points was extremely clear that no authorisation was given for an enhanced scheme. The permanent secretary, Philip Rutnam, was very clear that statutory terms only were to be offered to employees of HS2 Ltd. There was therefore no reason for him as an accounting officer to feel that the Department had failed to make itself clear or exercise control.

Q78 **Chair:** You have authorised this inquiry into this aspect of the running of HS2—unauthorised redundancy payments—but given that we know that that email was sent by a senior official in your Department to Simon Kirby, have you considered looking into other actions that he took as chief executive, to assure yourself that there were no other misuses of taxpayers' money under his watch?

Bernadette Kelly: No, I have not, because without having clear evidence of some sort of misuse of taxpayers' money, it is difficult to know what exactly an inquiry would identify.

Q79 **Chair:** But what if any other evidence came to light?

Bernadette Kelly: Clearly, if any evidence came to light of any other misuse of taxpayers' funds, we would absolutely take it extremely seriously, as indeed we have in this case—and as indeed Mr Thurston does.

Chair: Ms Allen, briefly, and then I will bring Mr Graham in.

Q80 **Heidi Allen:** This is a general point, but it builds on what we have been discussing. I was interested when you, Mark, said that you came into the organisation to lead it through the change. I have led organisations through change. This is a change organisation—an organisation that moves something and connects it from here to here. I find it incredible that flexibility in contracts and the fact that people might be expected to move was not embedded, given that you are building something that starts here and moves there. Since you have come into the organisation and discovered things like this, what else have you crawled all over? This organisation should be delivering. It should not be at a point of change, because change is what it does.

Mark Thurston: I agree. The organisation has delivered a lot in the last year. We now have £900 million-worth of enabling works contracts out in the field on phase 1.

Q81 **Chair:** Crikey. Are we going to go through everything you are doing?

Mark Thurston: The point is that the organisation is doing what it set out to do in the round.

Chair: But Ms Allen's point is a very pertinent one. You know you are an organisation that is going to move people around the country and deliver things, so it will need people to have flexibility.

Heidi Allen: Having stumbled on this, if I were you, I would be sniffing over every part of that organisation. Is its structure set up for what it needs to deliver? Are its contracts?

Q82 **Chair:** Are you, Mr Thurston? Are you looking at other aspects?

Mark Thurston: Yes.

Q83 **Chair:** Can you give some examples?

Mark Thurston: I have done a thorough review of the whole organisation since I have arrived. I have changed the way we run our legal counsel and company secretary function; we are bringing a new HR director into the company; Mr Allen has appointed a new sponsorship director, and she will be key to the relationship with the Department.

Q84 **Chair:** Pertinently to Ms Allen's point, are you making sure that all those changes are flexible enough to adapt to the change that, as she highlights, is in the nature of an organisation like HS2 Ltd, which is delivering a project that is changing?

Mark Thurston: We have a reasonable degree of flexibility in our employment contracts. The majority of our staff are now based in Birmingham. We have effectively made that strategic decision for the company, going back two years.

Q85 **Heidi Allen:** That should have been expected, really, given that that is where the railway is going. It doesn't feel like that should be a strategic decision; it should just have been what it was.

Mark Thurston: I think it is fair to say that at one point in time it made sense for the organisation to be London-based, because it was near the House. We were really trying to get the hybrid Bill through for phase 1, which we did. As we have moved into the delivery phase, we have now moved our phase 1 delivery team into Birmingham. We also now have a team in Birmingham developing the hybrid Bill for phase 2. Increasingly, the centre of gravity for High Speed Two is in the midlands, as you'd expect. We are actually shutting our London offices down over the next 12 to 18 months.

Chair: I think we have highlighted that this is highly predictable. We may want to come back to this at the end if we have time, or at a future hearing.

Q86 **Luke Graham:** To build on colleagues' comments, I want to expand out a little to look a bit more broadly at the culture of the company and the overall performance. Mr Thurston, you are now the fourth chief executive officer for HS2. Obviously you have come in since March. With that backdrop, and also considering that the reports on the HS2 financial statements clearly state that the focus should be not only on systems and processes but on culture and behaviours, what have you done since your appointment to make sure that the company's culture and behaviours are changing, and that the company is doing the right thing with taxpayers' money?

Mark Thurston: We have done a number of things. We have changed the way in which the executive team work. I have changed the way in which the executive team interact with our board. I have made a number of changes to the executive team, and I continue to do that. Importantly for me, a new HR director starts in a few weeks' time. That is an important appointment for me.

Q87 **Luke Graham:** On that one point, Mr Thurston: hopefully I have this right, but will the new HR director be an executive? Will that position be on the executive committee, or has it been taken off the executive committee?

