

High Speed Two (HS2) Ltd
Annual Report and Accounts
2014/15



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Chairman's foreword

From industrial-age transport connections made on our waterways in the 18th century, via the laying of the West Coast Mainline in the 19th, to the nation's motorway network in the 20th, Britain has inherited a rich transport legacy. The conclusion we can draw from this proud history is obvious and pertinent: transport, both national and regional, is intrinsic to this country and its economic success.

Since the completion of the motorways, we have stood back. Apart from the Channel Tunnel Rail Link, or HS1, there have been few additions to the railway network. The roads and railways are improved piecemeal, at high cost. No major main line railway has been built north of London in over a century. However, the world's major global economies are pouring funds into infrastructure investment. Dubai is investing in a hub airport. China is investing nearly 40% of its stimulus package in infrastructure, including high speed rail. Singapore, Hong Kong and the Gulf states are also investing in improved connectivity. They all recognise – as we should – that infrastructure and connectivity are the essential enablers of growth and productivity, of jobs and of prosperity in what is now a global economy. They are not standing back.

In these countries, the investment is strategic and the infrastructure is ahead of current demand. In Britain, our transport investment is too often reactive. And as demand soars on the railways, we need to apply the foresight shown by previous generations.

The problems on our rail network are twofold. Firstly, an overheated network is under increasing and competing demand. Space for passenger services and rail freight will be completely used up if we do not take action.

Secondly, our networks are overwhelmingly London-centric; the need to improve connectivity beyond the capital is stark. Our cities must be connected with each other as well as with London; not just north to south, but east to west.

The lack of connections between cities is hampering their prosperity. We must take note of the developments further afield, and ensure we approach these problems with a solution that addresses them all at once, not bit by bit. It must anticipate demand and integrate the local with the national; it must encourage action and ownership, and benefit the whole country.

I firmly believe HS2 is a catalyst for, and a crucial part of, this universal approach. It must be a significant step towards a transport strategy that benefits the whole country. HS2 should be the spark for better connections everywhere. Existing services will improve as space is released. Better regional connections – developed in conjunction with HS2 and with its associated benefits in mind – will boost productivity and prosperity. A faster, more reliable, less congested rail network will bring cities and regions closer to markets, whether local, national or international, making them more attractive places for businesses and people to locate.

The UK's future is as a knowledge economy, where technology and talent are the drivers of high-value industries. Businesses succeed when they have ready access to information, services and a skilled workforce. New industries grow when they are linked to sources of financing and innovation. HS2 will help create the conditions and the context in which cities can thrive. It will be a focus for regeneration and investment, a supporter of new professional skills, and an enabler of growth across the country.

In the 18 months since I became chairman, we have driven home the key principle that HS2 represents a unique opportunity to unlock potential in our regions and to collectively invest our time and effort in getting HS2 right, so that we can get the balance of Britain right.

This principle has been embraced. HS2 is no longer thought of as an end in itself, but rather as opening the door to a much bigger process of change. The Government recognises the need for extra capacity and better connectivity and the huge difference that HS2 will make to the Midlands, the North West and Manchester, South Yorkshire, Leeds, and the North East. So do the regions themselves – the past year has seen civic leaders and councils begin to address the strategic implications of HS2 in their cities, and begin to engage with us at HS2 Ltd.

This engagement is essential if we are to succeed. The principle I have alluded to must guide the conversations we have: not just with politicians or with regions, but with communities. We have to be open and transparent in communicating the benefits of HS2 as we see them, and in working at a national and regional level to understand how we can maximise those benefits.

HS2 will be shaped accordingly: not by those at the top deciding what is best, but by reflecting the communities it will serve. It has to bring people together in more ways than just railway journeys, and it is vital that we keep these conversations going.

The challenge facing HS2 Ltd now is to set new standards in everything we do.

This, necessarily, begins with building the railway. Crucially, it is a new railway: the issues that make maintaining the current network so complex and expensive – its age, congestion and limited time for access – do not apply. There are lessons to learn from the construction of high speed rail all over the world, and we need to demonstrate that they can be applied here. We must innovate, and challenge others to do so. We must make people confident we can build HS2 to budget and on schedule.

This project inevitably invites scrutiny, particularly as we near the first tangible stages of construction, when the hard work undertaken by teams across HS2 Ltd will be realised for the first time. We will continue to respond to this scrutiny, not least over the clarity and effectiveness of our work with local communities and residents.

I fully acknowledge the often disruptive impact that the construction and operation of HS2 will have on some communities. The company is committed to working in a fair, respectful and transparent way with the people who are affected. The Residents' Commissioner, appointed this year, will listen to residents and challenge the company to reach a fair and fast resolution to all property compensation claims. Similarly, we will look to appoint a Construction Commissioner in the coming year, to work with communities near to construction sites for HS2, so that we can be as good a neighbour as possible. Living up to this aspiration is critical to the success of the project.

As the company delivering the project, it is our wider responsibility to plan, design, operate and communicate to a high standard. In *Rebalancing Britain*, I recognised the commitment the country is making to the project, a commitment we take seriously.

By encouraging civic leaders and councils, advocates for skills and education, and businesses of all sizes to work alongside us and to make the project their own, we can repay that commitment and

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make HS2 the best it can be. To do this, we need to share a strategic view of the future of transport in this country, and its importance for our economic future.

Sir David Higgins

A handwritten signature in black ink, consisting of a stylized 'D' and 'H' followed by a horizontal line that ends in a small arrowhead pointing to the right.

Chairman

Chief Executive's review

In April 2014, the HS2 project took another significant step forward. By a majority of over 400, the House of Commons voted overwhelmingly for the Second Reading for the Phase One hybrid Bill, thereby supporting the principle of a new high speed railway for Britain.

For HS2 Ltd, the result marked a further phase in the project's transition from aspiration to delivery. In the 12 months since then, the company has developed significantly as it readies itself for the challenges ahead.

The Secretary of State for Transport, Patrick McLoughlin, called the vote "a clear commitment to a key part of this country's long-term economic plan". The cross-party endorsement was proof of a wider consensus – that transport is a vital enabler for the knowledge economy, which is where the UK's future lies.

In October, I was in Leeds to hear our chairman, Sir David Higgins, set out his vision for the project. In the *Rebalancing Britain* report, he reaffirmed the need for both phases of the network, and made clear that road connections and east-west links across the North are just as important. HS2 meets a strategic need on its own terms, but it assumes even greater significance as part of a transport strategy for the whole country.

Delivering economic benefits

HS2's positive impacts on regeneration, jobs and skills are sometimes described as 'wider benefits'. But they are - and always have been - central to what the Government wants HS2 to achieve. Delivering them will be the most important long-term measure of our success.

We are finalising a partnership agreement with London and Continental Railways (LCR) to fulfil this role. LCR will provide a unique skillset for rail-led regeneration. It brings experience from HS1 and from its part in the King's Cross Central Limited Partnership. And it is already working alongside Manchester City Council to help develop the Mayfield regeneration area near Piccadilly station.

Our aim is to support cities' own ambitions for development, and the work on Phase One shows what can be done. We have seen good progress in the creation of a growth strategy for Birmingham Curzon Street, while the Mayoral Development Corporation for Old Oak Common promises to create 24,000 new homes and 55,000 jobs around the new HS2/Crossrail hub.

Working with industry

In order to deliver transformational change, we need to set ourselves high standards as an organisation. But we also need to enlist businesses and individuals who can innovate continuously - so they can not only reduce costs and cut timescales, but take HS2 beyond the state of the art.

In March, we launched our Design Vision, setting out our ambition to achieve enduring, iconic and inclusive design. Our Design Panel considered how HS2 Ltd should develop its relationship with the creative community: ambition and clarity stood out as factors that will make us a design client of choice.

We have also been talking to the rail and construction industry at an early stage – and on a large scale. Our Supply Chain Conferences, in London and Manchester, were our biggest-ever supplier events, bringing together delegates and exhibitors from more than 1,000 companies.

Here was a vote of confidence of a different kind. Companies from all over the UK demonstrated their enthusiasm for the project and showed the breadth of expertise available to us. In return, we need to give UK companies every chance to win work on HS2 and use it as a springboard for their business. In the coming year, I will continue my work with experts from industry and Government in the Rail Supply Group, to help British manufacturers take full advantage of the anticipated growth in domestic and international rail. Ultimately, we want to develop a high speed rail industry that can become one of this country's export success stories.

Upskilling Britain

Our dialogue with potential suppliers has also identified areas in which HS2 Ltd can help the industry to adopt new skills, processes and technology. We need to get ready for the opportunities HS2 will bring – and if this is true of our industry as a whole, it is even more relevant for our own people.

As an organisation, we are growing fast. Taking a programme from the early stage of development all the way through to operation means we are recruiting at all levels, from graduates through to senior leaders. This year, we welcomed a handful of talented young people for internships ranging from engineering design to health and safety. The scheme will one day see over 2,000 apprentices beginning their professional journey with us.

HS2 Ltd has been a strong voice in support of the National College for High Speed Rail, announced this year and due to open in Birmingham and Doncaster in 2017. As well as providing training to the existing workforce, it will give thousands more young people the skills they need to launch a rewarding career.

In addition, our project is an opportunity to make the industry reflective of Britain's communities, and transform it in the spirit of equality, diversity and inclusion. I am committed to developing a team in which these three values are core beliefs, and it is great to be welcoming so many people from diverse backgrounds into the company.

We are already setting an example. We are collaborating with the Smallpeice Trust on a series of science, technology, engineering and maths (STEM) inspiration days, for secondary schools near the Phase One route. We are partnering with charities such as the Social Mobility Foundation, which provides work experience to students from a wide range of multicultural identities and diverse backgrounds. And in June 2014, our female engineers marked National Women in Engineering Day by helping the Construction Youth Trust to run the 'Budding Brunels' programme, for young women who are aiming for a STEM degree.

Responsibility to our people

Within our company and outside it, we are forming our working culture and putting our values into practice. This can be seen around the organisation in a number of ways. For instance, it is easy to think that safety is something for the future, for the phase of construction and operation. However,

the decisions we make today will significantly reduce construction and operation risks in years to come. Health, safety and wellbeing are integral to everything we do.

To take only one example, last year we signed up to the Public Health Responsibility Deal – a programme by the Department of Health that encourages companies to help improve public health. We became the 100th organisation to sign the Construction and Civil Engineering pledge. This a further step towards the culture I want to create, where health, safety and wellbeing are constants in the HS2 project, and actively enter into the way we think about our everyday working lives.

Engaging with communities

Spring 2015 saw the beginning of our Ground Investigation survey programme, with the appointment of nine contractors to the ground investigation framework. Their work is an indispensable part of developing the detailed design of the route, and it is vital that we get it right.

Just as significantly, these surveys represent our first 'spades in the ground' – HS2 will soon be a visible presence in people's neighbourhoods for the first time. We will rightly be judged on our professionalism, our respect for local communities and our commitment to safety.

Delivering the project has always depended on meeting our responsibilities to others. The confirmation of property schemes, for residents near the Phase One route, fulfils a promise to provide a range of compensation and assistance. Beyond simply making schemes available, we have a duty to ensure that people are treated fairly and understand what they are entitled to. Our communication standards and pledges of support are designed to achieve precisely this.

In January 2015, we appointed our Residents' Commissioner. Her role is to ensure that HS2 Ltd meets the obligations set out in our Residents' Charter to be fair, clear and even-handed to everyone involved in the property compensation process. She will report directly to the Board and the Chairman every three months to ensure that the process is transparent. We are doing this because being considerate to people, communities and the environment is at the heart of how we want to plan, build and operate the railway.

Parliamentary scrutiny and the petition process

The start of the Select Committee stage of the hybrid Bill, following the successful Second Reading vote, marked the start of a deeper level of examination for our plans for Phase One, and provides the opportunity for affected parties to petition for changes in their local area.

We take this process very seriously. Over the course of the past year, we have continued to engage with petitioners and, wherever possible, work to resolve their concerns before their appearance before the Committee.

The Select Committee has so far heard petitions covering over half of the route, and has published its interim recommendations. Given the progress so far, the Hybrid Bill Directorate remains confident that the Bill is on course for Royal Assent towards the end of 2016.

The way ahead

Of course, none of this will be achieved without sophisticated collaboration with our partners in Government, and a clear vision of the optimal railway business that we will create.

The Development Agreement with the Department for Transport (DfT) draws on expertise from both our organisations, and sets out roles and responsibilities for the DfT as project sponsor and for us as the delivery body. This gives us a more programme-based relationship; one that is driven by clear outputs but reflects the evolving nature of our work.

Now we have agreed how we will work with the DfT, we are able to define how we as a business will deliver our project – working back from the state-of-the-art, fully operational network that we will create. Our Delivery Strategy will be a point of reference for us, our supply chain, our fellow stakeholders in the Wider Programme – such as the DfT and Network Rail – and oversight bodies such as Infrastructure UK and the Major Projects Authority.

The Delivery Strategy completes a hugely significant year for us organisationally. We have begun to clarify our structure, planning the type of organisation we need to become and working through the steps that will take us there.

We have been able to strengthen our team with project leaders from the top rank of international experience. They share my aim of assembling and nurturing a diverse and highly skilled workforce that is truly world class.

In March 2015, we announced HS2 Ltd's vision: to be a catalyst for growth across Britain. This is informed by our four values – integrity, safety, leadership and respect – which will guide the way we work and the decisions we make. Our mission from here is clear: our railway will better connect people across the country. As a high-performing, innovative organisation, we will deliver value for money by applying the best in worldwide design and construction techniques. We will achieve new standards in infrastructure delivery, resilient operations and passenger experience.

In my first year as Chief Executive, I have been deeply impressed with the level of hard work and professionalism I have seen. Across teams and directorates, we have adapted positively to our new structure and working environments. The company itself is confident, and we are transmitting that confidence to our stakeholders, to Parliament and to the public.

I am proud of what we have achieved so far, and the opportunities that we must embrace to be successful are now clearer to us all.



Simon Kirby

Chief Executive

Strategic report

The directors present the Strategic Report together with the Directors' Report and Financial Statements of the company for the year ended 31 March 2015.

Background

High Speed Two (HS2) Limited (HS2 Ltd) began its operations in January 2009 and is a company limited by guarantee, wholly owned by the Secretary of State. HS2 Ltd is classified as an Executive Non-Departmental Public Body (NDPB) under the Government Resources and Accounts Act 2000 and operates within a Financial Framework agreed with the DfT. This Framework requires HS2 Ltd to follow the Government Financial Reporting Manual (FRoM), HM Treasury's Managing Public Money and International Financial Reporting Standards (IFRS).

Remit and scope

HS2 Ltd is responsible for developing and promoting the UK's new high speed rail network. The network is to be delivered in two phases: Phase One between London and the West Midlands and Phase Two between the West Midlands and Manchester and Leeds.

Our Development Agreement with the DfT defines the scope of the work undertaken by HS2 Ltd, sets out our strategic targets and establishes the principles for our budget envelope and cash funding. Aspects of the overall HS2 Programme, such as property acquisition and property management, continue to be the financial responsibility of the DfT, but are managed on its behalf by HS2 Ltd.

In December 2014, HS2 Ltd signed a Development Agreement with the DfT which sets out roles and responsibilities for the DfT as project sponsor and for HS2 Ltd as the delivery organisation. It sets a contractual relationship between the DfT and HS2 Ltd that clarifies the part each organisation will play in the delivery of the Programme. Combined with the Delivery Strategy, the Development Agreement outlines how the DfT will set the scope of the project and how HS2 Ltd will deliver it.

The agreement provides the capability for HS2 Ltd to become more autonomous, and provides the necessary requirements for HS2 Ltd to acquire decision-making powers to take the Programme forward.

The Development Agreement sets out a number of requirements for both HS2 Ltd and the DfT.

Under the Agreement, the DfT will:

- set the scope of the project;
- provide the necessary funding to HS2 Ltd;
- be held accountable for both the business case and delivery of the benefits;
- be responsible for gaining the necessary acts of Parliament;

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- own the relationships with Ministers and Government bodies; and
- decide how the railway will be operated, including future franchise arrangements.

