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High Speed Two (HS2) Ltd | Annual Report and Accounts 2016-2017

# ANNUAL REPORT & ACCOUNTS

2016-2017

High Speed Two (HS2) Limited  
Two Snowhill,  
Snow Hill Queensway,  
Birmingham B4 6GA  
Freephone: 08081 434 434  
Email: [HS2enquiries@hs2.org.uk](mailto:HS2enquiries@hs2.org.uk)



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High Speed Two (HS2) Limited

# **ANNUAL REPORT & ACCOUNTS**

2016–2017

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## COMPANY INFORMATION

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### Directors

Steve Allen (Chief Financial Officer)

Richard Brown, CBE

Mel Ewell

Christine Emmett

Sir David Higgins (Chair)

Neil Masom, OBE

Roger Mountford

Alison Munro, CBE

Duncan Sutherland

Mark Thurston (Chief Executive)

Baroness Jo Valentine

### Secretary

Nicole Geogheghan

### Registered office

Two Snowhill,  
Snow Hill Queensway,  
Birmingham, B4 6GA

### Registered number

06791686 (England and Wales)

### Auditor

Comptroller and Auditor General  
157–197 Buckingham Palace Road  
London, SW1W 9SP

## CHAIRMAN'S INTRODUCTION

The 23rd of February 2017 was an historic day, not just for HS2, but for the country as a whole. After three years of intense Parliamentary scrutiny, Royal Assent for the High Speed Rail (London – West Midlands) hybrid Bill means that for the first time in a century and a half we are going to build a new railway north of London. The process of rebalancing Britain's economy has begun, with HS2 at the heart of a modern UK transport network.



**Sir David Higgins**  
Non-Executive Chair

That process could not have happened without the efforts and skill of many people both inside and outside HS2, but, above all, the most critical factor has been the wide spectrum of support the programme has received both nationally in Parliament and locally from both political and business leaders. The support of successive governments as well as the opposition, the work of the Select Committees in both the House of Commons and the House of Lords, and the active engagement of local authorities and local enterprise partnerships – all have been critical in getting the programme to this stage, and the HS2 Ltd Board is fully aware of the debt of gratitude we owe for that support.

### Embarking on a new phase

But with success comes responsibility, and for HS2 that responsibility comes into sharp focus as we begin construction works with the awarding of some £9.5 billion of contracts and the process, through our supply chain contractors, of hiring the 14,000 people we will need to build Phase One. We will also continue to work alongside one of our key partners, the National College for High Speed Rail, who will be opening for business on two new campuses in Doncaster and Birmingham and thus beginning to train the first of what eventually will be 1,000 graduates a year with the skills necessary to work with us.

It will be a new era, not just for HS2, but for the UK construction industry in this country. The past year has seen us develop new ways of thinking through how we deliver such a massive and complex programme and also how we do so on budget and on schedule and in a way that delivers the maximum value for money for the taxpayer and with appropriate standards of probity in using public funds. That process has been helped by the Periodic Review process within government which has challenged us to examine our assumptions and find innovative ways of doing things differently and more efficiently, but we will also continue to learn the lessons when we get it wrong, as we did over our failure to get the appropriate approvals for our redundancy programme as highlighted by the National Audit Office (NAO).

### A core value

At the same time, we have put in place the fundamental building blocks which are necessary to start delivering the programme. Key amongst those is our health and safety strategy 'Safe at Heart' which sets out not just the standards we and our contractors will work by, but also details the tangible outcomes we want to achieve in the time it takes to build Phase One. Everyone who lives or travels near our construction sites, or who works on and between them, has the right to end the day unharmed and healthy. That is our responsibility.

## Being a good neighbour

The second fundamental building block we have begun to put in place this year has been our Community Engagement Strategy. HS2 will be the biggest infrastructure programme in Europe, and it will change the economic geography of this country for the better, but for those we impact during and after construction the focus is more personal and, literally, closer to home. HS2 has to bridge that gap and strive to address people's concerns fairly and with appropriate sensitivity. Given the size of the programme the scale of the task is enormous, but this year we have begun to build the capability to meet the challenge under the leadership of a newly appointed Director of Community Engagement. I am also grateful to both the Residents' and Construction Commissioners for their work. Their reports frequently point out ways where we can do better, and I am all the more grateful for that.

## Benefits and growth

Successful as this year has been, Phase One represents only the start of the journey. HS2 Ltd will be working closely with the Department for Transport (DfT) to ensure that the parliamentary bill for Phase 2a - the section from Birmingham to Crewe - is deposited later in 2017, with Phase 2b - from Crewe to Manchester and Birmingham to Leeds - due to be deposited in 2019/20. The timescales may seem long, but as Phase One has shown, investors and businesses, as well as local authorities, are already integrating the transformation HS2 will bring about into their planning for the future. One of the real insights of the last year has been how local leaders, not just in Birmingham, Leeds and Manchester, but also in the East Midlands, South Yorkshire, Newcastle, York and Middlesbrough, as well as Crewe, Wigan, Preston and Carlisle and onward to

Scotland, are beginning to realise the potential that HS2 will offer. It will improve their access to markets, professional services and skills - all factors that poor connectivity inhibits and which stops Britain's many excellent small businesses growing in size and global competitiveness. HS2 Ltd will continue to work with leaders both nationally and locally to help develop that productivity agenda within the Government's emerging industrial strategy.

## Building a railway for the nation

Alongside that work there is another discussion we need to begin: with the general public. It is their money we are spending and they, quite rightly, want to know not just what they are getting for it, but also what kind of service they can expect. That means designing and building our trains to meet their needs and expectations and running services that are prompt, efficient and which enhance the experience of our customers - and these will be major points of focus for the coming year.

## Staying on track

Finally, I owe a word of thanks both to my fellow Board members and the staff of HS2 Ltd. It is not, and never will be, a 'business as usual' programme. The issues it throws up are not just different in scale, but often highly complex both technically and managerially. I am grateful for the support and clear thinking of my fellow Board members as we try to steer our way through these issues, but I am also aware that we could not do so without the skill and dedication of HS2 Ltd staff. We owe particular thanks to Simon Kirby, our former CEO, and Roy Hill who acted as interim CEO in the second half of the year following Simon's departure. We wish them both well - as we do our new CEO, Mark Thurston, as he and his executive team begin the process of making HS2 a reality.