Mark Thurston: No, it will come back on to my executive committee and report directly to me. We have a new finance director starting with us in the new year. We have had an interim finance director—

Q88 **Chair:** You have a new finance director starting in the new year, and Mr Allen has only just resigned.

Mark Thurston: The finance director reports to the CFO.

Chair: Sorry, forgive me.

Mark Thurston: One of the other important things we are going to do between now and the end of the financial year, so between now and the end of March, is re-apprise all 1,520-odd employees in the company of the responsibilities around managing public money and the framework document that was referred to earlier. If you go back to the two reports, the NAO Report and particularly the GIAA report, there was clearly a lack of familiarity with that document inside the company. We are going back and making sure that all employees of the organisation are very clear about their individual responsibilities to comply with that document.

We will be taking a number of steps. My view is that the organisation continues to evolve. We are going through this transition from development to delivery, as I said earlier. My expectation is that the organisation will look and feel quite different by the time we get to spring next year.

Q89 **Luke Graham:** I appreciate that. Again, I am not expecting you to go through every specific, but on that point about culture and behaviour, talking about how the executive works differently, are there any specific examples you can pull in or, more importantly, an example that you can draw down of a particular tool—maybe a balanced scorecard, or something else that really makes sure that the whole organisation is pulling in the same direction, and is really brought into this culture? As the internal audit report highlighted, you have had such a high level of turnover. How can you give assurances to the Public Accounts Committee and others that the culture is being embedded, and that you are able to bring people up to speed quickly enough to adopt that culture?

Mark Thurston: I will answer your point about a specific, and Steve Allen and I can talk to this. One of the areas that the NAO flagged to us in the year-end accounts review was our purchase-to-pay system. There were a number of control issues around that. We were seeing multiple people having access to our purchase-to-pay system. We had issues around the timing of purchase orders being raised. The NAO ran a very clever diagnostic tool to help us to understand what was happening there.

I think this is a symptom of what is becoming a delivery organisation and working at a certain pace. Quite frankly, the organisation has grown quickly and a lot of tools and systems in the organisation have not kept pace with the growth, so one of the things we are doing is bringing online a new enterprise management system, which will go live in spring next year. We have limited the number of people who have access to the purchase-to-pay system. We have two key signatures for every purchase order the company is to make. One individual could make it; two individuals can. They are named individuals. We have put a whole new governance structure in, down—

Chair: I have to say that these are pretty much basics, one would think.

Q90 **Luke Graham:** Yes, some of these are are reasonable points, but the problem is that this company has been going for a while now—a few years. It is not a thrifty start-up. It has had the full support of Government—it is £55.7 billion. I know you just came in in March, but these points are about making sure that a high standard exists.

Mark Thurston: Absolutely.

Q91 **Luke Graham:** Going back to this point about culture and turnover, maybe we need to take a step back. Why do you think there is such a high turnover in this organisation? It is a flagship project for the entire country. It should be exciting. We should have people clawing their way to stay part of this company and lead something great for all of Britain—we will come on to Scotland later.

Chair: Don't let's make the prose too purple.

Luke Graham: So why is there such a high level of turnover within the company? What is the problem with the culture?

Mark Thurston: I don't think it is a problem with the culture per se. Coming back to the early change in the organisation that we have discussed, if you look between September 2016 and September of this year, our turnover is 18%. That is far too high, so one of my priorities is getting it to somewhere between 8% and 12%—10% would be pretty good—which in our industry would be about normal. If we could it get below that, I would be delighted. The trend is improving.

Without a doubt, the shift to Birmingham has had quite a disruptive effect, predictable or otherwise, on the organisation, and I have spent the lion's share of my first eight months in this job reinforcing the need for stability, for good corporate discipline and for clarity around the purpose of the organisation, because it has changed quite a lot. As I said, my expectation is that by spring next year we will be much further up that maturity curve in the organisation.

To pick up on a point you made, it is certainly not a start-up organisation, but to put it in context, there are more than 1,500 people in High Speed 2 Limited today, and only 280-odd people have been there more than three years. So we have seen, to your point, a lot of churn, and clearly the executive team and I are now doing the sort of things that you would expect me to do to stabilise the organisation and attract the best talent in the industry, which we are absolutely going to need. We are doing more work around retaining the talent that we have, and my expectation is that the organisation will look and feel—and the culture, as you referred to it, will be—quite different by the new year.

Chair: I am going to bring in Mr Graham and then Sir Amyas Morse.

Q92 **Luke Graham:** Mr Thurston, when you came in in March, what was your diagnosis of the problem with the culture, and why did you think the turnover was so high? Was it the move to Birmingham or were there more than two or three drivers?