HS2 Ltd will:

- deliver an operational high speed railway to the specification, cost and timetable set by the DfT;
- provide support functions to the DfT, including policy development, Bill design, stakeholder engagement and communications; and
- trade as the proxy operator and, eventually, the infrastructure manager of the railway.

The Development Agreement is an important step in creating the right framework under which the Department for Transport and HS2 Ltd can work together to deliver a nationally important infrastructure project.

Company strategy

HS2 will help to consolidate Britain's position as a leading, forward-looking economy. It will be a catalyst that will generate new business opportunities, open up capacity on our crowded railways and play a major role in building on Britain's proud engineering and design legacy.

Our vision is that HS2 will be an engine for growth. It will integrate with Britain's transport networks to provide the capacity and connectivity we need to drive national and regional competitiveness. It will unlock the potential of our cities by connecting them with fast, frequent and reliable train services.

The HS2 project will set the standard for the delivery of transport systems and infrastructure by:

- engaging with all our stakeholders fairly and meaningfully;
- delivering value through effective management of the design and build programme; and
- building and operating a safe, sustainable and reliable system to provide exceptional levels of service to passengers.

As we move through the stages of the project, and as HS2 Ltd grows in capability, we will be granted progressive delegations to operate effectively within current government controls. This will happen through a series of Review Points. To pass these Review Points, we have developed a clear Delivery Strategy which provides evidence of our capability to deliver and provide high levels of reporting and assurance to the DfT. The Delivery Strategy is the strategy for delivering all of HS2 Ltd's objectives and meeting our Sponsor's Requirements as stipulated in the Development Agreement.

As such, it applies not just to the delivery of Phase One and Phase Two, but also to our obligations in delivering the benefits of the Wider Programme – such as city regeneration, the development of the UK skills base and the National College for High Speed Rail – and providing advice and guidance on high speed rail to the Secretary of State.

The Delivery Strategy sets out the approach that HS2 Ltd will take to delivering the Programme. It explains our way of working and provides our framework for achieving consistency and integration across the Programme over the next 20 years. It sets out what systems and processes will be established to deliver the project on time and on budget, and how HS2 Ltd will address key issues such as operating model and design, procurement and commissioning.

The Delivery Strategy begins with a model of what the future operating railway will look like, called the 'blueprint'. It describes how we will manage the necessary organisational changes to achieve our key decisions and detailed strategies. It covers all stages of activity, from organisational development and design through to full operations and maintenance. It also enables us to identify and assess all significant risks, including risks which may not emerge for five, 10 or 20 years. In turn, it enables us to monitor and respond to each risk, as appropriate, on an individual basis.

Business model

HS2 Ltd is at a pivotal point in its development. It is transitioning from an advisory and project-planning organisation to the delivery body that will plan, design, build and ultimately operate the railway. As our focus evolves, HS2 Ltd must evolve too. This requires business transformations that are significant and challenging.

In the financial year 2014/15, HS2 Ltd restructured its organisation into three operational delivery units: Development, Phase One Infrastructure and Railway Operations. These are supported by a number of corporate and enabling functions.

Our delivery operating model describes a 'functional matrix' which combines the delivery units and corporate/enabling functions and sets out how the organisation will deliver the future operational railway network and infrastructure. The approach taken to its design was to look first at the 'end state' for HS2 Ltd – the functioning high speed railway network – and work back from there to define a suitable delivery organisation.

The delivery units are the parts of the organisation which deliver sections of the future operational railway network (also known as the 'Target Operating Model'):

- Development will secure the powers necessary, through the hybrid Bill, to allow us to build the railway and will promote Phase Two.
- Phase One Infrastructure will be responsible for the design and build of the physical infrastructure and railway system.
- Railway Operations will function as the proxy train and network operator, the future asset manager and maintainer and rolling stock developer. Its role is to safeguard the future operational concerns of the HS2 network and ensure that these are factored into today's decision making with respect to commercial and design considerations.

The enabling functions operate across all delivery units in order to:

- set cross-organisational standards for delivery;
- provide methods, processes and tools that will be used by delivery units in order to discharge their responsibilities;

- develop our people and capability, much of which will be co-located with the delivery units themselves
- provide assurance of the delivery units' compliance with the standards, methods, processes and tools.

Performance targets

We track our delivery to schedule against our detailed project plans. Our Board will monitor performance against key project milestones.

The integrated HS2 Programme contains the agreed high-level scope and deliverables as outlined in the Delivery Agreement to be reviewed at Review Point 1. Performance against these deliverables will be measured through milestone completion dates. In 2014/15, we have:

- undertaken a range of activities to ensure we are tracking our progress and reaching our targets. To meet our budget requirements, we have produced and issued to the DfT the baseline cost model for inclusion in the Delivery Agreement;
- selected and implemented systems for managing cost and performance. These will be used for accurate and effective cost budgeting, management and performance management (earned value reporting); and
- commissioned an International Benchmarking Study which looks at the key cost drivers in the UK in comparison with international high speed rail schemes, with the aim of identifying demonstrable savings for Phase Two by delivering the Programme in a more effective and cost-efficient way.

To maintain and track our schedule, we have produced and issued to the DfT an updated baseline delivery schedule for inclusion in the Delivery Agreement. We have developed a systematic approach to re-build and maintain the Phase One schedule through the deployment of a number of key strategies.

We have also developed an HS2 Ltd 'Plan on a Page' for all key milestones for 2015/16 and have prepared, in conjunction with the DfT, a Programme-wide integrated plan with key milestones.

Delivery performance

HS2 Ltd monitored its performance in 2014/15 through the delivery of key milestones in the HS2 Programme, as set out in its remit from the Secretary of State for Transport. In 2014/15, HS2 Ltd:

- developed our Delivery Strategy, proposing how we will deliver the Programme;
- supported the progression of the hybrid Bill through its Second Reading in Parliament, maintaining momentum to a demanding schedule;
- published our Residents' Charter and appointed a Residents' Commissioner to ensure fairness in property compensation;
- joined the Rail Safety and Standards Board, enabling HS2 Ltd to contribute to cross-industry collaboration to improve the rail system as a whole;

- announced the two locations for the National College for High Speed Rail;
- launched *Rebalancing Britain*, Sir David Higgins's second report on the future of HS2, which set out conclusions for Phase Two of the route and proposed improvements in connectivity across the North of England and the Midlands;
- hosted two major Supply Chain Conferences, in London and Manchester, to continue early engagement with the market;
- signed up to the Public Health Responsibility Deal - part of a Department of Health programme that encourages companies and organisations to contribute to improving public health;
- signed the Development Agreement with the DfT;
- commissioned a study to benchmark Phase Two against international high speed rail comparators;
- awarded framework contracts for ground investigation works for Phase One;
- commenced the tendering process for enabling works contracts and an engineering delivery partner for Phase One infrastructure;
- began the tendering process to provide professional services contracts for design support to the route acceleration works for Phase Two;
- continued the development of baseline schedules for Phase One Infrastructure (baseline 5), outline schedules for Phase Two and associated cost models;
- began market soundings for Phase One rolling stock and depot requirements;
- published the Design Vision to show how we will use design to achieve HS2's ambitious social, economic and environmental goals;
- established the independent Design Panel to ensure that, through great design, HS2 is a catalyst for real economic, social and environmental benefits for the whole country;
- operated in line with its remit, and maintained expenditure within its agreed budget; and
- supported the Secretary of State's intention, subject to further analysis and decisions on the preferred route, to prepare a hybrid Bill to accelerate the delivery of a route between the West Midlands and Crewe.

Financial performance

HS2 Ltd is a Non-Departmental Public Body, entirely funded by grant-in-aid from the DfT.

Following parliamentary approval to the Second Reading of the Phase One hybrid Bill in the House of Commons in April 2014, HS2 Ltd began to capitalise all expenditure directly attributable to Phase One of the programme and this change in treatment is reflected in the year's financial results.

Combined capital and resource expenditure in 2014/15 amounted to £189.6m against the combined budget of £230.0m. (2013/14 - £210.5m spent against a budget of £247.7m).

This year's financial statements show the following results:

- Operating expenditure for the year ended 31 March 2015 of £33.1m (2013/14, £208.4m) compared with the operating budget of £35.3m (2013/14, £243.7m), representing an underspend against allocated resources of £2.1m or 6.2%.
- Capital expenditure of £156.5m (2013/14, £2.1m) against its capital budget of £194.7m (2013/14, £4.0m), representing an underspend against allocated resources of £38.2m or 19.7%.

The budget allocations for 2014/15 assumed that the Second Reading of the hybrid Bill would take place before 1st April 2014 and that costs would be capitalised from that date. In the event, the Second Reading actually took place on 28 April 2014 and expenditure before this date has not been capitalised, consistent with International Accounting Standards.

HS2 Ltd substantially delivered its key Programme targets for 2014/15 and the variance from the approved budget can be explained mainly by two key factors:

- HS2 Ltd has worked to ensure it has a properly defined programme of work with utility companies and its ground investigation contractors and to secure the land access in a cost effective manner and with appropriate safety and security safeguards in place both for our staff and our contractors. As a result, this work has been scheduled to secure value for money for the taxpayer and a safe and secure working environment for our people. The programme commenced in March 2015.
- The deferral of the preferred route announcement for Phase Two has meant that planned work on undertaking transport assessments and mobilising a Phase Two Environmental Overview Consultant to support a future Phase Two hybrid Bill has also been delayed until these works can be more precisely scoped.

A detailed account of HS2 Ltd's finances is provided in the Financial Statements from page 56 to 76.

Phase One

In April 2014, MPs in the House of Commons voted by 452 to 41 in favour of the High Speed Rail (London - West Midlands) Bill.

A petitioning period, during which anyone directly affected by the proposals in the Bill could submit petitions, closed in May 2014 with 1,918 petitions submitted. In July 2014, the Select Committee began to hear petitions against the Bill. HS2 Ltd has supported this process, which had seen the Select Committee hear 507 petitions before the dissolution of Parliament in March 2015.

To support the Select Committee process, HS2 Ltd has published a series of information papers covering topics such as route development, stations, key locations, property, compensation, construction, environment, operations, consultation, and rail industry issues in advance of the Second Reading in April 2014. These have continued to be updated in order to respond to issues raised in Select Committee.

In September 2014, amendments to the Bill were deposited in Parliament as an Additional Provision (AP), in order to authorise changes to the Bill proposals. The AP amendments take account of further discussions with landowners and occupiers, refinements to the design and changes to accommodate the requirements of utilities providers. The petitioning period for the AP closed in October with 42 petitions received. These petitions will be heard by the Select Committee as part of its current remit.

Following the deposit of the AP, Parliament conducted a consultation on the AP Environmental Statement, which ran through to November 2014.

The first edition of the Register of Undertakings and Assurances was published in December 2014, recording all undertakings and assurances offered to petitioners up to the November recess. The register will be published regularly and the second edition was published in March 2015, covering those offered up to the February recess. The purpose of the Register of Undertakings and Assurances is to record the commitments which have been given in relation to the Bill. All commitments included on the Register will be binding on the Secretary of State and HS2 Ltd as the anticipated Nominated Undertaker as the project is taken forward.

2015/16 will see HS2 Ltd continue to work with petitioners and support the Select Committee process. A number of changes have been identified: these will be included in further APs which will be deposited in Parliament.

Once the Select Committee has completed its work and reported to Parliament, it will be considered by a Public Bill Committee in advance of its Third Reading.

The Phase One Infrastructure Directorate was established in October 2014 and its management team has been strengthened with a number of experienced senior appointees. A strong focus has been placed on developing a people strategy to recruit an organisation that reflects the size and capabilities needed to deliver Phase One of the project and to commence ground investigation works, utilities diversion surveys and other pre-enabling works under the High Speed Rail (Preparation) Act 2013.

The overall funding for Phase One was established in 2013 and has been set at £21.4 billion.

Phase Two

In 2012, HS2 Ltd submitted proposals to the Secretary of State for a Phase Two line of route from the West Midlands to Leeds and Manchester and beyond. The Government announced its initial preferred route for Phase Two on 28 January 2013 and the public consultation on these proposals ran from 17 July 2013 to 31 January 2014.

Under the consultation proposal, the western leg of Phase Two would extend the line north-west from the West Midlands towards Manchester, with stations proposed at Manchester Airport and Manchester Piccadilly. The eastern leg of Phase Two would extend the line north-east from the West Midlands towards Leeds, with stations in the East Midlands and South Yorkshire and a new station in Leeds city centre.

Following the close of this consultation in January 2014, HS2 Ltd has continued to make progress in developing the Phase Two route. As well as considering the information gathered through the

consultation, HS2 Ltd has undertaken further work to consider the strategic principles underpinning the project. This informed the recommendations for Phase Two outlined in the reports *HS2 Plus* and *Rebalancing Britain*, which concluded that Phase Two is the right strategic proposal to deliver strategic reductions in journey time and extra capacity. These reports are available at:

<http://assets.hs2.org.uk/sites/default/files/inserts/Higgins%20Report%20-%20HS2%20Plus.pdf>

<http://assets.hs2.org.uk/sites/default/files/Rebalancing%20Britain.pdf>

Building on these recommendations, the Secretary of State announced in March 2015, the intention to prepare a hybrid Bill to accelerate the delivery of a route between the West Midlands and Crewe. This is subject to further analysis and decisions on the preferred route in the coming months.

HS2 Ltd will undertake further work to support a decision on accelerating the delivery of part of Phase Two to Crewe. Should the Government take a decision on this part of the proposed Phase Two route, HS2 Ltd will work to prepare a Bill to secure the powers needed for construction. The timescale for any Bill would depend on the nature of the relevant route decision.

The overall funding for Phase Two was established in 2013 and has been set at £21.2 billion.

Railway operations and rolling stock

Railway Operations will function as the proxy train and network operator, future asset manager and maintainer and rolling stock developer. Its role is to safeguard the future operational concerns of the HS2 network and ensure that these are factored into today's decision making with respect to commercial and design considerations.

The overall funding of £7.5 billion for rail operations and rolling stock was established in 2013.

Principal risks and uncertainties

The Executive and Board regularly review and monitor the risks facing the company throughout the year. Key risks which may impact on the progress of the project now and in the future have been managed by HS2 Ltd during 2014/15 and summarised below, and are set out in more detail on pages 39 to 41:

- establishing an effective, long-term relationship with external stakeholders, particularly those directly affected by the route;
- establishing appropriate governance arrangements and ensuring an effective delegations framework between the DfT and HS2 Ltd;
- establishing internal organisational and programme governance arrangements and ensuring that the company is ready to progress through the Review Points to commence construction;
- managing schedule, cost and risk to ensure delivery on time and on budget; and optimising value for money and cost efficiency in the planning and delivery of the railway;
- ensuring that funding is available as needed throughout the life of the project, including arrangements for drawing on contingency sums as needed;

- ensuring that robust processes are in place for Design Development;
- managing the passage of the hybrid Bill to Royal Assent and the potential implications for project timescales, cost and scope;
- making preparations for the construction stage, including advanced acquisitions of property by the DfT, groundwork investigations and pre-enabling works;
- developing of the organisation for future stages of the project; and
- managing compensation payments to land and property owners and negotiating critical land and property acquisitions to meet schedule requirements.

Factors affecting future development

HS2 Ltd will continue to work closely with the DfT to support the progress of the hybrid Bill through Parliament, and Royal Assent is now expected to be granted in December 2016. The organisation is encouraged by declarations of support by all major political parties and the strong support shown in the voting for the Second Reading of the hybrid Bill in April 2014. The future development of the high speed rail network depends on continued government commitment to funding over the life of the project.