Sir David Higgins, Chairman

## CHIEF EXECUTIVE'S REVIEW

The 12 months since April 2016 has been a year of many transitions and some significant achievements: Royal Assent for Phase One, the presence of construction teams in rural and urban communities for the first time, and in November the Secretary of State confirmed the majority of the long-awaited route decision for Phase 2b. Seven areas, representing around 30% of the Phase 2b route, were subject to consultation and decisions on those will be announced later in 2017. In December, we received approval for HS2's rolling stock and depot strategy and throughout the Autumn and Winter we transitioned the organisation to a new operating model, reflecting the need to respond to the challenges ahead.



**Mark Thurston**  
Chief Executive Officer

### Health, Safety and Wellbeing

Health, Safety and Wellbeing are part of our core values and are at the heart of the Company, so a serious safety incident in January, at the former National Temperance Hospital at Euston, was a stark reminder of the risks inherent in a major construction programme. A thorough investigation was carried out and important lessons have been learned for us and our supply chain about how we plan, carry out and monitor our works.

Over the past 12 months we have built on our previous year's work (launching our health and safety brand – Safe at Heart) and achieved further important milestones including the launch of our 'Fair Culture' ethos and process.

### Building confidence and credibility

As a programme, we welcome robust external scrutiny which helps us ensure that HS2 is delivering good value for money for the taxpayer.

In June, the National Audit Office published its report *Progress with preparations for HS2*. This highlighted the schedule and cost pressures that the programme faces, particularly on Phase Two. In summer 2016, a review was led by Cabinet Secretary Sir Jeremy Heywood in order to improve the schedule deliverability and cost affordability, followed by the Secretary of State's Review.

As a result, a revised Programme for Phases One and 2a (known as 'Baseline 6.1') was commissioned to implement the recommendations of the review and we have responded with clear plans to reduce costs through value engineering, supply chain efficiencies and ensuring that our organisation is structured to be fit for purpose.

## Achievements for the year

The last 12 months has seen HS2 build momentum on many fronts; with the organisation now active on the line of route of both Phase One and Two, as well as preparing for future operations and maintenance. It is pleasing to look back and reflect on the many achievements of the last year:

- » We appointed our Enabling Works Contractors (EWC) for Phase One. They are now undertaking vital work on archaeology, site clearance and setting up construction compounds, ahead of starting our main civil engineering work.
- » In June 2016, nine bidders were invited to tender for the Main Works Civils Contracts (MWCC), which we intend to award in July 2017. The winning contractors will spend the majority of the first 12–18 months focusing on a scheme design stage, ahead of detailed design and construction starting in quarter 1 2019.
- » In February 2017, we achieved Royal Assent for the Phase One hybrid Bill, giving us the authority to start construction; enabling works have commenced, including delivery of environmental mitigations and utility diversions.
- » The preliminary design for Phase 2a was completed and significant work has subsequently been carried out on environmental surveys and mitigation assessment. We consulted on a Phase 2a draft Environmental Impact Assessment, Equality Impact Assessment and design refinements.
- » In July 2016, we published a report on the Phase 2b route around Sheffield and South Yorkshire, analysing the different options for HS2 services in South Yorkshire and making a recommendation about how to build and run HS2 in the area.
- » On 15th November 2016, the Secretary of State announced his decision on the majority of the preferred route for Phase 2b. Following this announcement, HS2 Ltd held 36 public information events over three months, during which time the Company met with over 20,000 members of the public.
- » We announced the Phase 2b civils, design, and environmental services professional service contractors (PSCs). This contract award marked an important milestone for HS2, giving us the expert resource needed to progress the second phase of the programme.
- » We received approval for our rolling stock and depot strategy, allowing us to begin the procurement process.
- » And as we complete the financial year, our Land and Property teams are working with affected homeowners along the Phase One route to involve them in decisions about timings for taking possession, and to ensure they have access to a full package of compensation and support.

## Adapting the organisation

In October 2016, Two Snowhill, Birmingham became our registered and head office. The decision to consolidate our connection with Birmingham was a positive step for us as we continue to grow and respond to changing demands. In the months ahead we will continue our recruitment drive in Birmingham and look to take advantage of the fantastic skill base in the West Midlands. I am proud of our aspiration to build an organisation which celebrates diversity and demonstrates an inclusive approach, recognising that diverse teams are more effective and resilient and help us better serve the communities with which we engage.

As the organisation progresses through different phases and matures, we must necessarily adapt to increase our capability. In order for us to become a world class programme we need to manage our assets effectively – and that requires having reliable and accurate data. As a major infrastructure programme, we have recognised the significant benefits that embedding BIM<sup>1</sup> will bring. Now we must prepare for delivery as the supply chain comes on board.

In March 2017, I officially took over as permanent Chief Executive Officer from Roy Hill, our interim CEO. I would like to thank Roy, and Simon Kirby before him, for their efforts in getting HS2 Ltd to where it is today and for providing me with a comprehensive handover to enable me to hit the ground running when I joined.

In April 2016 we moved to a programme-led structure with Managing Directors for each Programme (Phase One, Phase Two and Railway Operations) with the necessary leadership and project controls experience to deliver to time and budget. Our corporate reorganisation was

designed to provide clearer paths of accountability for delivering the programme's benefits. We are now better placed to support the delivery of all three phases of the railway.

## Areas for improvement

As a complex programme, we need to improve our management information to ensure it is both robust and simple to understand. Measuring earned value, better milestone and benefits tracking, budget and cost performance and monitoring trends are amongst the 'basics' that need to be at the heart of improved monthly and quarterly reporting. This is an area we plan to progressively improve throughout this next year.

In April 2016, HS2 Ltd asked Ian Bynoe, a former Independent Police Complaints Commissioner, to produce a report on complaint handling and community engagement. His subsequent critique and recommendations have provided us with a major focus for improving how we respond to complaints and operate the Government's compensation and assistance schemes. Since then, our Residents' Commissioner, Deborah Fazan has considered our progress and areas have been identified for urgent attention.