Mark Thurston: I think it was a combination. I was the third CEO in six months. The move to Birmingham had clearly been very disruptive. My observation was that we had taken too long to make that organisational change. My experience of changing organisations is that the quicker you do it, the better. These things do not get better if you take longer to do them.

We had also changed the structure of the organisation; we had moved from a development organisation to a more delivery-focused one. You could not point to one single issue, but the net effect of them all was that I inherited an organisation that needed quite a lot of work to get it to the place that it needs to be in. I have to say that we are way down the road of getting there, and it has moved on considerably in my eight months.

Sir Amyas Morse: Mr Allen, are you taking one for the team here? Are there things that you could say, which would share the responsibility rather more, that you’re not saying? Are you being as frank with us as you could be, given that you are here, and you are leaving? It seems to me that you might be in that position.

Steve Allen: I have explained the reasons for my resignation. As we have answered questions, we have talked about there being a number of failures of communication through this process, so no, I do not think there is any more to disclose that we haven’t already talked about through the answers that we have given to the Committee’s questions.

Q93 **Luke Graham:** Just to return to the point about bringing on board the right skills for the company, you were saying that you have made quite a few appointments recently, which is reassuring to some of us on the

Committee. One question that I would ask, and it is probably appropriate for Ms Kelly to come in on this as well, is about Kieran Rix, who was Mr Allen's predecessor, coming in as a kind of corporate finance director.

I understand that Mr Rix entered the company at deputy director level, and was then promoted to corporate finance director during his time with HS2 Limited. That is fair enough and shows some progression. Are you sure, however, that he was at the right level for the level of responsibility that he had at the time? Coming from a finance background myself, given that you, Mr Allen, were taking on that role, having had a more junior person in the role, were all the bases covered, and just how much needed fixing when you came in as CFO?

Steve Allen: Clearly, the finance processes and systems that you need for an organisation that is in the early stages of the design of a project and supporting a Bill are different from what you need when the organisation is in full delivery. We have been through a number of changes in our finance systems. We started off with a Sage accounting system, we now have a sort of cut-down implementation of SAP and next year we will implement Oracle. I think it is reasonable to expect that you would see that sort of transition in growth alongside the growth of the company; but if you look back, with the benefit of hindsight, yes, I think we would have liked to have made some of those changes sooner. We'd have liked to upskill the resources within the finance team probably sooner, but it is part of that natural progression of growth of the company.

Q94 **Chair:** Mr Thurston—on the same point.

Mark Thurston: I don't know about Kieran Rix. Apologies, but I am not in a position to comment.

Q95 **Luke Graham:** So the question would be: for all the new appointments, are you both satisfied that they're at the requisite level of experience and skills that will take you right the way through the programme delivery to the end, and that we are not again just recruiting because we have a gap and we need to fill it? These are people who can see the project all the way through and can make sure you deliver in 2026?

Mark Thurston: In principle, all the recruits that we've made since I've been there have been on that basis. We're establishing a team that's for the next 10 to 15 years. With the new finance director, Steve has personally been involved in hiring; she joins us in January. She's got pedigree from Crossrail and she has worked in the Major Projects Authority infrastructure environment. We think we've got a good hire there; she comes with a lot of good experience. I've nothing to think that we're not making the right decision with these people. These are really key positions for us as a company, so it's important we get the right people who can grow, both individually and professionally, with the life of the programme.

Q96 **Luke Graham:** Thanks very much; I appreciate that. Chair, with your permission, I will move on to the progress of the HS2 programme and the delivery. Obviously we've covered some of the specific problems. In the

2016 PAC Report, "Progress with preparations for High Speed 2", it says: "HS2 Ltd is only 60% confident that phase 1 will open in December 2026." I understand that subsequently it has been asked that that confidence move up to 80%. Ms Kelly, a quick question for you first: are you still planning to open the whole route—London Euston to Birmingham Curzon Street—in December 2026?

Bernadette Kelly: I think we have a high level of confidence that phase 1 between London and Birmingham will open in December 2026, as indicated. As you've said, that confidence level is actually increasing, from about 60% to close to 80% now. We acknowledge that the challenges around completion of the route to Euston are greater and so the delivery confidence there is not as high, but we have set the target—firm target—for HS2 Ltd and we continue to believe that an opening in 2026 is absolutely possible.

Q97 **Luke Graham:** Just to be specific, you and the rest of the team are 80% certain that this will open in December 2026?

Bernadette Kelly: I think it's 81%; I think that is a confidence assessment that HS2 Ltd has produced.

Q98 **Luke Graham:** Okay, thank you. In your view, what will be the top three risks that might—excuse the pun—derail this?

Bernadette Kelly: We look at risks on an ongoing basis and, of course, they can change all the time, and there are many more than three, I think, that we would routinely assess. Obviously, we look to the company first and foremost to identify and deal with risks, but there are a number of risks that are particularly escalated to us in the Department, because they require the involvement of the Department to look at.