In October 2014, Sir David Higgins released his second report on the future of HS2, *Rebalancing Britain: From HS2 Towards a National Transport Strategy*, in which he put forward his recommendations for improving connectivity across the North of England and the Midlands. The report includes his recommendations on how journey times between key routes – such as Leeds and Manchester, York and Birmingham, and Nottingham and Birmingham – could be substantially reduced. The report set out four main proposals:

- To take forward both legs of the proposed HS2 'Y' network.
- To improve the rail services between east and west.
- That the northern cities should speak with one voice.
- To set out a timetable to develop a new transport strategy.

In addition, the report outlines a series of conclusions following his review of the proposals for Phase Two:

- To continue with the planned route into Manchester city centre via the airport – keeping open the option to add a new airport station;
- To review the best station solution for Leeds, to include provision for increased east-west services through the city;
- To accelerate the delivery of a route between the West Midlands and Crewe, subject to further analysis and a decision by the Secretary of State on the preferred route;
- That a new station at Sheffield Meadowhall remains the best way to serve the wider South Yorkshire region; and

- That the East Midlands hub should be near the proposed site at Toton, but that its precise location requires further work.

HS2 Ltd is working to follow through on the recommendations with the DfT and Ministers.

A full copy of the report can be found at:

<https://www.gov.uk/government/publications/rebalancing-britain-from-hs2-towards-a-national-transport-strategy>

The Minister's response to the report can be found at:

<https://www.gov.uk/government/speeches/transforming-transport-connectivity-in-the-north>

Sustainability and environment

HS2 Ltd is committed to minimising the environmental impact of the proposed high speed rail infrastructure in the UK in order to achieve world-class standards. It has adopted a Sustainability Policy and Sustainability Plan that set out the approach for integrating sustainability considerations throughout the project.

In terms of its own practices, HS2 Ltd aims to minimise its impact on the environment and is in the process of developing an Environmental Management System in accordance with BS EN ISO 14001. The full HS2 Sustainability Report can be seen on page 28 and the HS2 Sustainability Policy can be accessed in full at:

<http://www.gov.uk/government/publications/hs2-sustainability-policy>.

Health and safety

HS2 Ltd aims to set a new benchmark for safety performance and workplace health in the delivery of a major project.

HS2 Ltd's focus over the last 12 months has been on the creation and development of a robust, consistent and enduring safety culture. As part of this process, a new Health and Safety Policy Statement has been published, together with a personal commitment to health and safety from our Chief Executive, Simon Kirby. Both focus on our ambition to engineer out risks to health and safety (both occupational and system) through intelligent design.

In December 2014, HS2 Ltd signed up to the Public Health Responsibility Deal, a programme led by the Department of Health which aims to tap into organisations' potential to make a significant contribution to improving public health. By signing up to the Responsibility Deal, HS2 Ltd formalised its commitment to improve public health through its responsibilities as an employer, as well as through commercial and community activities. The HS2 Ltd pledges are focused on physical and mental health and wellbeing, supporting colleagues with chronic health conditions, implementing regular health checks, introducing robust occupational health standards, and putting in place a health and wellbeing strategy that is applicable to our staff and to our supply chain as we move towards construction. These pledges are a further step in applying our health and safety goals to the everyday life of the HS2 project.

HS2 Ltd also signed up to a pilot two-year agreement with Construction for Better Health (CBH) to mandate that principal contractors must join CBH and use health standards for all contractors involved in GI work. CBH is an industry body that has written the occupational health standards for the construction industry. They provide training for contractors and a database in which occupational health service providers can enter individual health data so that there are records of health checks.

Together with our existing health and safety policy – Safe and Fit Every Time and Everywhere (S.A.F.E) – which brings together our health and safety policy, the strategic theme targets and our core safety values, this has provided HS2 staff with a clear direction to make health and safety their first consideration in everything that they do.

Equality, diversity and inclusion

HS2 Ltd is committed to developing, maintaining and supporting a culture of equality, diversity and inclusion (EDI) in its workforce and the planning, design, construction and operation of the HS2 project.

In delivering the railway, HS2 Ltd will seek to embed EDI in all its activities.

HS2 Ltd is committed to EDI in all aspects of recruitment and employment and requires contractors and suppliers of services to comply with its EDI policy. To ensure we embed EDI into our workplace, we have:

- developed an action plan to address areas of under-representation, and are running staff workshops to involve staff in the development of the action plan;
- produced a draft EDI strategy that will provide a framework for our work on EDI – we are currently consulting on this strategy;
- taken steps to embed EDI into our procurement activity setting out our expectations to our potential supply chain through pre-qualification questionnaires, invitations to tender and contract requirements;
- developed a set of EDI SMART objectives to be embedded within the procurement balanced scorecard. These objectives are around key areas such as developing staff capacity on EDI, diversity monitoring, and fair recruitment and selection methods;
- begun to put mechanisms in place to monitor the diversity of our supply chain which will enable us to track the diversity of our suppliers over the life of the project;
- reviewed our current approach to embedding EDI into our corporate function – we have drafted an action plan to help us to build on existing practice; and
- developed a new process and guidance note for assessing the impact our activities will have on EDI, as well as developing a process for including EDI implications in board papers.

Freedom of information

HS2 Ltd measures its performance in responding to statutory requests under the Freedom of Information Act (FOI) and Environmental Information Regulations (EIR) within the relevant statutory limits of 20 working days, with a permitted extension of 20 days for more complex EIR requests. In addition, requests under the FOI allow for further extensions if necessary to carry out public interest tests.

HS2 Ltd's performance on responding to requests under the Freedom of Information and Environmental Information Regulations in 2014/15 within 20 days was 72% and within 40 days was 98%.

Land and property

HS2 Ltd recognises that a railway built on this scale will impact on land and property owners along the route. In recognition of this fact, the Government is committed to providing fair assistance to those most affected by HS2.

HS2 Ltd and the DfT continue to develop a Land and Property Strategy that defines the joint approach to the acquisition, management, and disposal of land and property affected by the construction of the railway. It has been drawn from Government guidance and best practice.

HS2 Ltd provides advice to the DfT on property matters, including the development of policies relating to acquisitions and compensation schemes and their subsequent administration. Final decisions on applications under the current schemes are made by the Secretary of State for Transport. Property acquired in connection with the railway is purchased by the DfT on behalf of the Secretary of State for Transport and assets are held in the DfT's balance sheet as investment properties.

Following Royal Assent of the hybrid Bill, HS2 Ltd expects to be granted Compulsory Purchase Order (CPO) powers to acquire land and property needed to deliver an operational railway. Until that point, property will be acquired under discretionary compensation schemes and essential land and property will be acquired through negotiated agreements under powers granted through the High Speed Rail (Preparation) Act 2013. This is necessary to deliver discretionary compensation schemes, to protect the construction programme or to address a petitioner's concerns.

In April 2014, the Government published two consultations on its plans to provide assistance and compensation for homeowners and occupiers. The decision document can be accessed at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/395771/dft-hs2-command-paper-print.pdf

In January 2015, following a consultation period, the Government announced further packages of property purchase and assistance measures:

- a need to sell scheme replacing the Phase One exceptional hardship scheme;
- a cash offer scheme available in the rural support zone (RSZ);
- a voluntary purchase scheme available in the RSZ;

- a homeowner payment scheme (available when the Phase One hybrid Bill becomes law).

In 2014/15, HS2 Ltd received 382 applications under these property purchase schemes and the DfT acquired 129 properties.

At 31 March 2015, the cumulative value of property acquisitions was £328.8m for 257 residential and 4 business properties, as follows:

- 257 residential properties were acquired by the DfT at a combined cost of £175.5m, including compensation of £6.4m. In 2014/15, the DfT acquired 129 properties at a cost of £98.2m (2013/14: 51 properties at a costs of £31.4m).
- The DfT has concluded private agreements with business owners and residential landlords for 4 properties at a cost of £153.5m. It acquired 2 properties in 2014/15 for £75.1m (2013/14: 2 properties at a cost of £78.2m).

Such acquisitions have been made to enable the preparation and construction phases to proceed promptly and to secure value for money for the taxpayer by buying the properties at current prices. As noted above, these properties are currently held on the DfT's balance sheet.

HS2 Ltd will be responsible for the management of acquired property until it is either transferred to HS2 Ltd's construction contractor to be used for the construction of the railway or sold.

In addition, HS2 Ltd has published its Residents' Charter, which seeks to ensure that residents affected by the railway are treated in a dignified, fair, transparent and reasonable manner. HS2 Ltd has appointed an independent Residents' Commissioner to oversee communication standards in regard to statutory and discretionary property measures, and to monitor performance against the commitments in the Charter. The Commissioner will report directly to the Chairman and the HS2 Ltd Board and will produce quarterly reports to the Board, addressing how the company deals with communities and individuals who are affected by property issues.

Our people

HS2 Ltd believes that a diverse and inclusive workforce creates a dynamic environment that enables us to communicate and deliver our objectives in an effective way. Employees are updated on the progress of the HS2 project and significant milestones through regular briefings and team meetings, as well as through numerous publications and briefing events.

The HS2 Ltd core workforce is made up of employees; secondees from Government departments, private companies and Network Rail; and contractors and agency staff, all working in an integrated organisation structure.

Employee engagement is encouraged through annual staff surveys, a workplace forum, recognition awards and frequent line management briefings. A range of development support is provided for employees including induction, management, technical, safety and professional training, career coaching, team building and graduate and apprentice programmes. Successful engagement is considered in terms of the achievement of the organisation's strategic objectives and core values.

Policies are in place to cover issues including working conditions, pay, equality and diversity, employee relations, succession planning, conflicts of interest and whistleblowing.

High Speed Two (HS2) Limited

Our organisation includes specific teams for identifying and promulgating best practice and driving technology and innovative approaches through all that we do. To support them, we have developed core systems for identifying, managing and communicating lessons learned and promising innovations.

The following table shows the breakdown of directors, senior managers and employees by gender as of 31 March 2015

	31 March 2015		31 March 2014	
	Male	Female	Male	Female
Directors	6	3	6	2
Senior managers	102	40	59	24
Employees	332	275	271	200

On behalf of the Board



Simon Kirby – Chief Executive and Accounting Officer

Signed on **16 June 2015**

Directors' report

The Directors present their report together with the Strategic Report and the Financial Statements of the company for the year ended 31 March 2015.

Directors

Directors who have held office between 1 April 2014 and 31 March 2015:

Sir David Higgins	Chair
Simon Kirby	Chief Executive (from 1 September 2014)
Alison Munro	Chief Executive (to 31 August 2014)
Richard Brown	
Duncan Sutherland	
Christine Emmett	from 15 September 2014
Neil Masom	from 15 September 2014
Baroness Jo Valentine	from 15 September 2014
Roger Mountford	from 19 February 2015
Mike Welton	to 22 January 2015
Beth West	to 18 September 2014
Andrew McNaughton	to 18 September 2014

Business interests

Board members have confirmed that they do not have any company directorships or other significant interests which may conflict with their management responsibilities.

Remuneration Report and Governance Statement

The Remuneration Report (page 34) and Governance Statement (page 38) are required under the FReM and form part of these financial statements. The Governance Statement addresses the company's risk and control framework.

Going-concern basis

HS2 Ltd undertakes work under the Development Agreement with the DfT and is funded entirely by grant-in-aid from the DfT, as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013.

In 2012/13 the Government undertook a review of spending through the Spending Round 2013. In June 2013 it confirmed the level of resources available for HS2 Ltd in the period up to 2016 to fund

its planned expenditure, together with an indicative funding allocation to the DfT for HS2 for the period to 2021. A further review is expected later in 2015.

In view of the Government's statement on its support for high speed rail, its widespread political support, its promotion of the hybrid Bill through Parliament (including the successful Second Reading on 28 April 2014), and continuing financial support from the DfT, the directors are confident that sufficient resources will be available to meet the company's operational plans and budgeted expenditure. Consequently, it is considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

Company policy on payment of creditors

HS2 Ltd observes the principles of the Confederation of British Industry Prompt Payment Code and aims to pay all approved invoices within stated payment terms or otherwise within 30 working days of receipt of a valid invoice.

Monitoring of payments made during the year ended 31 March 2015 shows that 84% of invoices received were paid within 30 working days (2013/14: 94%). HS2 Ltd has received and paid no claims (2013/14: one) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

This is largely due to the introduction of new accounting software which has highlighted deficiencies in internal payment processes which in turn adversely impacted on payment performance in 2014/15 (see page 51).

Financial instruments

HS2 Ltd has no borrowings and its activities are entirely funded by grant-in-aid from the DfT. The company aims to maintain minimal holdings of cash and cash equivalents, appropriate to its short-term needs, and has no significant third-party receivables. For these reasons HS2 Ltd is considered to have no material credit, liquidity, interest rate or market risk.

Dividends

No dividends will be distributed for the year ended 31 March 2015.

Political and charitable contributions

During the year the company made no charitable or political donations.

Sickness absence

Recorded staff absence due to sickness equated to an average of 2.0 days per employee during the year (2013/14: 1.4 days) for direct employees of HS2 Ltd.

Staff pensions

Permanent staff may participate in a stakeholder (defined contribution) pension scheme. Seconded staff follow the arrangements within their host organisation. As a consequence, pension liabilities do not rest with HS2 Ltd.

Personal data-related incidents

No protected personal data-related incidents have required reporting to the Information Commissioner's office in 2014/15 (2013/14: nil).

Other protected personal data-related incidents in 2014/15 (2013/14: nil) deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office, but recorded centrally within the Department, are set out in the table below. Small, localised incidents are not recorded centrally and are not included in these figures.

Category	Nature of incident	Total
i.	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
ii.	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	4
iii.	Insecure disposal of inadequately protected electronic equipment, devices or paper document	0
iv.	Unauthorised disclosure	8
v.	Other	2

Disclosure of information to auditors

As far as the directors and the Chief Executive as Accounting Officer are aware, there is no relevant audit information of which the auditors are unaware. The directors have taken all necessary steps required to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditor

The Comptroller and Auditor General is appointed in accordance with the Government Resource and Accounts Act 2000.

Website

The Annual Report and Financial Statements for the year ended 31 March 2015 are available at the gov.uk website.

On behalf of the Board



Simon Kirby – Chief Executive and Accounting Officer

Signed on 16 June 2015

Sustainability report

HS2 will be a low-carbon project. HS2 Ltd's purpose is to create a world-class high speed rail network to support sustainable growth in the UK and to deliver a sustainable transport system for the UK. The vision is of a high speed railway that changes the mode of choice for inter-city journeys, strengthens the national rail network, supports the economy, creates jobs, minimises carbon emissions in the design, construction and operation of the HS2 network, and provides reliable travel in a changing climate throughout the 21st century and beyond.

Strategic approach to sustainability

HS2 Ltd has a sustainability policy which sets out its commitment to be an exemplar project. The policy sets out the role of the project in delivering sustainable economic growth and its commitment to balance community, economic and environmental issues when taking the project forward. The policy is integrated into all of our work and is applied throughout the organisation and procurement activities.

High speed rail offers some of the lowest carbon emissions per passenger kilometre compared with other transport modes. Based on projected carbon emissions in 2030, high speed rail has lower carbon emissions per passenger kilometre (8gCO₂e/pkm) than interurban cars (67gCO₂e/pkm); intercity rail – based on the predicted mix of both diesel and electric trains in 2030 – (22gCO₂e/pkm) and UK domestic flights (170gCO₂e/pkm). Additionally, by increasing the capacity of the rail network, HS2 will create the opportunity to reduce the overall carbon emissions from UK transport by shifting passenger and freight journeys to rail from other modes.

HS2 is a major opportunity to deliver a low-carbon transport system, providing reliable travel in a changing climate and supporting sustainable growth in the UK. This opportunity is reflected in our Sustainability Policy, which identifies climate change as a key theme for our work.

Building the network will inevitably cause some local effects on communities and the natural and built environments. HS2 Ltd will strive to limit any adverse impacts and look for environmental enhancements and benefits through the network design, through mitigation measures and by challenging industry standards. HS2 Ltd will support the Government's goals to:

- create a step-change improvement in transport links between regional centres and from them to London;
- enable more equal distribution of opportunity, connect communities and encourage regeneration;
- stimulate sustainable economic growth through increased capacity and shorter journey times between key cities;
- support British engineering, create job opportunities and develop skills in the UK;
- deliver lower-carbon, long-distance travel;
- maximise integration of HS2 with existing UK and international transport networks; and
- encourage wellbeing and protect the environment.