In response, we have now established a Community Engagement Directorate which reflects our need to focus on people and communities. It is vital that we continue to inform, listen to and involve local communities, and that our values of respect and integrity come through clearly in the decisions we make and the way we explain them.

We take our accountability for the money we spend very seriously, with affordability and value for money fundamental principles of what guides the organisation. Following the significant issues around our redundancy programme highlighted

by the NAO, further enhancements in HR controls and processes will be made to drive the necessary improvements in HR to eliminate errors and ensure that appropriate approvals are sought when required.

## Looking ahead

The programme has clear milestones for the year ahead. We will continue our transition to construction on Phase One alongside developing the legislative process for Phase 2a and ongoing work on Phase 2b development.

We remain on target to achieve contract award for the Phase One Main Works Civils Contracts by the end of July 2017 and we are also aiming to issue invitations to tender for the Phase One stations design contracts in July 2017, with contracts due to be awarded in January 2018.

Work is well underway to deposit the Phase 2a hybrid Bill, associated documents and the Outline Business Case and we are scheduled to deposit the Bill with Parliament later in 2017. Post-consultation for Phase 2b, we are developing the next stage of route design and looking to start work on preparing a hybrid Bill for deposit at the

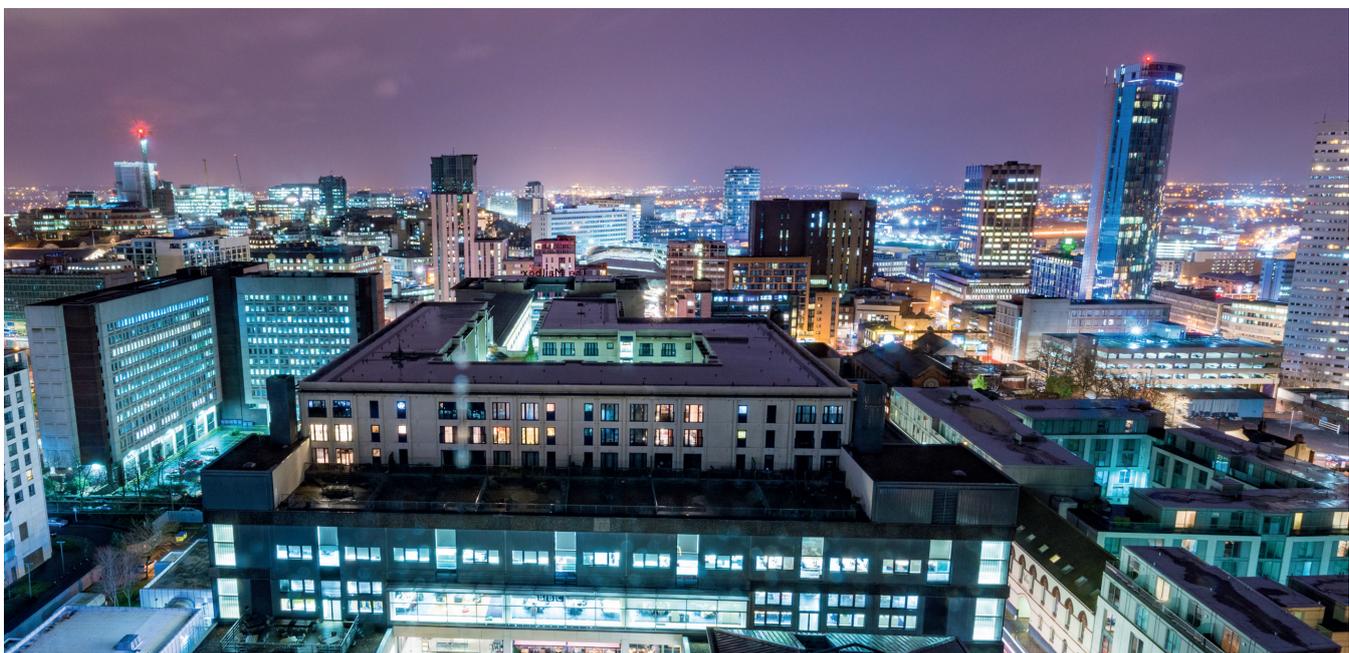
end of 2019, undertaking environmental assessments and engaging with residents, landowners, businesses and communities to understand how we can mitigate impacts.

But we are not complacent about the challenges that face us as we mature our systems, processes and controls to a level which enable us to deliver a programme of the size and complexity of HS2 and which ensure that we deliver both value for money and probity in the use of public resources. That journey is one that is close to my heart and I will be relentlessly focusing on our capability programme as a key component of our work.

## Delivering our vision

HS2 Ltd will always be a company in change, continually facing new challenges as we progress through each phase. Throughout this past year of transition, one thing that certainly hasn't changed is our focus. We remain committed to acting as a catalyst for growth across Britain, being a good neighbour to local communities, championing innovation, and ultimately delivering value for the taxpayer.

**Mark Thurston, Chief Executive Officer**



## STRATEGIC REPORT

The Directors present the Strategic Report together with the Directors' Report and the financial statements of the Company for the year ended 31st March 2017.

### HS2 – The Company Remit and scope

High Speed Two (HS2) Ltd (HS2 Ltd) is a company limited by guarantee, wholly owned, controlled and funded by the Department for Transport (DfT). The Company has a single member: The Secretary of State for Transport. It is classified as a Non-Departmental Public Body (NDPB) by the Cabinet Office and is treated as part of the central government sector by the Office for National Statistics.

Established by the DfT to develop, build and operate a high speed rail network to link London, Birmingham, Leeds and Manchester, and onwards to services on the existing rail network, HS2 Ltd's responsibilities include developing sustainable proposals for the route and working with the DfT to secure the necessary Parliamentary approvals and powers to undertake the development, construction and operation of the railway.

The track and stations infrastructure for the high speed network is to be delivered in phases:

- » Phase One between London and the West Midlands by 2026. The Phase One hybrid Bill received Royal Assent in February 2017, and work has commenced which will lead to the start of construction later in 2017;
- » Phase Two is to be delivered in two parts; the West Midlands to Crewe section, known as Phase 2a, is proposed for opening in 2027, and the remainder of Phase Two, Crewe to Manchester and the West Midlands to Leeds, known as Phase 2b, is due to open in 2033. There will be a separate hybrid Bill for each phase.