We're certainly looking in that space, for example, at things like wider programme integration—some of the challenges around ensuring that HS2 is fully integrated into the wider rail network at the point at which it opens. There are a whole host of risks that I could talk you through. There are no—

Luke Graham: Just the top three would be fine.

Bernadette Kelly: I've got 13 and these are HS2's own risks, so I wouldn't want to talk about all of them. Obviously we continue to work on the strength of the business case and the funding envelope, and being absolutely confident that the project is deliverable, on which we and the company are making excellent progress.

We continue—Mr Thurston continues—to look at organisational maturity and adaptability, as he's discussed. Community support and engagement around the route is enormously important, particularly now, as construction starts to get under way. That will become an increasing challenge, but also an important risk to be managed by the company.

Q99 **Chair:** Are they in the top three?

Bernadette Kelly: Sorry, I haven't got them listed as three. From my perspective, clearly I want this to deliver on time, I want it to deliver on budget and I want it to be a programme that has wide community and local engagement and support.

Q100 **Luke Graham:** Just to push you on that point, Ms Kelly, I understand that that is what you want, so what are the top three risks that would stop those things from happening? I took from what you said previously that it's the wider programme integration—

Bernadette Kelly: I mentioned wider programme integration because that is something we spend a significant amount of time on within the Department, because we recognise that not all of those risks can be managed within the company. It needs active support from Network Rail, the Department and other parts of the industry to manage those risks. That, for example, would appear in my departmental top three, because that is an area where we have a particular responsibility to support the delivery of the programme and the project.

Mark Thurston: There are two other risks that we would hang off of there. One would be what we would call railway or system integration—bringing this railway together will be a challenge for the company. The way we have packaged the work means that High Speed 2 Ltd is effectively the integrator of the railway system. We should not underestimate the challenges around that. Those are the sort of issues that Crossrail is working very hard on. It is about bringing drivers, trains, the track, the infrastructure and the stations all together.

The other risk that would exercise us in its early days—we have no reason to think that this will not be managed over time—is the draw on the UK supply chain, which we should not underestimate. If you look at what we have done with our civil engineering contracts, we have gone to the market and most of the joint ventures have European contractors as part of them. That does two things. It brings in European capability and expertise, because the likes of the Spanish, Italian and the French have greater experience than us in high-speed rail. Clearly we are working with our main works contractors now. They are mobilised in ensuring that we have the resource capability and resource profiles to give us the confidence that people will be there over the next four to five years.

Q101 **Luke Graham:** Thank you; that helps. The cost of phases 2a and 2b currently exceeds available funding by £1.8 billion. This question is to Ms Kelly and Mr Thurston. When are those costs going to be brought under control?

Mark Thurston: Phase 2 is split into phase 2a and phase 2b. The intent is to bring 2a forward. Our intent is to bring the scope of phase 2a back within the funding envelope by October 2022. We are now inside the hybrid Bill process. As we continue to refine the scheme, we will get more definition of the scope in due course, and we can improve that.

With phase 2b—this is the route from Birmingham to Leeds—we have identified more than £3.5 billion of savings. If you go back in time, we had a £6 billion problem where we were exceeding the funding envelope. That is improving all the time. We have now got a team refining the scope for phase 2b. We have just completed all the consultation on the route, so we are now refining that into a much more detailed scope. It is my expectation that as these schemes go forward, and we bring them back through the Government process and back through the Treasury, we will need to ensure that we can demonstrate with the right degrees of confidence that we can bring the cost of the scheme within the Government's funding envelope.

Q102 **Luke Graham:** You mentioned the route for phase 2b. Has that now been finalised?

Mark Thurston: Yes.

Q103 **Luke Graham:** So the decision about not going to Sheffield Meadowhall but going through Sheffield Midland is absolutely finalised. On controlling the cost, this project is bringing a lot of benefit for northern England. Other parts of the country, such as Scotland, need to be connected. In HS2 briefings, they are talking about journey times to Scotland. They are talking about some of the improvements that are being made, and you are talking about some of the cost controls. Can you guarantee that none of that will impact on some of the integration with other parts of the UK, especially north-to-south routes? That is the concern. Right now, from my read of all these documents, I can go to a 16-year-old in my constituency and say, "Isn't it great that in 16 years' time or so, you will be able to get to London about 40 minutes faster?" I do not think that is ambitious enough. That is not necessarily your fault, because it is the programme you have been given. Can you give us an assurance that some of the northern parts of the country will not lose out as we try to control these costs just to deliver for the midlands?