The full policy is published at <https://www.gov.uk/government/publications/hs2-sustainability-policy>.

Sustainability Plan

HS2 Ltd has developed a Sustainability Plan for Phase One that sets out our approach for implementing the Sustainability Policy and targets for design, construction and operational phases of the scheme. This will be updated in due course to cover Phase Two activities.

Environmental Management System

We are in the early stages of developing our Environmental Management System (EMS). The EMS will provide a framework for key procedures, processes and documentation for monitoring, reporting on and improving our environmental performance. Through its implementation, we will seek to manage the environmental impacts during the design, construction and operational phases of the scheme. Our EMS is being developed to align with the International Standard BS EN ISO 14001. It is our intention to obtain ISO 14001 accreditation in due course.

Integrating sustainability

Phase One

In November 2013 HS2 Ltd provided Parliament with a comprehensive Environmental Statement, assessing the likely significant environmental effects of Phase One, to accompany the hybrid Bill.

The hybrid Bill process recognises the potential impacts of the scheme on communities and businesses along the route and provides a mechanism for those affected to engage with the project. On 29 April 2014, the Select Committee on the High Speed Rail (London - West Midlands) Bill was appointed by the House of Commons. The Select Committee provides individuals and bodies directly and specially affected by the Bill with the opportunity to object to the Bill's specific provisions and to seek amendments. The Committee is in the process of hearing petitions, many of which relate to sustainability and the environment. There have been amendments to the scheme in response to petitioners' requests, such as changes in alignment.

Phase Two

Following public consultation, which ended early in 2014, a number of route refinements have been developed:

- in response to comments raised during consultation;
- as part of ongoing route development;
- in response to lessons learned from Phase One; and
- to apply updated design standards.

Following the *HS2 Plus* and *Rebalancing Britain* reports by Sir David Higgins, a number of other opportunities were also explored, leading to further route analysis.

This route refinement process has involved the appraisal of the sustainability process, which has been applied throughout the development of Phase Two. This has ensured that the principles of sustainable development have been considered in the decision-making process, especially when developing and choosing between alternatives. Further information on the appraisal of sustainability process can be found at:

<https://www.gov.uk/government/publications/options-for-phase-two-of-the-high-speed-rail-network-appraisal-of-sustainability>.

Once a decision has been made on a preferred route for Phase Two, further design and assessment can take place. This would involve an environmental impact assessment of that preferred route. The assessment will involve a more in-depth examination, taking account of a wider range of environmental information derived from, among other things, continued engagement with relevant organisations and a programme of detailed environmental field surveys.

Community and business support funds

In October 2014, the Department for Transport announced £30 million of available funding for the HS2 Community and Business Fund and Business and Local Economy Fund. The funding is in place for Phase One of the project and will be available for residents and local communities between London and Birmingham to invest in public projects, such as the refurbishment of local community centres, nature conservation, and measures to support local economies and employment. The funds are in addition to compensation and assistance available for property owners and are expected to be rolled out when construction starts post-2017.

Environmental Audit Committee

In April 2014, the Environmental Audit Committee published its report on HS2 and the Environment. This can be found at:

<http://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news/hs2-and-the-environment-report/>

The report had two key findings, suggesting that:

- the Government should aim higher than the objective of no net biodiversity loss; and
- on carbon emissions, the Government should examine the scope for requiring a reduced maximum speed for the trains until electricity generation has been sufficiently decarbonised.

Biodiversity

HS2 Ltd seeks to ensure that there is no net loss of biodiversity in the natural environment, as set out in its Sustainability Policy. HS2 Ltd will assess its performance using the metric set out in the Environmental Statement, taking into account the recommendations of the House of Commons Environmental Audit Committee.

In its response to the committee, the Government stated that Department for Environment, Food and Rural Affairs has acknowledged that the objective of seeking no net loss to biodiversity is very

challenging for a major infrastructure project such as HS2, and that this aim is as ambitious as for any similar infrastructure project worldwide. Therefore, the Government felt that this level of ambition is appropriate.

Climate change

HS2 is a major opportunity to deliver a low-carbon transport system, providing reliable travel in a changing climate and supporting sustainable growth in the UK. This opportunity is reflected in our Sustainability Policy, which identifies climate change and resilience as key themes for our work.

Following on from HS2 Ltd's endorsement of the Infrastructure Carbon Review, and to support the Infrastructure Carbon Review one-year-on conference and help share good practice, we reported progress against our Infrastructure Carbon Review commitments at:

http://www.greenconstructionboard.org/images/resources/ICR_v6_pdf_web.pdf.

Since the conference, and in accordance with our Carbon Minimisation Policy, we have developed a Carbon Management Strategy.

In response to the Environmental Audit Committee, we committed to further examination of the possible carbon emission implications of changing the operational specification. HS2 Ltd is clear, however, that operating at lower speed would reduce carbon emissions from the operation of rolling stock by only a relatively small degree, and would increase journey times, making HS2 a less attractive option to customers who would otherwise use road transport and flights. This is likely to result in less mode shift and potentially less carbon benefit associated with the operation of HS2, which could lead to an overall increase in UK carbon emissions compared with the existing proposed operating speed. In addition, HS2 Ltd continues to consider lower carbon solutions across the design, construction and operation phases. In particular, we have continued to study operational energy efficiency opportunities.

In July 2014 the Committee on Climate Change Adaptation Sub-Committee published its 'Managing climate risks to well-being and the economy' progress report, which acknowledged "the comprehensive approach taken by the HS2 Environmental Statement to the full range of climate risks" and cited our work as an example of good practice. It is available at

http://www.theccc.org.uk/wp-content/uploads/2014/07/Final_ASC-2014_web-version-4.pdf

HS2 Ltd has since adopted a climate change adaptation and resilience policy. It requires climate change adaptation and resilience impact assessments to be undertaken. The assessments provide the necessary evidence to enable climate change adaptation and resilience to be embedded into key decision-making processes and standards at appropriate stages of the HS2 project, in proportion to the impacts and risks identified. Design, management and operational solutions will address the risks and maximise opportunities posed by climate change, as practicable. HS2 Ltd will review the risks and opportunities at appropriate intervals.

BREEAM

The Building Research Establishment Environmental Assessment Method (BREEAM) assessment methodology sets the standard for best practice in sustainable building design, construction and

operation. It has become one of the most comprehensive and widely recognised measures of a building's performance. It uses recognised measures of performance, which are set against established benchmarks, to evaluate a building's specification, design, construction and use. The measures used represent a broad range of categories and criteria from energy to ecology. They include aspects related to energy and water use, the internal environment (health and well-being), pollution, transport, materials, waste, ecology and management processes. HS2 Ltd has committed to achieving a minimum rating of 'excellent' at all stations and depots using a bespoke BREEAM assessment methodology. HS2 Ltd is working with the Building Research Establishment and other organisations to create a new BREEAM standard and certification scheme for infrastructure.

Procurement

Throughout 2014, HS2 Ltd has continued to embed sustainability through its procurement activities. At the Supply Chain Conference in October 2014, we introduced the concept of the 'balanced scorecard'. Work is underway on development of the scorecard helping to ensure the delivery of contracts that achieve our specific goals. Many of these overlap with the sustainability themes, and by applying the principles of the balanced scorecard, we aim to achieve contract outcomes that align with our sustainability policy.

Performance 2014/15

In 2014/15, HS2 Ltd remains largely an office-based organisation responsible for the design and promotion of the high speed rail network and for planning ahead for its construction and operation. HS2 Ltd occupies four leased premises in London and two in Birmingham.

HS2 Ltd has captured data on greenhouse gas emissions, waste arising and water consumption on a quarterly basis where possible. The tables below cover the year to 31 March 2015. As part of development of our Environmental Management System, HS2 Ltd will continue to develop its processes of greenhouse gas data collection and develop key performance targets for future years, albeit recognising that HS2 Ltd will change and grow significantly over the lifetime of the project.

Greenhouse Gas (GHG) Emissions		2014-15	2013-14
Gross Emissions (tonnes CO ₂ e*)	Scope 1: Direct emissions	41	47
	Scope 2: Indirect emissions	748	409
	Scope 3: Business Travel emissions	171	116
	Total Emissions	960	572
Related Consumption Data	Estates Electricity (kWh)**	1,556,820	917,854
	kWh per FTE	1,984	1,526
	Private Car Usage (road miles)	44,143	49,949
	Hire Car Usage (road miles)	31,470	20,377
Financial Indicators	Total Energy Expenditure	£152k	£122k
	CRC Related Expenditure	£0	£0
	Expenditure on Business Travel	£647	£488k

* tCO₂e = tonnes of carbon dioxide equivalent emissions. ** estimated - energy costs are included in overall accommodation charges by the Department for Communities and Local Government (DCLG) and not separately identified

Waste		2014-15	2013-14
Non-Financial Indicators	Total Admin Waste (tonnes)	37	34
	Recycled Waste (tonnes)	23	22
	Admin Waste - kg per FTE	47.2	56.5
	Percentage recycled	63%	65%
Water		2014-15	2013-14
Non-Financial Indicators	Estates Water (cubic metres (m ³))	3,412	3,152
	m ³ per head	4.35	5.9
	Emissions from Water Consumption (tonnes CO ₂ e)	0	0

Remuneration report

The Remuneration Report for HS2 Ltd includes the Chair and other members of the HS2 Ltd Board. Changes in the composition of the Board and a summary of its members' commitments in 2014/15 are shown in the Governance Statement on page 38.

Board members (audited)

The Chair, Sir David Higgins, was contracted on secondment from Network Rail to work one day per week from 1 January 2014, increasing to five days per week from 1 March 2014 to 31 August 2014, and then joining HS2 Ltd to work three days per week from 1 September 2014. Non-Executive Board members are contracted to work an average contribution of two days per calendar month and additional days worked are remunerated at the same daily rate. The travel expenses of Board members are reimbursed at the rates allowed under HS2 Ltd's travel and subsistence policy.

Non-Executive Board members are entitled to a month's notice period with no compensation terms for early termination of their contracts. Executive Board members are entitled to notice as stated in their contracts. The fees and salaries of Board members during the year were as follows:

Single total figure of remuneration

Board member	Fees and salary £'000		Bonus payment £'000		Benefits in kind (nearest £100)		Pension benefit £'000		Total £'000	
	2014-15	2013-14 restated	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14 restated
Sir David Higgins***	470-475	80-85 (785-790)	-	-	-	-	-	-	470-475	80-85 (785-790)
Simon Kirby* (from 01/09/14)	435-440 (745-750)	-	-	-	-	-	-	-	435-440 (745-750)	-
Alison Munro**	145-150	130-135	-	-	-	-	-	-7	145-150	120-125
Mike Welton * (to 22/01/15)	15-20 (20-25)	20-25	-	-	-	-	-	-	15-20 (20-25)	20-25
Richard Brown	20-25	20-25	-	-	-	-	-	-	20-25	20-25
Duncan Sutherland	50-55	65-70	-	-	-	-	-	-	50-55	65-70
Neil Masom* (from 15/09/14)	10-15 (20-25)	-	-	-	-	-	-	-	10-15 (20-25)	-
Christine Emmett* (from 15/09/14)	10-15 (20-25)	-	-	-	-	-	-	-	10-15 (20-25)	-
Baroness Jo Valentine* (from 15/09/14)	10-15 (20-25)	-	-	-	-	-	-	-	10-15 (20-25)	-
Roger Mountford* (from 19/02/15)	0-5 (20-25)	-	-	-	-	-	-	-	0-5 (20-25)	-
Beth West* (to 18/09/14)	75-80 (165-170)	165-170	-	-	-	-	4 (8)	8	80-85 (175-180)	170-175
Andrew McNaughton* (to 18/09/14)	85-90 (180-185)	180-185	-	-	-	-	-	-	85-90 (180-185)	180-185

* The director was appointed or departed during the relevant financial year; annual equivalent amounts are shown in brackets. Beth West and Andrew McNaughton continue as members of the Executive Team.

** Alison Munro was seconded from the DfT up to 31 March 2014; she became a permanent full-time employee of HS2 Ltd on 1 April 2014. Her salary for 2013/14 has been restated in order to reflect a final payment for untaken holiday from the DfT, invoiced in 2014/15.

The negative value of pension benefit for 2013/14 related to the Principal Civil Service Pension Scheme (PCSPS), when Alison Munro was a contributing member as an employee of the DfT. The amount shown follows standard disclosure guidelines for a defined benefit scheme and represents the real increase in pension multiplied by 20 less the contributions made by the individual. No further pension contributions have been made to the PCSPS during 2014/15 by either the DfT or HS2 Ltd. As at 31 March 2014 she had accumulated an accrued pension at pension age of £55k - £60k and the entitlement to a lump sum of £175k to £180k. The cash equivalent transfer value of her pension entitlement as at 31 March 2014 was £1,333k.

*** Sir David Higgins was seconded from Network Rail for the period 1 January 2014 to 31 August 2014. He joined HS2 Ltd in a directly employed capacity from 1 September 2014. The remuneration for 2013/14 has been restated based on the final re-charges from Network Rail and is consistent with the remuneration disclosed in the accounts of Network Rail for 2013/14. His full-year remuneration for 2013/14 is reported in Network Rail's annual report for 2013/14.

Pension liabilities

Employees of HS2 Ltd are eligible to participate in a stakeholder (defined contribution) pension scheme, in which the company matches employee contributions to a maximum of 5%. The HS2 Ltd pension scheme is managed on the company's behalf by Legal & General Ltd. For the year ended 31 March 2015, employers' contributions were £682k (2013/14: £425k).

Beth West is a member of a stakeholder (defined contribution) pension scheme, in which the company matches employee contributions to a maximum of 5%. The company's contribution during her tenure as a Board Director in 2014/15 totalled £4k (2013/14: £8k).

Staff of HS2 Ltd, with the exception of those employed by the DfT and on secondment from other Government entities, are not eligible for PCSPS pensions. Seconded employees from Government bodies are covered by the provisions of the PCSPS. The Scheme is an unfunded defined benefit scheme and liability rests with the Scheme, and not the Company. Details of the Scheme can be found at:

<http://www.civilservicepensionscheme.org.uk>.

Remuneration policy

As an Executive NDPB, HS2 Ltd is subject to the rules which apply across Government to pay policy. However, in recognition of the scale and complexity of the Programme, HM Treasury has granted HS2 Ltd some limited flexibility to assist in the recruitment of a payroll-based workforce with the skills and experience needed to manage the HS2 programme, whilst specifying clear limits and controls and added disclosures.

HS2 Ltd intends to publish, in the near future, details of these limits and controls and the total number of staff with annual salaries above £142,500, and to name staff members paid above this level.

Median staff cost (audited)

The total remuneration of the highest-paid director for 2014/15 fell within the salary band £745k-£750k (2013/14: £785k - £790k). This was 13.3 times the median basic salary of the company's workforce, which was £56,200 (2013/14: 16.95 times the median of £46,460, previously disclosed as 12.4 times). The rise in the median salary is caused principally by the growth of the organisation from the top down, recruiting directors and senior managers before a more general growth in the workforce to deliver the Programme.

High Speed Two (HS2) Limited

The median salary is determined as the mid-point of all salaries of the workforce comprising employees, secondees and temporary staff. The comparative numbers have been updated based on final re-charges from Network Rail for 2013/14 and reflect the single total figure of remuneration disclosed in Network Rail's accounts for Sir David Higgins.

Total remuneration includes, where appropriate, annualised salary, performance-related pay and benefits-in-kind. It does not include employer pension contributions or the cash equivalent transfer value of pensions.

No employees, secondees or temporary staff have received remuneration in excess of the highest-paid director in the year (2013/14: none).