When finished, this will deliver the necessary infrastructure for the high speed network and will enable integration with the existing rail network to provide a seamless railway experience for the passenger travelling beyond HS2 stations.

The relationship between HS2 and the DfT is managed through a Framework Document and a Development Agreement which together set out the roles and responsibilities of the programme sponsor and the delivery organisation.

#### The Framework Document

The Framework Document sets out the requirements and expectation on us as a public body and covers issues such as the appointment of the Board, staff remuneration, expectations for HS2 Ltd financial management, and controls on expenditure. The Framework Document can be found through the following link:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/399553/Framework\\_Document\\_December\\_2014\\_Signed.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/399553/Framework_Document_December_2014_Signed.pdf)

#### The Development Agreement

Under the terms of the Development Agreement, the DfT agrees to:

- » Set the scope of the programme;
- » 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;

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

HS2 Ltd agrees to:

- » 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 the infrastructure manager of the railway.

The Development Agreement can be found through the following link:

<https://www.gov.uk/government/publications/hs2-development-agreement-december-2014>

## Company strategy

HS2 Ltd is about more than just building a new railway line. Our vision is to be a catalyst for growth across Britain and a key part of a modern integrated transport network. HS2 will be a transformational investment for the UK.

Our mission is building a new high speed railway to better connect people across Britain, linking into the existing rail network to provide a seamless passenger experience. 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 by:

- » Adding capacity and connectivity that is integrated with other forms of transport;

- » Maximising opportunities for regeneration and growth;
- » Leading an agile, inclusive and safe operation with a diverse workforce;
- » Forging partnerships based on fairness and openness with all;
- » Being an exemplar programme in our approach to engagement with communities, sustainability and respecting the environment; and
- » Making Britain proud of HS2 by being proud of what HS2 does for Britain.

Our seven strategic goals and objectives set out what we, in the Company and Government, will achieve:

- » Be a catalyst for sustained and balanced economic growth across the UK;
- » Add capacity and connectivity as part of a 21st century integrated transport system;
- » Deliver value to the UK taxpayer and passenger;
- » Set new standards in passenger experience;
- » Create opportunities for skills and employment;
- » Design, build and operate a railway with world-class health, safety and security standards; and
- » Create an environmentally sustainable solution and be a good neighbour to local communities. Further details on our sustainability approach can be found in the Sustainability Report on page 46.



## **BIRMINGHAM GROWTH**

Birmingham and the West Midlands region is already beginning to see growth due to HS2. Thousands of jobs have already been created through the relocation of HS2 Ltd's headquarters from London to Snowhill and other high profile organisations moving offices to the city centre citing HS2 as a primary influencing factor.

In September 2016, Birmingham City Council became the first local authority to capitalise on the construction of HS2 directly to drive local regeneration. The Council announced the Curzon Investment Plan, which aims to invest almost £1 billion into the area around the proposed Curzon Street Station over 30 years, creating an estimated 4,000 homes in new neighbourhoods and also 36,000 new jobs. Funding has come from Birmingham City Council, Greater Birmingham & Solihull Local Enterprise Partnership (GBSLEP) and from the West Midlands Combined Authority.

GBSLEP is also behind the Midlands HS2 Growth Strategy, which earmarks major investment for region-wide connectivity, providing access to significant training and employment opportunities for local residents. It is forecast HS2 will create and safeguard 104,000 jobs, 2,000 apprenticeships and increase productivity (estimated at £14 billion additional economic output).

***"I'm delighted that Greater Birmingham is making this investment in the future, working to maximise the potential of HS2 by investing in jobs and housing – and encouraging more business investment."***

Theresa May,  
Prime Minister,  
on the Curzon Investment Plan

## Corporate and business plans

As required in the Framework Document, HS2 Ltd produces a Corporate Plan annually providing a rolling three-year forward look and a review of the previous year against the plan. The 2017–2020 Corporate Plan is a key document allowing us to be measured against our targets.

## Business model and organisational development

HS2 Ltd is changing from being a development to a delivery organisation. As we ready ourselves for the transition from development to construction in Phase One, our focus is on being ready to manage our supply chain to deliver the main works civils, the stations detailed design phase and the award and mobilisation of the Phase 2b contracts.

In late 2016, we undertook a fundamental review and restructure of our organisation to ensure that our structures, systems and processes are the right ones to deliver a programme of such complexity including the management of an extensive supply chain.

The Managing Directors of Phase One, Phase Two and Railway Operations will be the accountable directors for the delivery of benefits, including accountability for cost, schedule and quality. They will be supported by 'enabling' functions providing the necessary support and expertise.

On 8th December 2016, Simon Kirby left his position as Chief Executive Officer (CEO) to take up a senior position in the private sector. On 9th December 2016, Roy Hill joined on secondment from CH2M Hill as Interim CEO. He had previously worked with HS2 Ltd on secondment in 2012 and was instrumental in the early stages of Phase One development. Roy Hill left HS2 Ltd on 31st March 2017. Appropriate steps were put in place to avoid any potential conflicts of interest.

On 1st March 2017, Mark Thurston joined as our new permanent CEO from CH2M Hill and on 8th March he became HS2 Ltd's Accounting Officer for all matters except those relating to his former company CH2M Hill where Steve Allen, Chief Financial Officer, acts as Accounting Officer to avoid conflicts of interest.

Being a good neighbour remains very important to us and we have strengthened our community engagement capability with the appointment of a new Community Engagement Director, Julie King.

## Company's business position at 31st March 2017

This year marks the announcements of major milestones. Royal Assent was granted in February 2017 for the Phase One hybrid Bill, marking the transition to the start of the construction phase of the programme:

- » Three joint ventures bodies are delivering the essential early works, including archaeology site clearance and setting up construction compounds ahead of the start of the main civil engineering work;
- » Enabling Works Contracts (EWC), totalling £900 million, were awarded covering the whole of the Phase One route: and
- » A process is underway for the Main Works Civils Contracts which collectively are valued at around £8 billion.