Bernadette Kelly: First, may I just reinforce what Mr Thurston has said about the progress being made in bringing the costs of phase 2a and phase 2b within the overall envelope agreed in the budget? There is still some further work to go, but very significant strides are being made in all aspects of delivery of the programme to ensure that it is brought within budget. That is the first part of the assurance.

I think some of your question goes to what else will be funded. That is obviously a different question that sits beyond the remit of HS2 Ltd. What I would point to is the announcement made recently by the Chancellor and the Secretary of State in relation to additional funding provision to future-proof HS2 Ltd so that future rail schemes in the north are able to take advantage of and connect appropriately to HS2. That commitment is, as I say, a recent commitment. In terms of wider funding of rail in the north, I can only point to the continuing development work that is currently happening, both on the Transpennine route upgrade and on the northern powerhouse rail project, both of which are being actively developed, as you know.

Q104 **Luke Graham:** I have one specific question on that. In the briefings that

I have been given so far, there has been discussion about cutting the rail time to Scotland from four hours and 20 minutes to three hours and 40 minutes. At a briefing with Ministers, it was put that there was an ambition to get it closer to three hours. To be really specific, can you assure this Committee now that none of the cost savings will threaten that three-hour ambition versus three hours and 40 minutes, which I believe is the current proposal?

Bernadette Kelly: I am not sure that I recognise the three-hour commitment, and I would therefore be uncomfortable with giving you an assurance.

Q105 **Chair:** Would you write to us with detail about that, please? I can understand Mr Graham fighting for his constituents—

Bernadette Kelly: What I would not want to do is give you an assurance about something that I could not subsequently deliver upon. Indeed, it is precisely those sorts of assurances that have got us into difficulty.

Chair: I think you have a clear ambition there from one of our Scottish Members.

Mark Thurston: It might be helpful to say that the company will work with the Department and colleagues in Network Rail to create a timetable for the service, when it is complete, that integrates High Speed 2 services into the conventional network. We would expect High Speed 2 services, when they leave the high-speed route, to transition across on to both the east coast main line and the west coast main line and to serve northern cities and Scotland on those existing routes. That will become part of an integrated timetable for the two phases.

Q106 **Luke Graham:** Okay, I understand. Moving on, I have a final question about apprenticeships. We have talked about developing skills within the company, and the Department's transport infrastructure skills strategy sets out the plans to address challenges in the supply chain, which Mr Thurston touched on. I know that key recommendations came out, including to deliver 30,000 apprenticeships in road and rail by 2020. Are you confident that you are going to hit the targets that you have set yourselves in terms of the 30,000 apprenticeships and making sure that you have a more diverse workforce? I think the target is for women to represent 20% of new entrants, to make sure that they are going through. That is part 1 of the question: are you confident that you will be able to achieve that?

Bernadette Kelly: I am sure that Mr Thurston can answer for the steps that HS2 Ltd are taking to ensure both the volume and the diversity of apprentices that they need. I will draw your attention, if you have not had an opportunity to see it, to the "one year on" report that was published in the summer and reported progress on the transport infrastructure skills strategy work. That confirmed that there were 2,000 new apprenticeships in the first reporting year, that up to 35,000 new apprentice starts are forecast in the road and rail sectors up to 2022, that we now have a commitment from Heathrow to join that work with a promise of 10,000 apprentices across the country, 5,000 apprentices in road freight, and so on. All of that is, I hope, clear evidence of the really significant momentum and commitment right across the transport sector to increasing both the number and the diversity of apprentices. I have to say that this is something that we take enormously seriously in the Department. We initiated the original work, and we are delighted that it is now being led with great energy by Mike Brown across the sector as a whole.

Q107 **Geoffrey Clifton-Brown:** Mr Thurston, you talk about the company growing rapidly, and I know that, but the reality is that you were four months behind with procuring some of your big projects. Are you now in a position to procure some of these very big projects and manage them so that they will be on time and on budget, to deliver the end point that Luke Graham talked about?

Mark Thurston: Yes, we are. There was a few months' slippage, as you say, in some of those early procurement milestones. We built that into the schedule that we have taken back through the Department and the Treasury. All our other procurement is now on programme. We are currently in the market for contractors for stations, for rolling stock and for a partner for Euston, and all the dates that we are currently working to, we are holding. That is built into the programme that we referred to a moment ago with Ms Kelly for phase 1. The 80% that we referred to incorporates our latest schedule, which was reworked earlier this year.

Geoffrey Clifton-Brown: I think that I heard you say that you are about to employ Elizabeth Gillbe, who formerly worked at Crossrail, to be your next chief financial officer.

Mark Thurston: She will be the finance director. Steve is the site chief financial officer.

Q108 **Geoffrey Clifton-Brown:** Yes. Crossrail was, of course, built on time and on budget. It was managed by a department at Transport for London. Will you use all her skills to the maximum extent to work out how to improve governance of HS2, and will you share that with the Department?