On behalf of the Board



Simon Kirby – Chief Executive and Accounting Officer

Signed on **16 June 2015**

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations and for ensuring that proper accounting records are maintained that disclose, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Under the Railways and Transport Safety Act 2003, the Secretary of State for Transport has also directed HS2 Ltd to prepare for each financial period a set of financial statements in the form and on the basis set out in the Accounts Direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of HS2 Ltd and of its income and expenditure, changes in equity and cash flows for the financial period.

In preparing accounts, the directors are required to comply with the requirements of the Government Finance Reporting Manual (FRoM), and in particular to:

- observe the Accounts Direction issued to the Secretary of State for Transport, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a consistent and reasonable basis;
- confirm that applicable accounting standards as set out in the Government FRoM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going-concern basis.

The DfT's Principal Accounting Officer, acting on behalf of the Treasury, has designated the Chief Executive of HS2 Ltd as its Accounting Officer. The duties of an Accounting Officer, as set out in HM Treasury's publication 'Managing Public Money', include responsibility for the propriety and regularity of public finances, keeping proper records and safeguarding HS2 Ltd's assets.

Governance statement

Accounting Officer's introduction

As Accounting Officer for HS2 Ltd, I have responsibility for maintaining a sound system of internal control that supports the achievement of the HS2 Ltd policies, aims and objectives, whilst safeguarding the funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me by the Secretary of State for Transport.

The HS2 Ltd Board meets on a monthly basis to review the performance of the business against its policy, strategy and risks, making key decisions to ensure its ability to go forward and meet its objectives as agreed with the DfT, the sponsor department.

This Governance Statement sets out how these responsibilities have been delivered.

Corporate governance

HS2 Ltd complies with the principles of 'Corporate Governance in Central Government Departments: Code of Good Practice 2011' as follows:

- The composition of the Board is balanced between the Executive and Non-Executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of Board members. As the organisation grows in size and complexity, it will seek to widen the skills and experience appropriate to the phase of development.
- The remit of the Board and the roles and responsibilities of its members have been clearly defined in Standing Orders approved by the HS2 Ltd Board, including the role and responsibilities of the Accounting Officer.
- Procedures are in place to ensure the effectiveness of the Board, including the appointment and induction process, the organisation of Board meetings supported by suitable information and reports, a dedicated and skilled secretariat function and a formal annual evaluation process to assess and improve performance.
- The Board is supported by the Audit and Risk Assurance, Health Safety & Environment and Remuneration Committees, each chaired by a suitably experienced Non-Executive director.

HS2 Ltd keeps its governance arrangements under constant review. It has collaborated with the DfT in 2014/15 to review and strengthen its governance and processes to achieve the higher levels of assurance required as its remit from the Secretary of State evolves to reflect its changing role with the development of the high speed rail project.

The Development Agreement, signed in December 2014, governs the relationship between the Secretary of State for Transport and HS2 Ltd for the delivery of the HS2 programme. It sets out HS2 Ltd's role in developing, building and operating the new railway and the Department for Transport's role as sponsor and funder. The Development Agreement replaces all previous remit letters from the Secretary of State.

A revised Framework Document, between the company and the Secretary of State for Transport as the single shareholder, was signed in December 2014 and sets out the broad governance arrangements for HS2 Ltd as a non-departmental public body (NDPB). The HS2 Ltd Board has approved Standing Orders consolidating the Board's role, responsibilities, procedures and delegations.

HS2 Ltd is working closely with the DfT to put in place the necessary agreements in readiness for the future development stages with other key stakeholder groups:

- Agreement has been reached on informal tripartite cooperation between the DfT, HS2 Ltd and Network Rail and monthly meetings commenced in January 2014.
- Work is in progress to establish formal agreements on aspects on the scheme with key stakeholders, such as Network Rail and Transport for London.

Key risks to the organisation

HS2 Ltd is in a period of rapid growth as it moves from being a feasibility/design-based organisation to preparing to build one of the largest and most complex engineering projects in Europe. Such rapid growth inevitably imposes risks and challenges on the company's systems, controls and processes as it moves towards being the mature organisation needed to ensure successful delivery. This includes developing its governance and operational models in order to minimise risks to the deliverability of the project to time and budget.

Key risks include:

1. Stakeholder management

Ensuring that appropriate relationships are being maintained with key stakeholders – including Government, the rail industry, people affected by the scheme, and the public at large – as through effective communications and engagement strategies and plans.

2. Governance

Ensuring that the governance framework within which HS2 Ltd operates is robust, transparent and operating effectively. The Development Agreement is the key agreement determining roles and responsibilities for the DfT as project sponsor and for HS2 Ltd as the delivery organisation. This is a new agreement and ensuring that the day-to-day workings of approvals, delegations, change management and accountability are understood and communicated remains a priority.

HS2 Ltd is working with the DfT, HM Treasury, the Cabinet Office, Infrastructure UK and the Major Projects Authority to ensure that the needs of all stakeholders are reflected.

3. Internal governance and organisational readiness

HS2 Ltd is developing a comprehensive Delivery Strategy which sets out the approach that it will take to delivering the Programme. It encompasses ways of working and provides the framework for achieving consistency and integration across the Programme over the next 20 years. It sets out what systems and processes will be established to deliver the project on time

and on budget, and how HS2 Ltd will address such key issues as operating model and design, procurement and commissioning.

Particular challenges exist in ensuring that core human resources, procurement and finance controls and processes develop at the same pace as the rest of the organisation to ensure that its legal, regulatory, policy and reporting obligations can be met and that it can demonstrate best practice and value for money in its activities.

A working group has been established to measure and monitor readiness and in particular to ensure that the company is able to demonstrate its readiness at Review Points 1, 2 and 3.

4. Schedule, cost and risk

HS2 Ltd is remitted with delivery of the railway on time and on budget and to manage its risks appropriately. At this early stage of the project, the company is seeking to ensure that its processes for long-term cost and schedule planning are robust and appropriately assured, and that its short-term activity programme, budgets, workforce plans, risk management and procurement pipelines are aligned to the overall programme. Assurance is supported by the work of the Project Representative, who provides assurance to the DfT on all aspects of the programme.

5. Funding

Ensuring that funds are available at each stage of the project to ensure delivery of the project and to enable HS2 Ltd to meet its commitments to its extensive supply chain. Also to ensure that robust processes exist to enable HS2 Ltd to draw down contingency sums as and when needed as part of its risk management strategy; and to optimise value for money and cost efficiency in the planning and delivery of the railway.

6. Design development

The design of complex infrastructure takes place over many years and HS2 Ltd has in place a robust development and assurance framework to ensure that it is at an adequate state of maturity given the relative progress of phases. This includes an internal assurance and quality function that is a key part of the overall assurance framework.

7. Delivering the Phase One hybrid Bill

Responding to petitions and managing the Select Committee and petition management processes are essential to ensure the smooth passage of the Phase One hybrid Bill. Adequate controls are in place to allow rapid but safe progress, manage the politics and make intelligent decisions about whether and how to settle petitions.

8. Phase One pre-construction works

HS2 Ltd has been granted powers through the High Speed Rail (Preparation) Act 2013 to undertake certain pre-construction activities to ensure delivery in accordance with the agreed programme. These activities include the advanced acquisitions of property, further design and survey activity, groundwork investigations, works relating to utilities diversions and early enabling works.

Developing the organisation, managing stakeholders and procuring the supply chain to undertake these works are all critical activities requiring close planning and monitoring to ensure that key targets are met. These are managed principally through the Managing Director for Phase One Infrastructure.

9. Developing Phase Two

Reasonable assurance is required that options are being considered through a sound and accepted process, that plans are being developed robustly, that costs are at a reasonable level of confidence (including risk allowances) for the stage of development and that legal and policy risks are being identified and managed.

Phase Two has benefited from the successful approach taken by Phase One and where appropriate, key learning points and improvements have been incorporated into the Phase Two approach.

10. Purchasing and managing land and property on behalf of the Secretary of State

HS2 Ltd manages various programmes of compensation schemes to land and property owners in accordance with instructions from the DfT. The company also manages the programme of critical negotiated acquisitions needed to ensure delivery of the programme on time and subsequently manages any properties acquired.

Ensuring that legal requirements are met and that land and property owners are treated with dignity and respect through fair settlements is critical to both successful land assembly and stakeholder management. This is undertaken through a joint HS2 Ltd / DfT board with appropriate specialist property and legal advice. Major business acquisitions are subject to further approval by HM Treasury, thus enhancing overall scheme accountability and transparency of value for money arrangements.

Appropriate management of property is achieved through arrangements with a specialist property management company.

Organisation and structure

Role of the Secretary of State for Transport

The Secretary of State for Transport is accountable to Parliament for the activities and performance of HS2 Ltd and, through officials of the DfT, agrees with the HS2 Ltd Board the strategic objectives and policy framework within which HS2 Ltd operates.

The Secretary of State for Transport lays HS2 Ltd's Annual Report and Accounts before Parliament and approves grant-in-aid to be paid, securing parliamentary or Treasury approval as necessary. The Secretary of State for Transport also reviews the performance of the Chair and approves the activities of HS2 Ltd to make arrangements for the remuneration, pensions, allowances and expenses of directors and staff.

Role of the Chair

The Chair is appointed by the Secretary of State for Transport and is responsible for ensuring that HS2 Ltd fulfils its aims and objectives agreed with the DfT. The Board's views are ordinarily conveyed to the Secretary of State for Transport, as well as to the public, through the Chair.

The Chair ensures that the policies and actions of HS2 Ltd support the wider strategic policies of the Secretary of State for Transport, that HS2 Ltd's affairs are conducted with probity, and that the work of the Board and its members is reviewed and is effective.

Role of the Accounting Officer

The Chief Executive is designated as the NDPB Accounting Officer (AO) for HS2 Ltd by the Department's Principal Accounting Officer, acting on behalf of Her Majesty's Treasury (HMT).

The AO safeguards public funds for which he or she has charge, and ensures propriety and regularity in their handling and the day-to-day operations and management of HS2 Ltd. The AO ensures that HS2 Ltd's governance, decision making and financial management follow guidelines set out in 'Managing Public Money'.

The AO signs the accounts and, supported by the Board and Audit Committee, ensures that proper records are kept and that the accounts are properly prepared and presented in accordance with directions issued by the Secretary of State for Transport. The AO signs the Strategic Report, the Directors' Report and the Remuneration Report on behalf of the Board following Board approval.

The AO ensures that HS2 Ltd has effective complaints procedures and that these are available at:

<https://www.gov.uk/government/organisations/high-speed-two-limited/about/complaints-procedure>

The HS2 Ltd Board

The role of the Board is to:

- set the company's aims and objectives and ensure that they are achieved;
- ensure effective governance of the company;
- make sure that the company makes decisions at the right time and properly manages risks;
- shape, challenge and direct the agenda of the company, delivering stated priorities;
- monitor performance and risk, make recommendations to ministers on priorities/risk appetite; and
- oversee the health of relations with stakeholders and commercial partners.

Board commitments

Board members are appointed by the DfT. Biographies of the current HS2 Ltd Board members are published on the gov.uk website. The appointment and resignation or retirement dates of Board members are set out in the Directors' Report on page 25 and details of their contractual

commitments are disclosed in the Remuneration report on page 34. These are summarised in the following table:

Board member	Commitment
Sir David Higgins	Chair; full time seconded from Network Rail from March to August 2014; contractual commitment of three days per week from 1 September 2014
Simon Kirby	Chief Executive Officer and Executive Board member from 1 September 2014
Mike Welton	Former Non-Executive Board member; contractual commitment two days per week until 22 January 2015, when he stepped down from the Board
Alison Munro	Chief Executive Officer until 31 August 2014; Managing Director, Development from 1 September 2014 and Executive Board member
Richard Brown	Deputy Chair and Non-Executive Board member; contractual commitment two days per month
Duncan Sutherland	Non-Executive Board member; contractual commitment two days per month
Beth West	Board member until 18 September 2014; continues as Commercial Director on Executive Team
Andrew McNaughton	Board member until 18 September 2014; continues as Technical Director on Executive Team
Baroness Jo Valentine	Non-Executive Board member from 15 September 2014; contractual commitment two days per month
Neil Masom	Non-Executive Board member from 15 September 2014; contractual commitment two days per month
Christine Emmett	Non-Executive Board member from 15 September 2014; contractual commitment two days per month
Roger Mountford	Non-Executive Board member from 19 February 2015; contractual commitment two days per month

Attendance at Board meetings

All Board members have been present at monthly meetings during their periods of appointment, except where indicated below (between April 2014 and March 2015):

	30/4	22/5	12/6	17/7	18/9	16/10	20/11	18/12	22/1	19/2	19/3
Sir David Higgins	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	✓
Simon Kirby	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓	✓
Mike Welton	✓	x	✓	✓	x	✓	✓	✓	✓	N/A	N/A
Alison Munro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Richard Brown	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓
Duncan Sutherland	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Beth West	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
Andrew McNaughton	x	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A
Baroness Jo Valentine	N/A	N/A	N/A	N/A	N/A	x	x	✓	✓	✓	✓
Neil Masom	N/A	N/A	N/A	N/A	N/A	✓	✓	x	✓	✓	✓
Christine Emmett	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓	✓	✓
Roger Mountford	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	x

Changes to the Board

- Sir David Higgins became Non-Executive Chair on 1 September 2014.
- Richard Brown was appointed as Deputy Chair in addition to remaining as a Non-Executive Director on 12 February 2015.
- Simon Kirby was appointed a Board Director and became Chief Executive Officer from 1 September 2014 and is a member of the Executive Team.
- Alison Munro served as Chief Executive Officer until 31 August 2014 and continues as Managing Director – Development.
- Mike Welton retired from the Board on 22 January 2015.
- Beth West ceased to be a Board member with effect from 18 September 2014 and continues as Commercial Director on the Executive Team.
- Andrew McNaughton ceased to be a Board member with effect from 18 September 2014 and continues as Technical Director on the Executive Team.
- Neil Masom, Baroness Jo Valentine and Christine Emmett were appointed Non-Executive Directors on 15 September 2014. Roger Mountford joined the Board on 19 February 2015 as Non-Executive Director.

HS2 Ltd's Framework Document provides for the appointment by the Secretary of State of a senior civil servant as a departmental representative with observer status at HS2 Ltd Board meetings. David Prout has served as Director General for HS2 Ltd for the Department for Transport throughout the period. Either he or another DfT representative has attended all Board meetings.

Director independence

The Chair and the six Non-Executive directors are independent directors. The HS2 Ltd Chief Executive and Managing Director, Development are also Board members. Any conflicts of interest or business interests are declared by Board members.

Conflicts of interest

Board members update HS2 Ltd on conflicts of interest as and when they arise and make a declaration at the start of each meeting. In addition, a register of Board members' business interests is maintained and is published on the company's website. Board members are asked to confirm regularly that this is correct.

Ethics and values

The Board abides by its own Code of Practice, which is in keeping with the Cabinet Office model code of practice for Board members of Executive NDPBs. The Code of Practice has been agreed with the DfT, HS2 Ltd's sponsor department.

Board effectiveness

Board evaluation

The Chair oversees the work of the Board and its members to ensure they are working effectively. The Board has agreed that regular assessments of its effectiveness should take place, which include periodic, externally facilitated reviews. Following the last externally facilitated Board Effectiveness Review which took place in 2014, a self-assessment exercise was carried out in April and May 2015, with the findings being reported to the Board meeting in June 2015. This Review confirmed the findings of the previous exercise, completed in May 2014, that the Board is satisfied it is operating effectively at this stage in the company's development.

Information and professional development

Current members of the HS2 Ltd Board are experienced in matters of corporate governance and have received up-to-date guidance on corporate best practice. Board members have met and worked with HS2 Ltd staff, have attended background briefing sessions, dedicated training sessions and have become familiar with specific issues relating to the project. An induction process is in place for new Board members, which includes introductory meetings with the Chairman followed by briefings with the Chief Executive and members of the Executive team. New Board members are provided with a detailed induction in line with Cabinet Office and UK Corporate Governance Code guidance, and attend background briefings on the work of HS2 Ltd.