Significant progress has been made on Phase Two with the award of professional service contracts and the Government has set out its preferred route for the majority of the western leg of the railway from Crewe to Manchester (known as Phase 2a) and the eastern leg from the West Midlands to Leeds (known as Phase 2b).

## Company's financial performance for the year ended 31st March 2017

HS2 Ltd is entirely funded by the provision of capital contributions from the DfT.

Combined capital and resource expenditure in 2016/17 amounted to £499.5 million against an annual budget of £541.1 million representing an underspend of £41.6 million or 7.7% (2015/16: £352.9 million spent against a budget of £404.1 million).

Capital expenditure comprises the cost in year of Phase One, which is being capitalised in accordance with HS2 Ltd's accounting policy and the cost of the development and/or acquisition of HS2 Ltd's leasehold office premises and IT assets.

Operating expenditure comprises the costs of Phase 2a and 2b which have not yet reached the point of development at which capitalisation can occur.

This year's financial statements for the year ended 31st March 2017 show the following results:

- » Capital expenditure of £396.7 million (2015/16: £318.5 million) against its capital budget of £392.9 million (2015/16: £365.9 million), an overspend of £3.8 million or 1.0%.

- » Operating expenditure of £102.7 million (2015/16: £34.4 million) compared with the budget of £148.2 million (2015/16: £38.2 million), an underspend of £45.5 million or 30.7%.

HS2 Ltd substantially delivered its key programme targets for 2016/17 and the variance from the approved budget can be explained mainly by the following factors:

- » Delay to the start of Phase 2b hybrid Bill development and professional service contracts and additional underspend against the cost of work incurred by support functions allocated to the Phase Two programme.
- » Additional costs for DfT managed projects namely for First Great Western relocations at Old Oak Common.
- » Royal Assent for the hybrid Bill was achieved later than planned.

A detailed account of HS2 Ltd's finances is provided in the Financial Statements from page 92 to 95.

## Funding HS2

The future development of HS2 Ltd is dependent on a continued Government commitment to funding over the life of the programme.

**Overall funding of £55.7 billion at 2015 prices is allocated as follows:**





## ROYAL ASSENT

The Phase One hybrid Bill (the High Speed Rail (London to West Midlands) Act 2017) was the largest bill in British history – more than 400 pages, with an additional 55,000-page Environmental Statement, and five Additional Provisions. The Phase One route consultation was the largest ever public consultation, with 2,586 petitions heard in the House of Commons (taking 18 months in Select Committee) and 822 in the House of Lords (taking eight months in Select Committee). Britain’s new railway finally achieved Royal Assent on 23rd February 2017.

Roger Hargreaves, OBE, Director of hybrid Bill Delivery, has said: “The Bill has been a hugely important part of the process because, formally, it’s enabled people to reconcile their differences with us over how we’re going to build the railway. It has helped us learn and improve on what we’re looking to do.”

Chris Grayling, Transport Secretary commented: “Getting the go-ahead to start building HS2 is a massive boost to the UK’s future economic prosperity and a further clear signal that Britain is open for business. HS2 will be the world’s most advanced passenger railway and the backbone of our rail network.”

***“Royal Assent is a major step towards significantly increasing capacity on our congested railways for both passengers and freight; improving connections between the biggest cities and regions; generating jobs, skills and economic growth and helping build an economy that works for all.”***

Chris Grayling,  
Transport Secretary

## HS2 – 4 key themes

### Economic growth and community regeneration

Constructing HS2 is expected to have significant economic benefits. HS2 Ltd has been engaging with the market earlier than any other major infrastructure programme and as a consequence, thousands of micro, small and medium-sized enterprises (SMEs) and large businesses understand our requirements and have committed to compete for HS2 Ltd supply chain opportunities. In total, 1,500 businesses attended our 2016 Supply Chain Roadshows (65% of those attending were from SMEs) held in 11 regions across the UK. Of these, 79% of survey respondents intend to start preparing their business to bid for work on HS2. Our continued engagement will help ensure that HS2 will be a catalyst for sustained and balanced economic growth, with money going to micro, small and medium-sized enterprises all over the UK.

However, the opportunities for economic growth go far beyond building the railway. The HS2 Growth Partnership is a partnership between HS2 Ltd and London Continental Railways that works with local authorities to bring forward development, in line with their local HS2 Growth Strategies. For example, in 2016/17 the Partnership formed collaboration agreements with the local authorities at each station location. It is intended that they support these authorities to create tangible development projects, provide development expertise and seek to source private sector finance. They are also working closely with local partners to ensure that the stations maximise the development opportunities immediately adjacent to them.

## Community engagement

Getting community engagement right on a programme of this magnitude is critical to its success. We have continued to welcome suggestions about how we go about being a good neighbour. The broad principles of our approach to community engagement is that it needs to be two-way, intrinsically built into our programme and a responsibility of all our staff and the supply chain. Over the past year, we have built extra capacity into our community engagement team in order to undertake timely, responsive and inclusive engagement.

Ahead of Royal Assent we introduced our first online community consultation platform – HS2 in Euston. This can be found at [hs2ineuston.commonplace.is/about](https://hs2ineuston.commonplace.is/about). This is another resource for engaging with our neighbours and we intend to replicate this model along Phase One.

Over the summer, we undertook a busy programme of awareness raising activity, both hosted by ourselves and attending other well established local events along the line of route such as town carnivals, summer fairs and farmers' markets. This enabled us to engage with people who to date had had little contact with or information about the programme. Reaching out to all those impacted by the programme will continue to be a priority, as well as understanding how best and in what formats to undertake engagement with our affected communities.

In collaboration with the Phase One line of route and local authorities, we completed our Community Engagement Framework and began sharing this with the supply chain as they came on board.

## Skills, employment and education

HS2 Ltd is committed to providing rewarding jobs and careers that are open to all, setting new standards for EDI and providing a legacy of skills, learning, expertise and experience both directly and through its supply chain. To make this happen, we have included measures to deliver skills, employment and education objectives in all relevant contracts in 2016/17 including the EWC and the MWCC, and we will be monitoring performance against these objectives throughout the contract life.

Along with the transport, engineering and infrastructure industries as a whole, HS2 is facing a significant skills challenge, with insufficient people with the type and level of skills needed.