Mark Thurston: Absolutely. A number of people in the organisation have already come from Crossrail. Some, such as me, were involved in the Olympics. There is a lot of learning between the programmes; the scale and the nature of the work are different in some cases, but there are lots of similarities. I would expect us to fully maximise Elizabeth's experience—and the experience of all the other staff who hopefully will join us in due course, once Crossrail is finished.

Bernadette Kelly: I want to add, on behalf of the Department, that obviously we have been and continue to be very closely involved in Crossrail, along with Transport for London, as it is not complete yet.

We are always particularly focused across our portfolio on learning from the effectiveness of governance arrangements and delivery models for different projects. Indeed, I have just announced changes in the organisation of responsibilities of my own senior team: the director general, who will take responsibility for High Speed 2 from November, will also take responsibility for other major rail projects, so that we can ensure that the very best lessons around governance and delivery are spread across other projects.

Q109 **Geoffrey Clifton-Brown:** Given that very welcome reply, will you deploy that new personnel to make sure that HS2 personnel are fully briefed on the standards of governance and financial probity that you would expect?

Bernadette Kelly: I fully expect that Mr Thurston will ensure that every person employed in HS2 Ltd absolutely understands the standards of probity expected. Indeed, that is part of the induction process that he is refreshing.

Q110 **Geoffrey Clifton-Brown:** That wasn't quite my question, with great respect. My question was: will you, as a Department, make sure that they have sufficient training on understanding how to manage these things properly?

Bernadette Kelly: I would look to Mr Thurston to provide an assurance to the Department that that training has been provided.

Q111 **Chair:** I want to pick up on some quick points. We talked about what we called the golden handcuffs scheme. Did the board or the remuneration committee have any discussion of how to retain staff if the Department did not authorise enhanced terms?

Mark Thurston: I couldn't comment. I wasn't around in the company at the time.

Q112 **Chair:** You came to this hearing knowing well that we would discuss that. Mr Allen, can you help?

Steve Allen: No, the board and the remuneration committee did not have any discussion, because they always worked on the premise that the scheme had been approved, so there was no need to have such a discussion.

Chair: So in effect, Mr Thurston, it was a golden handcuffs scheme because there was no alternative—it was already written to hold people in place.

Mark Thurston: That was the premise of the scheme as it was put together in the first instance.

Chair: Yes; it was a golden handcuff.

Mark Thurston: To retain people in the company until we were able to back-fill—

Q113 **Chair:** And some of those people were on gardening leave. I'm a bit confused—maybe I got the order wrong—but you said that they were on gardening leave, therefore were being paid but not working. These were some of the same people whose experience you wanted to retain in the company. Why were they allowed to be paid for a period of gardening leave?

Mark Thurston: Let's be clear: the people who were on voluntary redundancy—

Chair: The voluntary redundancy, yes. Let me get it clear in my mind where we are.

Mark Thurston: The people who took voluntary redundancy, either because their jobs no longer existed in the organisation or their jobs were replaced with a different role in the Birmingham office—

Q114 **Chair:** They took voluntary redundancy, and they were allowed to not work for three months.

Mark Thurston: Where we agreed that was the case, that is correct, for a handful of individuals.

Q115 **Chair:** But you said that you wanted to keep expertise, so possibly you could have used them in some other way in that period of time.

Mark Thurston: Arguably, most of the people whom that applied to left the company at the back end of last year.

Steve Allen: There is a sequence of events. The compulsory redundancy scheme was put in place first, and the rationale for seeking enhanced terms for that scheme was retention of staff, particularly those working on the hybrid Bill and some other time-critical roles that would subsequently move to Birmingham. That was the original rationale.

The voluntary scheme came later, at a time when we were still operating the compulsory scheme on those enhanced terms. The advice we had then was, "You have to have the voluntary scheme on the same redundancy terms as the compulsory scheme you are already operating."

Q116 **Chair:** That was the advice then. Do you agree with that advice now, given what you know—that you have to have the voluntary scheme on the same terms?

Steve Allen: I think it would be very difficult to expect people to take voluntary redundancy on less good terms than you had offered to people for compulsory redundancy.

Q117 **Chair:** I don't know; voluntary is an option, rather than compulsory, where you have no choice.

Mr Allen, earlier, when I think Mr Thurston said that once the redundancy offer had been made it was legally impossible to rescind that offer—am I right in quoting you?

Mark Thurston: It was not legally impossible. We took legal advice, and the advice we were given was that if we were to revert to the statutory terms, which is all we had approval for, that could force us into a situation in which we had either single or multiple tribunals, in all of which we would not have had a very strong position as a company, because we had consulted on the enhanced scheme.