Board decision making

The Board Self-Assessment was satisfied that there were adequate systems to ensure that efficient delegated authority, reporting and approvals processes were being carried out. A Development Agreement, agreed between the company and the Department for Transport, governs the evolving nature of these arrangements as the company continues to grow and develop.

The Corporate and Business Plans, updated annually, are overseen and approved by the Board. Project milestones, high-level programme information and risks are regularly reviewed by the Board and its Committees, and the Board is regularly apprised of the latest financial information. The Audit, Remuneration, and Health, Safety and Environment (HSE) Committees have delegated authority to advise on matters in their respective areas, as set out in their Terms of Reference.

Effective, structured decision making is crucial as the company develops and continues its preparations for the main construction phase. The Board has agreed a decision-making approach and a strategy for delivery for the organisation which is kept under review.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (Audit Committee), chaired by Neil Masom (from 16 October 2014 and prior to that by Mike Welton), provides independent assurance to the Board that effective arrangements are in place for risk management, governance and internal control. The Committee oversees all assurance work, including that of HS2 Ltd's internal auditors.

The Committee meets quarterly or as matters arise. Its members during the year were Mike Welton (Chair until 16 October 2014 and member until 22 January 2015); Neil Masom (Chair and member from 16 October 2014), Sir David Higgins (on an interim basis from 22 January 2015 until 26 March 2015), Baroness Jo Valentine (from 16 October 2014), Richard Brown (until 16 October 2014) and Roger Mountford (from 26 March 2015).

The Audit Committee reviews risk and internal audit as standing items at meetings and receives regular updates from the internal and external auditors. The Audit Committee signs off the internal and external audit annual plans, advises the Board on accounting policies and monitors the annual accounts process in order to recommend the accounts for approval by the Board.

The Chair of the Audit Committee provides a formal report to the Board and Accounting Officer after each meeting and provides the Board and Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year. The Audit Committee has considered the following significant matters in 2014/15:

- amendments to the Terms of Reference of the Audit Committee to reflect the risk environment within which the company is operating;
- development of revised risk management strategy and procedures;
- review of the Period 9 and year-end financial statements;
- the overall assurance framework for HS2 Ltd; and
- a range of internal audit reports under the annual programme.

Health, Safety and Environment Committee

The HSE Committee was established on 16 October 2014 and is chaired by Richard Brown. The Committee provides independent assurance to the Board that effective arrangements are in place for the management of health and safety matters and environmental matters.

The Committee meets quarterly and as matters arise. Its members are Richard Brown (Chair), Neil Masom and Christine Emmett (all Non-Executive Directors and all of whom were appointed to the Committee on 16 October 2014).

Remuneration Committee

The Remuneration Committee, chaired by Richard Brown until 16 October 2014 and from then by Christine Emmett, reviews HS2 Ltd's pay policy and advises on matters concerning the remuneration of senior Executives. The Committee members are: Christine Emmett (Chair from 16 October 2014), Richard Brown (Chair until 16 October 2014) and Duncan Sutherland (all Non-Executive directors).

New terms of reference for the Committee were agreed during the year which allow for an expanded remit. They allow for an observer from the Department for Transport to attend meetings. The DfT observer is currently Jonathan Moor, Director General, Resources and Strategy.

Executive Team

The Executive Team manages the day-to-day operations of HS2 Ltd and in 2014/15 has comprised:

Name	Position	Start	End
Simon Kirby	Chief Executive Construction Chief Executive Officer	19 May 14 1 Sept 14	1 Sept 14
Alison Munro	Chief Executive Officer Managing Director, Development	1 Sept 14	31 Aug 14
Andrew McNaughton	Technical Director (currently seconded as an expert witness in Select Committee process)		
Giles Thomas	Acting Technical Director	9 June 14	
Alistair Kirk	Programme and Strategy Director	1 Sept 14	
David Wilson	Interim Programme and Strategy Director	16 June 14	22 Aug 14
Patrick O'Connell	Interim Programme and Strategy Director		13 June 14
Jim Crawford	Managing Director, Phase One Infrastructure	11 Aug 14	
Roy Hill	Phase One Delivery Director*		17 Oct 14
Beth West	Commercial Director		
Kieran Rix	Finance and Corporate Services Director		
Janine Mantle	Corporate Affairs Director		
Roger Hargreaves	Hybrid Bill Delivery Director		17 Oct 14
Ian Jordan	Director Phase Two		17 Oct 14
Peter Gregory	HR Director	20 Oct 14	
Gerard O'Brien	Corporate Health and Safety Director	20 Oct 14	
Nina Cope	Organisational Effectiveness and Change Director	2 Mar 15	
Stuart Westgate	Programme Development Director, Internal Sponsor	23 Mar 15	
Chris Rayner	Managing Director, Railway Operations	7 Apr 15	

* Roy Hill was a member of the Executive until 17 October 2014. He is a Director of HS2 Ltd's development partner, CH2M Hill, and took no part in Executive Team discussions relating to the development partner contract during his tenure.

The HS2 Ltd Executive Team meets monthly to consider strategic issues related to the company and the Programme. The Executive delegates the detailed scrutiny of certain issues to a range of formally constituted teams, including Programme Review Board (scrutiny for the Delivery Units), Investment Panel (funding decisions), Business Transformation Panel (change management), Commercial Panel (procurement decisions) and People Panel (workforce-related issues).

Separate governance arrangements exist for Delivery Unit programme management through Phase One Infrastructure, Development and Railway Operations Programme Boards, which in turn report into the HS2 Ltd Executive Committee.

The current structure was set up in September 2014 to enhance the effectiveness of the company in directing the operations of HS2 Ltd. Internal governance arrangements remain under regular review to ensure that they best meet HS2's needs.

Executive Directors' other directorships

A Register of Business Interests is kept for Executive Directors and Heads of Business Units.

HS2 Ltd workforce

The HS2 Ltd core workforce is made up of employees; secondees from Government departments, private companies and Network Rail; contractors; and agency staff, working in a fully integrated organisation structure.

Performance is measured through achievement of the organisation's strategic objectives and core values. Employee engagement is encouraged through annual staff surveys, a workplace forum, recognition awards and frequent line management briefings. A range of development support is provided for employees, including induction, management, technical, safety and professional training, career coaching, team building and graduate and apprentice programmes.

A range of policies is in place including those covering working conditions, pay, equalities and diversity, employee relations, succession planning, conflicts of interest and whistleblowing.

Suppliers and contractors

HS2 Ltd employs specialist suppliers and contractors as deemed necessary to supply technical services needed to achieve the objectives of HS2 Ltd. Suppliers and contractors are procured and managed in accordance with Government-wide procurement guidance. HS2 Ltd has a Commercial Panel which meets on a weekly basis to consider procurement proposals. The Board receives a regular monthly report on procurement matters.

Risk management

An assessment of the risks facing HS2 Ltd is set out on pages 39-41. The Accounting Officer and Board acknowledge their responsibility for risk management, which is overseen through a process of risk escalation to the Executive and Board as appropriate. In line with the approach adopted by the DfT, the company's risk appetite is 'open', which under HM Treasury guidance means that the company is "willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward", considering each risk on its

own merit. A cautious risk appetite has been adopted for the company's personal and other sensitive information.

HS2 Ltd has adopted a risk management strategy in line with HM Treasury guidance 'Management of Risk: Principles and Concepts' (also known as 'The Orange Book'). Each business area monitors the risks facing its area of HS2 Ltd's operations. Project risks are reported through project boards; corporate risks are reported via the Executive. Corporate risks include finance, procurement, HR, governance, information assurance and public enquiries.

The system of risk management is based on an ongoing process that:

- identifies and prioritises the risks to the achievement of HS2 Ltd's policies, aims and objectives;
- evaluates the likelihood of those risks being realised and the impact should they be realised; and
- manages the risks efficiently, effectively and economically.

The HS2 Ltd Executive reviews risks on a monthly basis, bringing them to the HS2 Ltd Board as required. The Project Review board includes risk reporting as a standing item at each monthly meeting. The HS2 Ltd Board and Audit Committee review risks every three months, and the Audit Committee also reviews the company's risk management systems and advises the Board on risk.

Clear and balanced business strategy

HS2 Ltd produces a Corporate Plan, which sets out a three-year corporate strategy. It incorporates an annual business plan, which sets out our business strategy in the shorter term.

Business modelling and quality management

Business modelling remains essential to the work of HS2 Ltd to ensure that the costs and benefits of the project included in the HS2 business case are based on a rigorous assessment of transport demand. HS2 Ltd has created and maintains a full and up-to-date register of business-critical models. In 2013, the Macpherson Review of quality assurance of Government analytical models put forward clear recommendations for best practice by Government organisations.

HS2 Ltd has developed a quality management system which is supported by plans, processes and procedures designed to set out the organisation's drive for the development of the scheme in compliance with the stated requirements and ensuring that sufficient assurance is developed to support the integrity of the scheme.

This includes a quality assurance framework that is compliant with the Macpherson Review recommendations which is used for all of its analytical modelling and it has specialist staff responsible for developing and using the models. Senior model owners have been appointed for each model. The organisation works closely with the sponsor to ensure that models supporting the Business Case for HS2 and Spending Review have appropriate quality assurance and deliver results consistent with its methodology.

HS2 Ltd is working closely with the DfT to identify opportunities to share knowledge and experience with other members of the group.

Internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk. It should provide reasonable and not absolute assurance of effectiveness. The system of internal control supports the achievement of HS2 Ltd's policies, aims and objectives, while safeguarding the funds and assets of the organisation.

The controls are designed to safeguard public funds and departmental assets in accordance with HM Treasury's 'Managing Public Money'.

Best practice guidance is followed on monitoring income and expenditure within HS2 Ltd. The HS2 Ltd Board receives a monthly finance report and reviews HS2 Ltd's financial position each month by examining the expenditure and variances for the period to date and year-end. Full-year forecasts are updated regularly and re-profiling is carried out as required.

Systems of internal control

The system of internal control has been in constant development and improvement during the year ended 31 March 2015 and up to the date of approval of the annual report and accounts.

As a growing organisation, HS2 Ltd has continued to develop and enhance its financial processes and systems. As a result of its transition to new financial systems, there has been an adverse impact on supplier payment performance while the new systems have bedded in. The new systems and reporting capability will enable HS2 Ltd to manage the payment process so that it can consistently meet its performance target in 2015/16.

Internal assurance

Management assurance is a critical component of the internal control framework. It ensures that the company has an informed assessment of the operation of processes and controls in key business areas, which they can challenge, and from which they identify and instigate future actions for improvement. HS2 Ltd carries out an internal management review and completes a survey as part of the DfT Management Assurance review. It presents the completed survey and its action plan to the Audit Committee for approval before submission to the DfT.

As a result of this year's review, HS2 Ltd has committed to actions in 2015/16 to develop its policies, procedures and controls for anti-fraud and anti-bribery, business continuity management and succession planning to meet the needs of a growing organisation.

Independent assurance

Independent assurance on the effectiveness of HS2 Ltd's system of internal control is obtained by the Audit Committee from reviews carried out under the annual Internal Audit programme and its audit reports, and through audit reports and management letters from the External Auditors. As a new and rapidly growing organisation, HS2 Ltd works closely with its internal auditors to design the annual audit programme, to provide assurance in critical business areas, to identify best practice and to develop processes and controls which model best practice.

HM Treasury and the Cabinet Office have mandated that all central Government bodies and their arm's-length bodies should undertake independent reviews of their financial management. HS2 Ltd commissioned CIPFA to conduct an independent review in 2014 and the report identified that HS2 Ltd had adequate controls but that as a growing organisation it would need to prepare itself for its future role and responsibilities. HS2 Ltd has adopted their recommendations and has created a Finance Development Programme to ensure that the HS2 Ltd organisation and its finance function are fit for purpose and can meet the requirements of the upcoming Review Point examination set out in the Development Agreement.

In his annual opinion, the independent Head of Internal Audit observed that HS2 Ltd has continued to undergo significant growth and change during the year, and that it has been a challenge for the company to develop and enhance its governance, risk management and internal controls processes to ensure that they are both adequate and effective for the requirements of the maturing organisation.

Overall, the Head of Internal Audit has concluded that he can provide 'moderate' assurance that the arrangements have been adequate and effective for 2014/15. HS2 Ltd's risk management, governance arrangements and control systems have continued to develop and mature and are generally working effectively, except for some areas where weaknesses or opportunities to improve internal control have been identified during the year.

Areas for development

Where weaknesses or gaps have been identified, these have either been addressed or are in the process of being addressed by HS2 Ltd, which should provide a more robust internal control environment going forward. The main areas for development in 2015/16 include:

- The rapid growth in the workforce has placed strain on the organisation's ability to maintain accurate and up-to-date workforce records, with consequential impacts on its financial reporting and third-party payment processes. Significant improvements in record keeping have been made but more remains to be done, supported by the introduction of more robust technology-based HR systems.
- The construction of substantial railway assets over the next 20 years will present fixed-asset accounting challenges and will require planning and coordination with owners of the asset management systems. In particular, it will be important to maintain an up-to-date asset register, to re-evaluate the useful economic lives of the assets on a periodic basis and to identify where assets need to be broken down into separate components.
- The introduction of new accounting software has highlighted deficiencies in internal payment processes, which in turn adversely impacted on payment performance in 2014/15. Following a transitional phase, the enhanced financial systems will now enable HS2 Ltd to manage payments to its suppliers with greater certainty of timing and control.
- Through the DfT Management Assurance process, HS2 Ltd has also identified a number of areas of improvement relating to business continuity, anti-fraud and anti-bribery training and awareness, succession planning and ensuring that its Conflicts of Interests register is fully maintained. There have been no reported instances of fraud or bribery in 2014/15.

The Audit Committee maintains an overview of process performance and improvement measures, and receives reports on the outcome of internal and external audits. HS2 Ltd is proactive in identifying and addressing the outcomes of audits carried out by external bodies. Progress against management actions on all audit recommendations is taken to the Audit Committee for review.

Regulation, Parliament and the public

The Annual Accounts are presented to Parliament by the Secretary of State for Transport. They are also made available to the public on the gov.uk website and through Companies House. HS2 Ltd upholds and promotes a policy of transparency. Relevant documents relating to governance are published on the gov.uk website.

Independent reviews

Two independent reports have been published which relate to the Government's high speed rail programme. The National Audit Office report "High Speed 2: A review of early programme preparation", published in May 2013, was an early review of progress by the DfT in planning for the high speed rail network, while the second Annual Report of the Major Projects Authority, published in May 2014, looks more widely at the risks of Government infrastructure projects. The third annual report by the MPA has not been published at the time of this report.

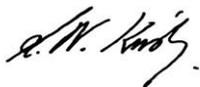
<http://www.nao.org.uk/report/high-speed-2-a-review-of-early-programme-preparation>

<https://www.gov.uk/government/publications/major-projects-authority-annual-report-2014>

Conclusion

As reflected in the information presented in this statement, it is my view that HS2 Ltd's internal control and governance mechanisms are fit for purpose and appropriate to our current stage of development and maturity. Where possible improvements have been identified, these have been or are in the process of being implemented. The improvements made in the year and the evidence of our regular reporting, both independent and internal, have together provided confirmation that the arrangements have been adequate and effective for the current stage of development of the organisation, although I recognise that we will need to prepare for the next stage of the company's development in the coming year before the major spending on construction activities commences.

In arriving at my conclusion, I have taken into account the annual audit opinion reported by the Head of Internal Audit. As Accounting Officer, I am confident that there is a sound system of internal control that supports the achievement of the HS2 Ltd policies, aims and objectives.