In addition to meeting our obligations through our supply chain, we are addressing this challenge through our support of and contribution to educational initiatives, which in 2016/17 included:

- » Launching our first apprenticeship programme in March 2017 during National Apprenticeship Week. The first 26 apprentices will join in September;
- » Delivery of 51 STEM<sup>2</sup> Days through the Smallpeice Trust with support of HS2 Ltd Education Ambassadors, attended by 2,981 students aged 11–14, 55% female;
- » Development of a primary school engagement programme titled 'Zoom Rail' for 7–11s to launch in Autumn 2017, based around a series of online challenges that will provide early employability skills and show links between STEM subjects and high speed rail careers;
- » Support for 116 days of work experience placements, including those through the Social Mobility Foundation's Aspiring Professionals Programme for high achieving school students from low income backgrounds, in business areas

including engineering, IT, supply chain and procurement, corporate affairs and hybrid Bill; and

- » Exhibiting at national careers events, including The Skills Show and the Big Bang Fair, to inspire young adults to explore the HS2 programme and associated careers.

Opening in September 2017 on state-of-the-art campuses in Birmingham and Doncaster, the National College for High Speed Rail (NCHSR) is a new further education college under the Department for Education dedicated to providing higher level training required to support HS2 Ltd and the wider rail industry in modernising the UK's rail infrastructure and operations. Through guided learning and work experience, the college will offer cutting-edge technical and professional courses to learners starting a career in rail, looking to switch careers, or part of the existing workforce with a vision of 'Pioneering Technical Excellence'.

From a curriculum perspective, an employer group has formed to shape the Higher Apprenticeship in High Speed Rail and Infrastructure that will be offered by the National College alongside its level 4<sup>3</sup> non-apprenticeship route. Work has also started with the Chartered Institute of Management to enable the College to become a registered Centre for Leadership and Management at Level 5<sup>4</sup> that will complete by April 2017. To date the NCHSR has expressions of interest from over 500 learners to be part of the first intake in September 2017.

HS2 Ltd has been pleased to support the college throughout the year in its work to become a self-supporting independent entity through support in curriculum development, the provision of a working capital loan and day-to day operational support, such as administration of the payroll and settlement of supplier invoices. HS2 Ltd provided this support to NCHSR without charge.

<sup>2</sup> Science, Technology, Engineering and Mathematics <sup>3</sup> Level 4 education provision is equivalent to the first year of an undergraduate degree

<sup>4</sup> Level 5 education provision is equivalent to completing the first two years of an undergraduate degree



## GRADUATE PROGRAMME

Sam Wilkinson joined the HS2 Ltd graduate programme in September 2016, after leaving Keele University with a first class BA (Hons) Finance and Marketing. As a young person originally from Wolverhampton, Sam was attracted to HS2 as the programme not only offers wide-ranging career prospects on a regional and national scale, but also the potential for regeneration of local communities. Sam saw herself using the high speed rail network one day and was excited at the chance to play a part in its development.

An aspiring Project Manager, Sam's initial experience was within the Area North team in Phase One, where she developed a wide range of different competencies on a variety of projects. She is now moving on to a placement in the Programme Management Office (PMO) where she will refine her skills. Alongside her day-to-day tasks and learning, Sam has also become involved with other graduate colleagues in the creation of the Early Talent Network, which aims to build relationships among the younger generation of employees within HS2 Ltd and with external organisations such as Young Rail Professionals.

Sam would highly recommend the graduate programme to anyone who wants to learn from the best, to use their initiative and entrepreneurial spirit, to be innovative, to be a driving force behind industry leading standards, and to make an immediate impact right now in a programme with a lasting national legacy.

***"It is a great privilege to start my career in the largest infrastructure project in Europe."***

Sam Wilkinson,  
HS2 Ltd graduate programme



## Health, safety and wellbeing

Health, safety and wellbeing is one of our core values and during 2016 the Executive Team led the way to embedding our safety values across HS2 Ltd by participating in a safety leadership workshop that examined their personal and collective commitment. As a group they identified a collective position stated as “we care for all those affected by HS2, even those we may never meet”.

We have continued to build HS2 Ltd’s health and safety capability with targeted recruitment to bring in the expertise necessary to support both delivery and programme health and safety assurance. This has enabled work to be done in preparation for Enabling Works Contracts and Main Works Civils Contracts through the development of our health and safety management system, which successfully passed

an external audit of HS2 Ltd’s Health and Safety Management System against OHSAS 18001:2007 in September 2016.

We have improved or introduced a number of policies, processes, and plans essential for sound programme risk management. We have also determined our Health and Safety Assurance approach, developed the principles of our Public and Neighbour Health and Safety Strategic Plan and launched a new Occupational Health and Wellbeing Service.

In 2016/17, there were four RIDDOR<sup>5</sup> reportable incidents, including one major injury that involved a fall by a contractor.

The following table sets out statistics relating to health, safety and security.

Band	2016/17	2015/16
Total RIDDOR injuries	4	0
Total lost time injuries	5	2
Total injuries	82	31
Total near misses	170	103
Total hours worked	4,201,039	2,980,532

## HS2 – Delivery performance Phase One

Royal Assent was received on 23rd February 2017. This milestone marked the culmination of eight years' work and we are proud of successfully reaching this goal. The Phase One programme remains on schedule.

Commitments made to petitioners have been recorded and published in a formal register of Petition undertakings and assurances and we will be meeting those commitments in future years as they fall due, which can be found through the following link:

<https://www.gov.uk/government/publications/high-speed-rail-london-west-midlands-bill-register-of-undertakings-and-assurances>

In December 2016, the Implementation Partnership Agreement (IPA) was endorsed by the DfT, Network Rail and HS2 Ltd. The IPA commits HS2 Ltd and Network Rail to work as partners to deliver 'on network works', which are the changes to the classic rail network required as a result of the construction of HS2 valued at approximately £740 million. Under the IPA, HS2 Ltd and Network Rail are required to undertake joint periodic reporting, agree risk allocation, costs and programme milestones with appropriate governance. In addition, the HS2 Ltd and Network Rail project teams are to co-locate in offices to support collaborative working to achieve a standard equivalent to British Standard BS11000 for collaboration.