Q118 **Chair:** So it was a probability. Legal decisions are often about probability. On the balance of probabilities, you would have been tied up in tribunals and spending a lot of money on that.

Mark Thurston: And it would have been a worse use of public money had we pursued that, so we stayed with the scheme that we had.

Q119 **Chair:** Mr Allen, do you agree with that view?

Steve Allen: Yes, that was the advice that we received.

Q120 **Chair:** That was not quite my question. Do you agree with that advice, or would you have seen it as an option to reduce that offer if you had realised this was an enhanced redundancy package?

Steve Allen: Clearly, we would always have an option to do something different, but we looked at the advice we received and, on the basis of that advice, the lowest cost to the company was to proceed with the offers that had already been made.

Q121 **Chair:** Did you give that advice to Mr Kirby or anyone? You said "we" agreed—who made the recommendation? The HR director?

Steve Allen: The advice came much later. It was at the point we knew the scheme had not been approved, so this was at the time of the end-year audit, at which point some people had already taken redundancy and the rest had been offered terms. At that point, we clearly could have gone back and reneged on the terms that we had already offered members of staff, but the advice that Mark is referring to is the legal advice that if we did, we would have opened ourselves to challenge at tribunal and were likely to lose there. So on the basis of the balance of probability at that point, the best thing to do was to continue with the scheme.

Q122 **Chair:** And you agree that that was the best thing to do at that time?

Steve Allen: At that point, yes.

Q123 **Chair:** Okay. May I ask about the HR director who left? You said very pointedly, Mr Thurston, that they did not receive any redundancy. Were any other payments made to that HR director when he left?

Mark Thurston: No, he did not receive any payments.

Q124 **Chair:** When we talked about the document that was sent to the NAO, which was doctored—the two doctored documents—you very clearly seemed to state that this was a rogue individual in the organisation, but we have had the discussion in answer to some of Mr Graham's questions about general culture and governance issues within the organisation. Are you saying that that issue could not happen again, that it was a rogue individual and you have no issue of cultural behaviour or other issues in HS2 that could make that likely to happen again?

Mark Thurston: The review that we have commissioned, which is virtually complete, I am broadly satisfied as we sit here today points to an individual. That is the case. Could someone do that in a company? In my experience in business, if someone wants to be a rogue and somehow mislead the company, then you have to put all the checks and balances in place in an organisation to stop that. What I am satisfied about is that the measures we have put in place around our governance, around who can sign what and around the controls issues that we have changed—

Chair: That is for the future, but—

Mark Thurston: No, many of these changes are already made. This is where the NAO Report has been very helpful for the organisation, because we can see—

Q125 **Chair:** But looking back, both the NAO Report and you have acknowledged that there were cultural issues within the organisation. Can you sit there and say, hand on heart, that you are sure that this was a rogue individual, and that there were not the cultural problems and a lack of understanding of how to manage public money that did not lead to other areas in your organisation?

Mark Thurston: Based on the review that I have done and on the Report—the NAO did a very thorough piece of work with the year-end audit, and it is worth remembering that it gave a true and fair reflection of our accounts—this point of irregularity was only in regard to the redundancy scheme that was not approved. You can rest assured that we have looked very hard at the way the machinery at the company is working since the NAO came and did our year-end audit. Mr Allen and I are as satisfied as we can be. We recognise that the work is not complete, so it continues to be closed out between now and year end, but the chances of that happening again are very small.

Q126 **Chair:** Can we see a copy of that review when it is completed, even if it is in a private document to the Committee?

Mark Thurston: You can. We can share it.

Q127 **Chair:** Thank you. Can I ask whether any of the people who took the redundancy packages that were offered on enhanced terms are working for HS2 Ltd now? Have any of them come back into your employment?

Mark Thurston: No.

Q128 **Chair:** Could that possibly happen? Presumably there is nothing to stop them applying for a job with you if they decide at some point to relocate to Birmingham.

Mark Thurston: Arguably. I think it is very unlikely.

Q129 **Chair:** Is there any period of time after which they have received their redundancy that they are not allowed to apply?

Mark Thurston: That's a good question. I would have to check that. There are clauses in the settlement agreements about what they can and can't do.

Steve Allen: There are certainly clauses in the agreements that say that if somebody takes up employment within the notice period, their payment is accordingly reduced. That has happened with at least one individual.

Q130 **Chair:** But there's nothing to stop them after that period applying for a job with you. We see this in other sectors. People take a redundancy package and then get a job in the sector again on a good salary.

Mark Thurston: I think that's highly unlikely. We can't stop people applying, but we have a right in relation to who we select for the company. We need to assemble the right team. I made the point earlier. My focus has been on a crack team.

