



Department for
Transport

From the Permanent Secretary

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Bob Linnard
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14 JAN 2009

Dear Bob,

The role and funding of High Speed Two (HS2) Limited (“the Company”)

This letter sets out the basis on which the Company will be funded by the Secretary of State and the basis on which the Secretary of State expects to be advised by the Company in accordance with its principal aims.

The Secretary of State for Transport has incorporated the Company in the hope and expectation that it will advise him on the development of proposals for a new railway from London to the West Midlands and potentially beyond, including without limitation:

- (a) to identify:
 - (i) a potential route or routes;
 - (ii) indicative costs and benefits; and
 - (iii) possible financing; and
- (b) to manage the design of the potential route or routes.

These goals are reflected in the objects of the Company as set out in its Memorandum of Association. I refer to them in this letter as the Company’s “principal aims”.

Funding

The Secretary of State will, subject to the conditions set out below, provide grants under section 6 of the Railways Act 2005 of not more

than £5m, subject to any further review, to be paid in instalments (of amounts and timing to be agreed) over the course of 2009. Such funding will be paid from the Department for Transport (DfT) directly and in accordance with a formal financial memorandum between DfT and the Company which will deal with the mechanics of, and accounting for, payment and also issues of propriety and accountability. The memorandum will also set out circumstances in which the company will need the prior approval of the DfT before, for example, selling assets, or committing to expenditure, above a set limit. This letter is without prejudice to the ultimate content of the memorandum: we will be in touch shortly to discuss details.

The Secretary of State also intends to make a decision before the end of this year on the potential desirability of continuing to support and fund the Company's work for such further period as he may then consider appropriate. Given the exploratory nature of the Company's role, we cannot say now whether any such extension might arise nor – if so – the further period for which the Company might be funded and in respect of what functions. Such considerations would be informed by matters including the Company's advice and progress as regards the principal aims. Such a time would also be appropriate for consideration of the longer-term status of appointees to the Company's board and we would undertake such a task in accordance with the appropriate rules as they may apply.

For the avoidance of doubt, we can confirm now that we will fund the acquisition by the Company of sufficient secondees or external advisers of appropriate experience and value in order to scope the project (as discussed below).

Basis for funding

The payment of grant in accordance with this letter is subject to a number of conditions and expectations set out as follows:

- (i) **Scoping of Project:** One of the Company's first tasks will be to determine a detailed scope and programme for the work it will undertake. The Secretary of State's continued funding of the Company will be conditional upon the agreement with him of such matters by 13 March or such later date as we may agree. The programme to be produced should identify the anticipated expenditure of the Company, and a reasonable breakdown of these costs.

- (ii) **Progress towards the principal aims:** Our incorporation of and support for the Company envisage a work programme concentrated on the principal aims. Once the Company and the DfT have agreed a detailed scope and programme for its work, any spending on items not directly in furtherance of this programme would need to be approved by DfT in advance. To this end, we would expect the Company to produce – and to be ready to discuss, if required – a monthly written report.
- (iii) **Support and assistance to the Department for Transport:** the Company has been created to give advice to the Secretary of State in accordance with its principal aims. As such the Company may play an important, internal role in policy formulation. This role therefore requires close collaboration with the DfT and all its officials and the Company is expected to act in this manner. Ongoing funding of the Company will be conditional on the Company and DfT agreeing appropriate terms as to how they will work together given DfT's role as stakeholder and sole funder.
- (iv) **Accountability:** DfT will need to monitor the Company's progress in order to provide assurance to the DfT Accounting Officer on the value secured for the grants we will be paying to you – although, of course, the Company's conduct and the manner in which it meets the above conditions and expectations is a matter for the Company and its Directors.

Obviously, funding will only be paid in so far as it does or will meet actual expenditure or liabilities.

Working with the Department

Inherent in the Company's role is the receipt and provision of confidential and sensitive information from and to the DfT. In accepting these funding arrangements, we expect that you will put in place appropriate arrangements for the storage and handling of information.

In particular, you should treat the information and documentation provided to and by you as confidential as between the Company and the DfT, unless and until we agree otherwise (subject to our legal and constitutional obligations). Additionally, the DfT should be entitled to any information or documents created by the Company in so far as they concern the principal aims. We expect that you would provide such

information to the Department on request and will not otherwise disclose such confidential information to any third party.

Both the Department and the Company have obligations as public bodies to conform to both the Freedom of Information regime and the regime established by the Environmental Information Regulations 2004. The Secretary of State will undertake to provide advice and assistance to the Company in respect of its obligations and actions under these regimes.

Finally, you will be aware that the Company is subject to and must follow the relevant procurement regimes. The DfT will make itself available to advise and assist the Company on such issues.

If you are content with the terms of the letter as regards funding, and agree to the basis on which you will work with the Department, I would be grateful if you could sign and return the copy of this letter attached.

Yours sincerely

Robert Devereux

ROBERT DEVEREUX

Counter-signature

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Director of High Speed Two (HS2) Limited