In January 2017, the DfT endorsed the HS2 Ltd Infrastructure Management Strategy. The strategy sets out how HS2 Ltd will provide a safe and sustainable HS2 infrastructure that meets our customers' expectations and achieves HS2 Ltd's commitment to whole life value for money.

In January 2017, the Company approved the Proxy Operator Strategy which is effective from now until DfT, as franchising authority, appoints an initial train operator for Phase One. It reflects the work that our team has done to date to place future customers at the heart of our service design, and endorsement by the DfT of the forward work plan that we will be undertaking until the appointment of the West Coast Partnership franchisee in late 2018/2019. We will continue to develop the detailed operational requirements for the upcoming stations, rolling stock and railway systems procurements in order to ensure that we ultimately deliver excellence in customer experience through a safe, modern and efficient railway that provides value for money.

## Engineering delivery partner for Phase One construction

Early in the financial year HS2 Ltd contracted with an engineering delivery partner for Phase One construction. This contract provides both augmented project management, engineering and environmental support and client design activity.

The team is fully integrated within HS2 Ltd in order to drive long-term efficiencies across the design and build process. Their role focuses on providing expert engineering and construction management support as well as assisting with preparation for the procurement of the Main Works Civils Contracts for the London to Birmingham stage of the route.

All three companies have significant experience of driving project innovation and efficiency, with CH2M and Atkins involved in London's challenging Crossrail project, and SENER bringing recent experience from Spain's extensive high speed rail network.

The 10-year contract covers the whole of Phase One construction including:

- » Supporting preparation for and procurement of the Main Works Civils Contracts and subsequent work packages, including stations and railway systems;
- » Managing support of the design stage and construction stages of the work;
- » Providing project engineering and construction management;
- » Providing technical assurance of the design of the railway.

## Enabling Works Contracts

In November 2016, three Enabling Works Contracts were awarded to begin the preparation of the route. The contracts will provide a number of functions including environmental mitigation and site preparation works prior to Main Works Civils Contracts commencing.

These contracts allow us to undertake environmental, archaeology and heritage work and begin clearing sites in advance of critical works for tunnels, stations and major earthworks. The types of enabling works the contractors will undertake are:

- » Further site investigations and surveys, focussed on ecology and archaeological works;
- » Site clearance works including species relocation; habitat creation; demolitions; utility, road and watercourse diversions; de-vegetation; and
- » Site preparation works – preliminary earthworks; building stabilisation; instrumentation and monitoring; noise insulation; site compound establishment.

## Main Works Civils Contracts

In June 2016, HS2 Ltd released an invitation to tender for contract consortia to design and build the infrastructure on Phase One, including earthworks, drainage and bridges (collectively known as the Main Works Civils Contracts). By involving suppliers at an early stage, we benefit from their design and delivery experience and drive innovation and best practice. The contracts are expected to be worth around £8 billion and will include incentives and cost sharing as mechanisms to support delivery at the lowest cost. These contracts are expected to be awarded around July 2017.

## Railway Operations and rolling stock

Our Rolling Stock and Depots Final Strategy informs the right technical and commercial decisions for rolling stock and depots on Phases One and 2a. This includes our approach to world class servicing and support facilities. Approval of the strategy has enabled HS2 to start the formal procurement process for the first trains in April 2017.

A key function of the Railways Operations team is to look at how HS2 will be run in 2026, anticipating the needs of its future customers. This means keeping abreast of market developments and new ways of thinking. Underpinning this is our design vision, which can be found through the following link:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/607020/HS2\\_Design\\_Vision\\_Booklet.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/607020/HS2_Design_Vision_Booklet.pdf)

Part of our mission at HS2 Ltd is to achieve new standards in infrastructure delivery, operations and passenger experience. As well as being an essential part of the British transport system, we want to be a world class example of best practice in high speed rail. This means it is vital that we look at the 'best in class' examples of high speed railway operations across the globe, and take every opportunity to learn from best practice and apply it to our organisation.

As part of this mission, staff from HS2 Ltd, along with colleagues from the DfT, took part in a programme of site visits to see how some of the best high speed railways in the world are run.

Visiting a number of leading nations, the team examined:

- » Rolling stock: This included examining current train designs, technical specifications, production capabilities and interest from suppliers. This allowed them to understand the impact of the newest technology on the market, and understand manufacturers' product offerings and capability.
- » Railway systems and operators: This included areas such as traffic management, depots, automation and ballast vs slab track. The rolling stock will need servicing at depots, and so these go hand in hand and must be planned together. The delegation visited a number of high speed lines, seeing examples both of those under construction and in operation, to find examples of successes, areas that need improvement and innovation.
- » Stations: To learn about the best designs for high speed stations, the visit included looking at concourse layouts and examples of digital signage, commercial space opportunities and integration into local communities. Seeing stations in operation with end users passing through in real time is part of how we will ensure we are putting people at the heart of the experience.

From their visit, the team is now able to take the best of what they have seen to ensure that we are using best practice at HS2 Ltd including design, the latest and predicted technology, procurement options and ways to apply an integrated approach.



## **AWARD OF TREE PLANTING CONTRACT TO SME**

More than 650 hectares of new woodland will be planted between London and Birmingham as part of the Phase One programme, to help reduce the visual impact of the line and create valuable new wildlife habitats.

Seven million trees and shrubs will be grown in the UK by Crowders Nurseries, a family-run nurseries in Horncastle, Lincolnshire. The nurseries are considered an industry leader in terms of sourcing and propagating tree seed. The new planting will be a mix of native species tailored to each location, with a particular commitment to reintroducing species currently in decline, such as the Midlands Hawthorn and the Black Poplar – widely considered to be the UK's most endangered native tree. The first batch of around a million trees and shrubs will be delivered to sites identified for advance planting throughout the route from Autumn 2017 to Spring 2018.

The award of the 10-year tree growing contract worth between £5 million and £9 million in December 2016 was one of our key milestones during 2016/17 and shows how HS2 will deliver wider benefits for Britain. It demonstrates our commitment to mitigating the impact on the environment, to creating jobs in rural communities, and also our support for small and medium-sized enterprises (SMEs).