Q131 **Chair:** Do you have a flag on these people, because it would be quite easy?

Mark Thurston: Absolutely we have a flag on these people.

Q132 **Chair:** So you would know if they applied. If I had been given a big redundancy package and I applied for a job with you, you would know it was me.

Mark Thurston: I would. We would. They're not blacklisted, though.

Chair: Let's not get into that. We are pretty staggered by what has happened here. You have heard the shock of the Committee. Mr Clifton-Brown will summarise that.

Q133 **Geoffrey Clifton-Brown:** I was not going to summarise, but clearly, Ms Kelly, it was a pretty shocking incident. Some £1.76 million-worth of taxpayers' money disbursed on an unauthorised basis by an individual is a pretty shocking event. But it is welcome in this Committee that you have announced new governance controls, so my final question to you is this. Would you welcome an investigation by our sister Committee—the Public Administration and Constitutional Affairs Committee, which is expert in these matters—into your new governance arrangements, so that it can examine whether they are the best available in the industry?

Bernadette Kelly: I would be very happy at the appropriate time to have such scrutiny from that Committee to ensure that we have got absolutely the right governance in place.

Q134 **Chair:** You say "at the appropriate time".

Bernadette Kelly: I am not quite sure I understand exactly what form the review would take. Obviously, it can only take place once the governance and the improved controls are in place and can be assessed.

Q135 **Geoffrey Clifton-Brown:** So when will that be?

Bernadette Kelly: Mr Thurston has already enacted a number of changes and is completing others. I am doing the same. I think it would be sometime towards the new year.

Chair: I'm sure our sister Committee is robust enough to have that conversation with you in detail. Just a quick point from Mr Graham.

Q136 **Luke Graham:** Very swift. Mr Thurston, you gave some assurances that the new executive members have a sufficient level of skills. Ms Kelly, you gave us some assurance about the apprenticeship level going through the company. Can you give me some assurance now that below executive and above apprenticeship we have got the right level of skill and experience in the organisation to deliver? And if we have not got it today, when will those managers and directors be in place?

Mark Thurston: I have been really impressed with the calibre of people in the organisation. I spend a lot of time visiting the offices and spending time with all the teams.

Q137 **Chair:** You are impressed with the calibre, but have you got the right people?

Mark Thurston: I think we have. I think the bit of work we have still got to do is to put the right succession and retention plans in place. We have asked people to work in High Speed 2 for 10 to 15 years, so we need to create careers for people in this company. We cannot expect people to do the same job for that period of time. That is why the HR director appointment is really important for me, because we are going to have to create an HR function that is going to allow people to continue to grow, to continue to move around the organisation. Some of my senior team are already in their third role in the company, which for me is a sign of a healthy company where people are moving between roles.

So I think we have got the ingredients. I think we have got more work to do on our HR system. The talent is there—that I am certain of. But we also work to the point in a market where, as you've heard earlier, there is a massive investment programme with Network Rail and a massive investment programme with Highways England. We are in a relatively small talent pool—our contractors are appearing for multiple clients. So Ms Kelly has instituted, effectively, an efficiency group that Andrew Wolstenholme of Crossrail chairs, where the major bodies in the transport sector are working together to find ways of introducing innovation, introducing new skills and looking at ways to do anything smarter so that we are not dependent on resources. So there is lots going on in this space to make sure we retain and have the talent we need for the next phases of High Speed 2.

Q138 **Chair:** Retaining what you have got is all very well, but making sure you fill the gaps as they emerge is important, too.

Mark Thurston: Of course.

Q139 **Chair:** Mr Thurston, what about you? We have seen lots of people in your role at HS2 Ltd. Are you here for the long haul? You say 10 to 15 years.

Do you want to see it get to Mr Graham's constituency?

Mark Thurston: I'd love to. As the Committee may know, I started my career as an apprentice on the railways, so to finish it by opening this railway would be a fitting end.

Chair: If it gets to Mr Graham's and Mr Day's end of the line, I think you will be greeted with waving flags.

Mark Thurston: I look forward to that.

Chair: Can I just stress that, leaving aside the global figure, the £95,000 for gardening leave is more than five time the salary of many of our constituents? It is just unbelievable that in a few months people could earn more than five times what many people in this country earn in a year. It is a staggering amount of money when you look at it like that and when you look at the governance issues.

Mr Allen, you have fallen on your sword. I wonder about the others. I think you have heard some serious questions from us today about that, and we will consider carefully what recommendations we make in our Report.

Our transcript will be up on the website uncorrected in the next couple of days. I stress "uncorrected"; you may want to have a look at that closely, given what we have been discussing today. We will of course send you a copy of the report when it is published. I cannot give you the date; it may be before Christmas. Thank you very much indeed.