Simon Kirby – Chief Executive and Accounting Officer

Signed on 16 June 2015

Report of the independent auditor

The certificate and report of the Comptroller and Auditor General to the members of High Speed Two (HS2) Limited

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual; and
- the information given in the Strategic Report, Directors' Report and Sustainability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Dated 18 June 2015

Statement of comprehensive net expenditure

		Year ended 31-Mar 2015 £'000	Restated Year ended 31-Mar 2014 £'000
Expenditure	Note		
Staff costs	4	11,094	29,896
Other expenditure	5	21,072	175,996
Non-cash items	5	928	2,536
Net Operating Costs for the year		33,094	208,428

The change in accounting treatment for grant-in-aid described in Note 1.3 has resulted in the restatement of Operating income and expenditure for 2013/14. As a result, grant-in-aid is treated as equity contribution taken direct to reserves and no operating income is shown above. Note 2 provides a summary of the impact of the change.

The reduction in the level of operating costs between the two financial years shown above is a direct result of the capitalisation of expenditure on Phase One, following the Second Reading of the hybrid Bill on 28 April 2014. This is in accordance with the accounting policy set out in Note 1.7 and a full comparison of the two years, both capital and operating expenditure, is shown in Note 3.

A Statement of Other Comprehensive Income has not been prepared as there are no other income items to report in the two financial years.

The Accounting Policies and Notes on pages 60 to 76 form part of these financial statements.

Statement of financial position

		Year ended 31-Mar 2015 £'000	Restated Year ended 31-Mar 2014 £'000
Non-current assets			
Assets under construction - railway	7	145,593	-
Property, plant and equipment - other	7	12,128	5,719
Intangible assets	8	439	546
Total non-current assets		158,160	6,265
Current assets			
Trade and other receivables	10	5,532	1,069
Cash and cash equivalents	11	5,282	11,532
Total current assets		10,814	12,601
Total assets		168,974	18,866
Current liabilities			
Trade and other payables	12	(55,738)	(29,536)
Total current liabilities		(55,738)	(29,536)
Total net assets		113,236	(10,670)
Taxpayers' equity			
Revaluation reserve		-	-
General reserve		113,236	(10,670)
		113,236	(10,670)

The change in accounting treatment for grant-in-aid described in Note 1.3 has resulted in the restatement of the 2013/14 balances. Note 2 provides a summary of the impact of the changes.

The Accounting Policies and Notes on pages 60 to 76 form part of these financial statements.

The financial statements on pages 56 to 59 were approved by the Board on 16 June 2015 and were signed on its behalf on 16 June 2015 by:



Simon Kirby, Chief Executive and Accounting Officer

Statement of cash flows

		Year ended 31-Mar 2015 £'000	Restated Year ended 31-Mar 2014 £'000
Cash flows from operating activities			
Net operating cost per Expenditure Statement		(33,094)	(208,428)
(Increase) / decrease in trade and other receivables	10	(669)	(668)
Increase / (decrease) in trade and other payables	12	3,929	(2,761)
Adjustment for non-cash transactions	5	928	2,536
Net cash outflow from operating activities		(28,906)	(209,321)
Cash flows from investing activities			
(Increase) / decrease in trade and other receivables	10	(3,794)	-
Increase / (decrease) in trade and other payables	12	22,273	-
Purchase of property, plant and equipment	7	(155,842)	(2,127)
Purchase of intangible assets	8	(480)	(505)
Adjustment for other non cash transactions	5	3,499	-
Net cash outflow from investing activities		(134,344)	(2,632)
Cash flows from financing activities			
Capital Grant Funding		157,000	222,000
Net cash inflow from financing activities		157,000	222,000
Net increase / (decrease) in cash and cash equivalents		(6,250)	10,047
Cash and cash equivalents at the beginning of the year	11	11,532	1,485
Cash and cash equivalents at the end of the year	11	5,282	11,532

The change in the accounting treatment for grant-in-aid described in Note 1.3 has resulted in the restatement of the cash flows for 2013/14 so that grant-in-aid is shown as a capital contribution from the DfT rather than as income. Note 2 provides a summary of the changes. Capitalised expenditure is reflected as a cash outflow in purchase of property, plant and equipment.

The Accounting Policies and Notes on pages 60 to 76 form part of these financial statements.

Statement of changes in taxpayers' equity

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Restated Balance at 31 March 2013	(24,242)	-	(24,242)
Changes in Taxpayers' equity 2013-14			
Net operating cost for the year	(208,428)	-	(208,428)
Funding from Department for Transport	222,000	-	222,000
Restated Balance at 31 March 2014	<u>(10,670)</u>	-	<u>(10,670)</u>
Changes in Taxpayers' equity 2014-15			
Net operating cost for the year	(33,094)	-	(33,094)
Funding from Department for Transport	157,000	-	157,000
Balance at 31 March 2015	<u>113,236</u>	-	<u>113,236</u>

The change in the accounting treatment for grant-in-aid described in Note 1.3 has resulted in the restatement of shareholder equity. Note 2 provides a summary of the changes.

The Accounting Policies and Notes on pages 60 to 76 form part of these financial statements.

Notes to the financial statements

1. Statement of Accounting Policies

HS2 Ltd is a Non-Departmental Public Body, entirely funded by grant-in-aid from the DfT.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The 2014/15 Government Financial Reporting Manual (FReM) has been adopted, applying IFRSs as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy judged to be most appropriate to the particular circumstances of HS2 Ltd for the purpose of giving a true and fair view has been selected. The particular policies adopted by HS2 Ltd are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1. Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of non-current assets. The accounts have been prepared on a going-concern basis for the reasons set out in the Directors' Report.

1.2. Going concern

The Financial Statements have been prepared on a going-concern basis, which the directors believe to be appropriate for the following reasons:

- The activities of HS2 Ltd are funded by the DfT, which has included amounts required to meet HS2 Ltd's working capital requirements for the year in their estimates approved by Parliament. The directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.
- There is no reason to believe that the DfT's future sponsorship and future parliamentary approval will not be forthcoming.

Based on this undertaking, the directors believe that it remains appropriate to prepare the Financial Statements on a going-concern basis.

1.3. Grant-in-aid

The company is entirely funded by grant-in-aid from the DfT. The Company's policy is to treat all grant-in-aid as equity financing from its controlling party and single shareholder, the DfT, and credited to reserves in accordance with the FReM. This is a change from prior years and there are explanations on the face of the primary statements and in Note 2 to show the impact of the re-statement on the published financial statements for 2013/14.

In prior years, any excess expenditure over grant-in-aid received was disclosed as an amount recoverable from the DfT, such that grant income equalled total expenditure incurred.

1.4. Property, plant and equipment

Expenditure on property, plant and equipment of £1,000 or more is capitalised.

On initial recognition, assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition. All tangible assets are deemed to be short-life or low-value assets and are, therefore, valued on the basis of depreciated historic cost as an approximation of fair value. Tangible assets are reviewed annually for impairment. In line with IAS 37 Provisions, contingent liabilities and contingent assets, any capital provision made for the cost of restoring the company's leasehold property to its original state at the end of the lease will be recognised as part of the leasehold improvements asset and will be depreciated prospectively over the remaining lease term.

1.5. Intangible assets

Expenditure on intangible assets, which are software licences and the associated costs of implementation, is capitalised where the cost is £1,000 or more. Subsequent acquisitions of less than £1,000 value which are of the same nature as existing grouped assets will be appended. Intangible assets are reviewed annually for impairment and are stated at amortised historic cost. Software licences are amortised on a straight-line basis over the shorter of the term of the licence and the useful economic life of the asset.

1.6. Depreciation/amortisation

Depreciation/amortisation is provided on all non-current assets, at rates calculated to write off the cost of each asset (less any estimated residual value) evenly over its expected useful life. The expected useful lives of the principal categories are:

- Leasehold improvements: over the term of the lease
- Plant & equipment: 3 to 5 years
- Information technology: 3 years
- Website: 3 years
- Software: 3 years

1.7. Capitalisation of programme costs

The company's policy is based on IAS 16 Property, Plant and Equipment, which states that "the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably".

With the Second Reading of the hybrid Bill in the House of Commons on 28 April 2014, HS2 Ltd considers that it is probable that it will realise, as the initial infrastructure licence holder, the future economic benefits associated with Phase One, and that Phase One development costs should be capitalised from that date in accordance with IAS 16. Expenditure on Phase Two will be capitalised once it reaches the same milestone.

Expenditure is allocated on the basis of estimates of the contribution each business unit is making to the main deliverables within overall programme. Such estimates are based on assumptions being

made in the allocation of budget resources and on management's assessment of ongoing business activities. Evidence-based data will be generated in 2015/16 to update the estimated allocations.

Given the length of time before assets will come into operational use, it will be necessary to revalue the asset on an annual basis to reflect replacement cost, so that the revaluations are recorded at the appropriate time and not on completion. Relevant indices for each type of expenditure will be identified for use in 2015/16 and beyond.

Where there is an indication of impairment, HS2 Ltd will determine the carrying value of the asset and recognise an impairment loss in accordance with IAS 36 Impairment of Assets.

1.8. Property acquisition

Property acquired in furtherance of the development of the high speed rail network under safeguarding directions for the Phase One route is purchased by the DfT, not HS2 Ltd, on behalf of the Secretary of State for Transport and is recognised as an asset in the financial statements of the DfT. These properties are acquired following the submission of a valid Blight Notice from the property owner and a decision by the Commercial Committee. Exceptional Hardship cases are considered by the Exceptional Hardship Panel. Property acquisitions under the new schemes announced in April 2014 will also be accounted for by the DfT.

In preparation for the later stages of the HS2 programme, HS2 Ltd is responsible for managing the properties acquired by the DfT and recovers its external management costs from the DfT and surrenders all income collected to the DfT. Ownership of these properties will not transfer to HS2 Ltd until a future date.

1.9. Intra-Government balances

Intra-Government receivables and payables have been disclosed in accordance with the FReM.

1.10. Taxation

The company operates on a not-for-profit basis and does not currently trade.

1.11. Value added tax

The company became VAT registered from 1 April 2014 on the basis that it intends to trade. HS2 Ltd recovers VAT on its expenditure, where appropriate.

1.12. Provisions

The company makes provision for liabilities and charges in accordance with IAS 37 where, at the end of the current reporting period, a legal or constructive liability (i.e. a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the rates set by HM Treasury. When the discount is unwound, the adjustment is recognised as an interest expense.

The company does not make provision in respect of property to be acquired in the name of the Secretary of State for the reasons explained in Note 1.7 above. Where the DfT has given an undertaking to property owners within the Safeguarding Area in the name of the Secretary of State which promises to purchase a property within a designated timeframe, then a provision for the

value of any promissory notes which remain unredeemed at balance sheet date will appear in the DfT's financial statements.

1.13. Contingent liabilities

In accordance with IAS 37, the company discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside the company's control, unless their likelihood is considered to be remote. Guarantees, indemnities and undertakings are treated as contingent liabilities.

In addition to contingent liabilities disclosed in accordance with IAS 37, the company also discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

As explained in Note 1.12 above, the company does not have any contingent liability in respect of the potential cost of property that may be acquired in the name of the Secretary of State along the Phase One route. Any such contingent liability will be referred to in the DfT's financial statements.

Where a guarantee meets the IAS 39 definition of a financial guarantee contract, it will be recognised as a liability in accordance with the measurement requirements of that standard, and any additional disclosures required under IAS 37, as interpreted by the FReM, will be provided with the disclosures for other contingent liabilities. Such additional disclosures will include an estimate of the amount required to settle the liability.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.14. Estimation techniques used and changes in accounting estimates

HS2 Ltd applies the following significant estimation techniques in the calculation of some accruals and in the allocation of expenditure to the main deliverables of its programme.

- The recognition and valuation of accrued liabilities for the work done by its main professional service contractors is based on the best estimates of HS2 Ltd's development partner, which controls the work and manages the certification process on behalf of HS2 Ltd. The work done is certified, invoiced and paid for only when all issues have been resolved. HS2 Ltd monitors the certification and invoicing process after the year end and adjusts its accruals if the impact is considered material.
- Estimates of the contribution of each business unit to the main deliverables of the programme have been used to allocate expenditure to the main programme deliverables as shown in Note 3. Such estimates are based on the planning assumptions behind budget allocations and on management's assessment of the resources devoted to each deliverable area. Such estimates rely on a level of judgement and will be updated periodically based on empirical evidence in future.

1.15. Segmental reporting

In line with HM Treasury guidance, the company has applied IFRS8 in full.

The company's operating segments have been identified on the basis of internal reports regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and assess its performance. Note 3 provides two versions and an explanation: the first presents the internal reporting to the Executive and the Board by business function, mainly used for budget management and reporting in the year and a second version which underpins the financial accounts and reflects the allocations described in Note 1.7 above into the following programme deliverables:

- Phase One: between London and the West Midlands;
- Phase Two: between Birmingham and Leeds and Manchester; and
- System-wide
- Rail Operations & Rolling Stock
- Administration

1.16. Leases

Leases under which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the company's Statement of Financial Position. Lease payments made under operation leases are recognised in the Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised an integral part of the total lease expense, over the term of the lease.

1.17. Prior year adjustment

Items are retrospectively restated either (in accordance with IAS 8) where there has been a change in accounting policy or to correct a material prior year error.

Where there has been a change in accounting policy, the opening balance of each affected component of equity for the earliest period presented and other comparative amounts disclosed for each prior year presented are adjusted as if the new accounting policy had always been applied.

Where a material prior year error is identified, it is corrected by restating the comparative amounts for the prior years presented in which the error occurred.

In 2014/15, there are restatements for the accounting treatment of grant-in-aid, as explained in Note 2 – Prior year adjustment and as disclosed in Note 10 - Trade receivables and other current assets.

1.18. Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these financial statements. The following may need to be adopted in subsequent periods:

- IFRS 9 (Financial Instruments), which replaces parts of IAS 39, deals with classification and measurement and impairment of financial assets and financial liabilities. It aims to improve and simplify the reporting of financial instruments. Application is required for reporting periods beginning on or after 1 January 2018. The impact of IFRS 9 is not expected to be significant for HS2 Ltd and existing measurement approaches will continue to be appropriate.
- IFRS 13 provides guidance on establishing fair values of assets and liabilities, and sets out the disclosure requirements where other standards require the fair value to be used or disclosed. HM Treasury has issued an exposure draft proposing modifications to the FReM, to adapt IASs 16 and 38. These adaptations would require assets held for the provision of services to be valued on an existing-use basis, using methods including depreciated replacement cost. HS2 Ltd does not currently have financial assets and liabilities held at fair value and so IFRS 13 will not have a material effect on HS2 Ltd's accounts
- IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1 January 2017, though it has not yet received EU endorsement. It requires the recognition of revenue as the performance obligations under the contracts are satisfied. It will have no material impact on HS2 Ltd.
- The International Accounting Standards Board (IASB) has issued an exposure draft of a replacement to the existing leasing standard (IAS 17), which is expected to eliminate off-balance-sheet leasing arrangements, and require recognition of a single right-of-use asset, measured at the present value of lease payments, with a matching liability. The pattern for recognition of the expenditure will depend on the type of lease; for property leases, the lessee is required to recognise the expenditure on a straight-line basis. HS2 Ltd currently occupies office premises under operating leases and recognises costs on a straight-line basis, as the new standard is likely to require. This change is not expected to have a material impact on the statement of financial position and on the recognition of expenditure.

There were no new standards issued for 2014/15 and not applied, which would materially affect the company's financial statements. Other changes coming into effect after 2014/15 are considered to have no impact on HS2 Ltd.

2. Prior year adjustment

The table below sets out the impact of the change in accounting treatment of grant-in-aid receivable from the DfT as described in Note 1.3 and shows the impact on the Statement of Comprehensive Net Expenditure and Statement of Financial Position in 2013/14 and 2012/13.

The change in treatment means that grant-in-aid is accounted for on a cash basis and is treated as equity financing from its single shareholder, the DfT. This treatment is in accordance with the FReM and is consistent with other UK Government bodies.

As a consequence, there is no operating income to be shown in the Statement of Comprehensive Net Expenditure (previously entitled Statement of Net Income) and balances have been re-stated in the Statement of Comprehensive Net Expenditure and Statement of Financial Position as below.

Change to Statement of Comprehensive Net Expenditure:

	Year ended 31-Mar 2014 £'000	Year ended 31-Mar 2013 £'000
Before the change, as published in the 2013/14 accounts:		
Operating expenditure	208,428	176,390
Income from activities	(208,428)	(176,390)
Net expenditure before and after taxation	-	-
After the change, as disclosed in the 2014/15 accounts:		
Net operating costs	208,428	176,390
Net expenditure before and after taxation	208,428	176,390

Change to Statement of Financial Position:

	Year ended 31-Mar 2014 £'000	Year ended 31-Mar 2013 £'000
Before the change, as published in the 2013/14 accounts:		
Trade receivables, including grant receivable (Note 10)	11,739	24,643
General reserve	0	0
After the change, as disclosed in the 2014/15 accounts:		
Trade receivables, not including grant receivable (Note 10)	1,069	401
General reserve	10,670	24,242

3. Statement of expenditure by operating segment

A Finance Report is presented to the Executive Team and Board each month to review expenditure against the allocated budgets for the financial year. The Report covers both HS2 Ltd and also HS2 Programme results. The figures below relate only to the company. The format of the monthly reports have evolved during the course of 2014/15, partly because of an organisational restructure in October 2014 and partly because of the enhanced reporting provided by new financial systems. The presentation will continue to evolve in 2015/16. The Finance report for March 2015 showed the analysis below and includes capital expenditure on tangible and intangible assets in the year. The data for 2013/14 does not allow a ready comparison and is therefore not shown.

	Year ended 31-Mar 2015 £'000
Delivery Directorates	
Infrastructure, Phase One	14,980
Development - Hybrid Bill	28,062
Development - Phase Two	7,790
Development - Euston	1,122
Railway Operations and Rolling Stock	-
	<u>51,954</u>
Programme Support Services	
Technical	8,527
Commercial	14,066
Programme & Strategy	13,319
	<u>35,912</u>
Corporate Services	27,398
Staff and Development Partner costs	74,312
	<u>189,577</u>

The segments used reflect how management information is provided to the HS2 Ltd Board and Executive Team. The responsibilities and activities of the delivery units and the corporate/enabling functions are summarised in the Strategic Report on page 11. Railway Operations and Rolling Stock had no direct expenditure to report in 2014/15.

An analysis of assets and liabilities by segment has not been regularly provided to the Chief Executive or the HS2 Ltd Board. At this stage, the information has not been significant but it will become significant now that HS2 Ltd has started to capitalise Phase One costs in 2014/15.

HS2 Ltd has, in 2014/15, started to capitalise expenditure on Phase One and allocates expenditure across Phase One, Phase Two, Railway Operations, System-wide and Administration based on current assumptions about the contributions of individual business units to the overall programme.

The Table below shows the allocations which underpin the financial accounting treatment and relies on the latest estimates of the contribution each business unit makes to programme deliverables, as described in Notes 1.7 and 1.14. This Table does not include the £10,890k of capital expenditure on 'PPE and Intangible assets other than Asset under construction – railway', shown in Notes 7 and 8.

High Speed Two (HS2) Limited

Year ended 31 Mar 2015

	Resource Expenditure	Capital Expenditure	Total
	£'000	£'000	£'000
Phase One: between London and the West Midlands	9,921	145,593	155,514
Phase Two: between Birmingham and Leeds and Manchester	17,074	-	17,074
System-wide	1,389	-	1,389
Railway Operations & Rolling stock	280	-	280
Administration	4,430	-	4,430
Total Net Expenditure	33,094	145,593	178,687

Analysed as to:

	£'000	£'000	£'000
Programme Costs	28,667	145,593	174,260
Administration Costs	4,427	-	4,427
Total Net Expenditure	33,094	145,593	178,687

Year ended 31 Mar 2014

	Resource Expenditure	Capital Expenditure	Total
	£'000	£'000	£'000
Phase One: between London and the West Midlands	173,783	-	173,783
Phase Two: between Birmingham and Leeds and Manchester	19,506	-	19,506
System-wide	15,139	-	15,139
Railway Operations & Rolling stock	-	-	-
Administration	-	-	-
Total Net Expenditure	208,428	-	208,428

Analysed as to:

	£'000	£'000	£'000
Programme Costs	202,515	-	202,515
Administration Costs	5,913	-	5,913
Total Net Expenditure	208,428	-	208,428

4. Staff numbers and costs

			Year ended 31-Mar 2015 Total	Year ended 31-Mar 2014 Total
	Direct employees 2014/15	Other personnel 2014/15		
Whole time equivalent persons employed -	451	154	605	395
Staff costs comprise:	£'000	£'000	£'000	£'000
Wages and salaries	20,299	24,178	44,477	26,692
Social security costs	2,417	276	2,693	1,810
Other pension costs	682	412	1,094	1,021
Chairman and Non-Executives fees	288	344	632	373
Total staff costs	23,686	25,210	48,896	29,896
Non-cash items include:				
Capitalised expenses (Staff costs)			(37,802)	-
Total non-cash costs			(37,802)	-
Total staff costs in statement of net expenditure			11,094	29,896

Fees and salaries paid to HS2 Ltd directors are set out in the Remuneration Report (page 34).

During 2013/14, HS2 Ltd made a compensation payment of £35k for one agreed departure, which was not covered by the Civil Service Compensation Scheme. HM Treasury approval was obtained and a contractual payment of £48k was also made. No such payments have been made in 2014/15.

Staff seconded from other Government bodies, together with contract and agency personnel, are shown under 'Other personnel'. The costs of HS2 Ltd's development partner, CH2M Hill, which is working alongside HS2 Ltd staff, are included under Professional services (Note 5).

5. Other expenditure

		Year ended 31-Mar 2015 Capital	Year ended 31-Mar 2015 Resource	Year ended 31-Mar 2014 Capital	Year ended 31-Mar 2014 Resource
	Note	£'000	£'000	£'000	£'000
Non-staff expenditure includes:					
Professional services		82,490	14,536	-	153,437
Licences and surveys		756	142	-	4,328
Communication & Information Technology		8,636	2,129	-	7,523
Accommodation		6,688	2,562	-	4,678
Property advice and valuation		2,689	461	-	3,399
Legal costs		339	618	-	633
Travel and subsistence		650	225	-	848
Auditors' remuneration and expenses			60	-	45
Recruitment fees		582	122	-	989
Other costs		1,462	846	-	754
Costs reimbursed by the DfT	16		(629)	-	(638)
		104,292	21,072	-	175,996
Non-cash items include:					
Depreciation of tangible assets		3,009	812	-	2,251
Amortisation of intangible assets		434	109	-	285
Loss on disposal of fixed assets	7, 8	56	7	-	-
Total non-cash costs		3,499	928	-	2,536
Total other expenditure		107,791	22,000	-	178,532

6. Taxation

No liability to pay UK Corporation Tax arose in the two years ended 31 March 2015.

7. Property, plant and equipment

	Assets under construction railway £'000	Leasehold improvements plant & equip £'000	IT equipment £'000	Total £'000
Cost or valuation				
At 1 April 2014	-	438	8,852	9,290
Opening balance adjustment	-	15	(343)	(328)
Additions	145,593	7,103	3,474	156,170
Disposals	-	(260)	(1)	(261)
At 31 March 2015	145,593	7,296	11,982	164,871
Depreciation				
At 1 April 2014	-	413	3,158	3,571
Charged in year	-	832	2,989	3,821
Disposals	-	(241)	(1)	(242)
At 31 March 2015	-	1,004	6,146	7,150
Net book value at 31 March 2015	145,593	6,292	5,836	157,721
Net book value at 31 March 2014	-	25	5,694	5,719

	Assets under Construction £'000	Leasehold improvements plant & equip £'000	IT equipment £'000	Total £'000
Cost or valuation				
At 1 April 2013	-	413	6,711	7,124
Additions	-	25	2,051	2,076
Reclassified from software	-	-	90	90
At 31 March 2014	-	438	8,852	9,290
Depreciation				
At 1 April 2013	-	266	1,054	1,320
Charged in year	-	147	2,104	2,251
At 31 March 2014	-	413	3,158	3,571
Net book value at 31 March 2014	-	25	5,694	5,719
Net book value at 31 March 2013	-	147	5,657	5,804

All assets are owned and there are no assets under a financial lease.

8. Intangible assets

	Website £'000	Software £'000	Total £'000
Cost or valuation			
At 1 April 2014	250	737	987
Opening balance adjustment	-	167	167
Additions	-	313	313
Disposals	(86)	(68)	(154)
At 31 March 2015	164	1,149	1,313
Depreciation			
At 1 April 2014	52	389	441
Charged in year	83	460	543
Disposals	(61)	(49)	(110)
At 31 March 2015	74	800	874
Net book value at 31 March 2015	90	349	439
Net book value at 31 March 2014	198	348	546
	Website	Software	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April 2013	81	1,010	1,091
Additions	169	(183)*	(14)
Reclassified to IT equipment	-	(90)	(90)
At 31 March 2014	250	737	987
Depreciation			
At 1 April 2013	7	149	156
Charged in year	45	240	285
At 31 March 2014	52	389	441
Net book value at 31 March 2014	198	348	546
Net book value at 31 March 2013	74	861	935

*The negative addition for 2013/14 resulted from an over-accrual of 227k relating to 2012/13 and adjusted in 2013/14 and additions of £44k in 2013/14.

All assets are owned and there are no intangible assets under a finance lease.

9. Impairments

No impairments have been recognised in 2014-15.

10. Trade receivables and other current assets

	31-Mar 2015 £'000	Restated 31-Mar 2014 £'000
Amounts falling due within one year:		
Other receivables	5,098	746
Prepayments and accrued income	434	323
	<u>5,532</u>	<u>1,069</u>
Comprising balances with:		
Department for Transport - Other reimbursements	221	638
Other Central Government Bodies	4,776	-
Bodies External to Government	535	431
	<u>5,532</u>	<u>1,069</u>

The change in accounting treatment for grant-in-aid described in Note 1.3 has resulted in the restatement of Other Receivables as shown in Note 2.

'Bodies External to Government' has been restated to include a property management debtor of £24k which was disclosed as part of the grant-in-aid receivable in 2013/14.

11. Cash and cash equivalents

	31-Mar 2015 £'000	31-Mar 2014 £'000
Balance at 1 April	11,532	1,485
Net change in cash and cash equivalent balances	(6,250)	10,047
Balance at 31 March	<u>5,282</u>	<u>11,532</u>

Cash is held in commercial bank accounts.

12. Trade payables and other current liabilities

	31-Mar 2015 £'000	31-Mar 2014 £'000
Amounts falling due within one year:		
Trade payables	1,554	813
Accruals	54,184	28,723
	<u>55,738</u>	<u>29,536</u>
Comprising balances with:		
Other Central Government bodies	13,909	3,236
Local Authorities	1,010	222
Bodies External to Government	40,819	26,078
	<u>55,738</u>	<u>29,536</u>

13. Financial instruments

HS2 Ltd has no borrowings and is entirely funded by grant-in-aid from the DfT. The company aims to maintain minimal holdings of cash and cash equivalents appropriate to its short-term needs and has no significant third-party receivables. For these reasons, HS2 Ltd is considered have no material credit, liquidity, interest rate or market risk.

14. Commitments under leases

	31-Mar 2015 £'000	31-Mar 2014 £'000
Not later than one year	13,046	1,240
Later than one year and not later than five years	38,984	36
Later than five years	25,520	-
	<u>77,550</u>	<u>1,276</u>

The company occupies business premises in London and Birmingham and these arrangements are treated as operating lease obligations, as shown above. The company has no finance leases in the period.

15. Other commitments

Financial commitments, which were contracted but not provided for in the financial statements, comprised £23.2m at 31 March 2015 (2013/14: £28.3m). Of these, contracted capital commitments at 31 March 2015 not otherwise included in these financial statements were as follows:

	31-Mar	31-Mar
	2015	2014
	£'000	£'000
Property, plant and equipment	214	-
Intangible assets	-	436
Contracted capital commitments at 31 March	<u>214</u>	<u>436</u>

16. Contingent liabilities

Contingent liabilities are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made. None of these represent a current liability for HS2 Ltd at 31 March 2015, but some will result in an obligation to transfer cash in the future, depending on one or more relevant future events, including Royal Assent. As such, these are contingent liabilities within the definition of IAS37 Provisions Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- The company has a potential aggregate contingent liability of up to £2.4m in relation to incentive payments that may become payable to the HS2 Ltd development partner, CH2M Hill UK, and 16 Professional Service Contract (PSC) organisations. The incentive amounts are based on performance in the calendar year, future performance measured over the period of the contract and the achievement of hybrid Bill Royal Assent and other specific targets. 50% of any year's incentive is payable at the end of that year with the remainder held in reserve and is dependent on review of performance at the end of the contract, expected to be in 2015/16. Final awards will be subject to Board approval.
- Under the parliamentary review process for the hybrid Bill, individuals and organisations are able to raise their objections to the HS2 scheme as petitions. As a result, HS2 Ltd has given a number of assurances during 2014/15 to petitioners, which will inform the planning, design and future construction of Phase One. In certain cases, HS2 Ltd has undertaken to provide a form of compensation to those directly affected by the construction and operation of the railway which does not form part of the design and plans for the railway.

These liabilities are contingent upon Royal Assent to the Bill and obligations will not arise until after Royal Assent is granted. It is not possible to quantify with certainty the value of these contingent liabilities. Further petitions will be reviewed in the new Parliament.

In addition, HS2 Ltd has entered into agreements providing for access to land and property owned by private individuals and businesses prior to the construction phase. Such agreements provide an indemnity to the property owners for loss or damage caused by HS2 Ltd in the course of its work.

17. Related-party transactions

HS2 Ltd is an Executive Non-Departmental Public Body sponsored by the DfT, which is a related party. All of the transactions with the DfT and its subsidiary, Network Rail, as reported below, are carried out on an arm's-length basis.

Grant-in-aid amounting to £157m was received from the DfT in the year (2013/14: £222.0m) as disclosed in the Statement of changes in equity and in the Statement of cash flows.

The DfT has charged HS2 Ltd £3.5m (2013/14: nil) for compensation paid to railway businesses affected by HS2's plans, £1.7m (2013/14: £2.5m) for seconded staff, £0.5m (2013/14: £1.4m) for ICT and printing services and £0.5m (£2013/14: £0.4m) for internal and external audit services. Accruals of £7.0m (2013/14: £2.4m) for these services are included in Note 12.

HS2 Ltd has incurred costs on behalf of the DfT of £0.6m (2013/14: £0.6m) in relation to professional fees and staff costs and has recharged these costs in full to the DfT. In addition, the DfT has reimbursed to HS2 Ltd £1.1m (2013/14: nil) for the net expenditure on property which HS2 Ltd manages on behalf of the DfT.

Network Rail has charged HS2 Ltd £8.1m for engineering services (2013/14: £4.4m) and £2.1m (2013/14: £3.1m) for seconded staff and ancillary services. Accruals of £4.4m (2013/14: £3.1m) for these services are included in Note 12.

Other than their remuneration and business-related expenses, none of the Board members or key management staff has undertaken any material transactions with HS2 Ltd or its related parties during the year, and none has a financial interest in the activities of HS2 Ltd such as to influence their work with HS2 Ltd.

18. Losses and special payments

HS2 Ltd is required to report on losses and special payments above a threshold of £300k. There were no instances of these in 2014/15. Consequently, total losses and special payments in 2014/15 were neither individually nor in aggregate above the threshold of £300k (2013/14: none).

19. Events after the reporting period

These financial statements are laid before the Houses of Parliament. The International Accounting Standards (IAS10) require the company to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General signs the audit certificate (page 53 to 54).

20. Ultimate controlling party

The ultimate controlling party is considered to be the Secretary of State for Transport.

21. Company structure

The company is limited by guarantee without having a share capital. Every member of the Company undertakes to contribute up to £1 towards the company's debts in the event that it is wound up. At 31 March 2015 there was one member, the Secretary of State for Transport.