## Land and property acquisitions and land assembly

When designing the construction programme for HS2, we have endeavoured to ensure that its impact on affected communities and the wider environment is as low as practically possible.

The HS2 Ltd Residents' Charter sets the standard for communicating with people who live along or near the HS2 route. The Company has appointed a Residents' Commissioner to ensure that the standards set out in this charter are met.

The Residents' Commissioner has published a total of six reports on a regular basis, the latest of which was in February 2017 and can be viewed along with the Charter through the following link:

<https://www.gov.uk/government/collections/hs2-ltd-residents-commissioner>

In the past year, the Company has begun to deliver on the Land and Property (L&P) strategy published on 16th July 2015. The strategy covers two core portfolios for and on behalf of the Secretary of State for Transport (SoS). The two portfolios are:

1. The land and property required to construct and operate the railway; and
2. The land and property that needs to be acquired in accordance with the statutory and discretionary property schemes.

HS2 Ltd aims to assist people to make timely relocation plans by engaging with businesses, communities and property owners so that we can acquire the land we need to build the railway by agreement.

Following the passing into law of the High Speed Rail (London – West Midlands) Act 2017, the Secretary of State now has Compulsory Purchase powers to assemble land, and will only use these powers as a last resort and at all times respecting the impacts of affected people and mindful of the need to use these powers with sensitivity.

Property already acquired under safeguarding directions for all phases of the route is purchased by the DfT, not HS2 Ltd, on behalf of the SoS. It is therefore included in the DfT's financial statements and not HS2 Ltd's. The Company acts as agent to support the DfT in managing the estate.

In total, in 2016/17, HS2 Ltd received 375 (2015/16: 274) applications under property compensation schemes on behalf of the DfT and the DfT has acquired 105 (2015/16: 135) properties.

## Phase Two

Phase Two will extend the HS2 line to the north-west to Manchester with connections to the West Coast Main Line (WCML) at Crewe and Golborne, and to Leeds with a connection to the East Coast Main Line at York, completing what is known as the north-east 'Y network'.

### Phase 2a

Delivery of the first 60 kilometres (37 miles) of the western leg of the Phase Two route between the West Midlands and Crewe, has been brought forward to 2027 in order to realise sooner more of the benefits of HS2 further north. It will connect with Phase One at Fradley, near to Lichfield with the existing West Coast Main Line (WCML) south of Crewe, to provide onward services beyond the HS2 network, to the north-west of England and to Scotland.

The early part of 2016 saw the HS2 Ltd team and its supply chain being mobilised in order to carry out work which will lead to the deposit of the Phase 2a hybrid Bill. The scheme design was further developed, culminating in consultations on the Phase 2a working draft Environmental Impact Assessment Report, Equality Impact Assessment and Design Refinement report. The consultation, supported by a number of locally held events, was one way in which stakeholder feedback was gathered to help understand, and where possible mitigate, the impact of the scheme on the community. Throughout the year, Phase 2a has maintained a dialogue with local communities by carrying out a programme of Farm Impact Assessments and meetings with businesses, individuals, organisations and local councils.

In 2017, work will continue to develop Phase 2a through the next version of the design, informed by the consultation responses, and to produce the Outline Business Case that will form the basis of the Phase 2a hybrid Bill. Following deposit of the Phase 2a hybrid Bill, a consultation will be triggered on the Environmental Statement and the parliamentary process will begin.

### Phase 2b

On 15th November 2016, the Government announced the preferred route for the remainder of the Phase Two route, known as Phase 2b. The western leg of Phase 2b joins the Phase 2a route south of Crewe and terminates at a new station at Manchester Piccadilly.

The eastern leg of Phase 2b connects to the Phase One route as it leaves Birmingham and terminates at a new station at Leeds served by a spur from the main line. Subject to the outcomes of consultation, South Yorkshire would be served via a connection to existing network, allowing services to join the Midland Main Line south of Chesterfield at Clay Cross, and travel on to Sheffield Midland station.

Following this announcement, HS2 Ltd undertook a consultation on a number of elements of this route, including the proposed route through South Yorkshire. Over the course of the consultation, the Company held 36 events and met with over 20,000 members of the public along the length of the Phase 2b route. This consultation closed on 9th March and will inform a decision by the Secretary of State on the route in Summer 2017.



## FUNDING FOR COMMUNITIES

We understand that not everyone along the line of route will benefit directly from the railway, so two new funds have been established to support communities and businesses that are disrupted by the construction of Phase One. The Community and Environment Fund (CEF) and the Business and Local Environment Fund (BLEF), chaired independently by Cathy Elliott, are collectively worth £40 million and are administered on our behalf by the charity Groundwork.

### **Community and Environment Fund**

This funding programme is targeted at the voluntary/community sector, including residents' associations, constituted community groups, Community Interest Companies (CICs), social enterprises, community businesses and registered charities. CEF Local will focus on quality of life and environment in individual communities. CEF Strategic will focus on large projects across several communities and address strategic rather than purely local concerns.

Examples of CEF projects could include: improved pedestrian, equestrian, or cycle access; landscape and nature conservation enhancement projects which increase biodiversity (including pop up interventions such as skip gardens);

enhancement or replacement of sports and recreational facilities; improved access and enhancements to public open space; provision of enhanced or new community facilities; and refurbishment/reuse of historic buildings and monuments.

### **Business and Local Environment Fund**

This funding programme is targeted at organisations which are established for public benefit and not for profit, and which have formal objectives that support the development of local business/tourism.

Examples of BLEF projects could include: schemes to improve the local public realm, especially in retail and tourist areas; improved local cycling and pedestrian access to local economic centres; general promotional activity for local economic benefit; creating and running events that increase footfall or promote business activity during seasonal periods (for example, farmers' markets); employment and job creation schemes; town/village discount cards to retain spend in local areas; and projects that aim to increase tourist visits to an area.

Wherever possible, these funds aim to leave a sustainable legacy.

## Factors affecting future development

The future development of HS2 Ltd is based on the Government's continuing commitment to funding over the life of the programme. Confirmation of funding of £55.7 billion (at quarter 1 2015 prices) during the 2015 Spending Round process demonstrated the Government's continuing support for the programme. The decision to update the price base was taken in conjunction with HM Treasury and the DfT, and follows practice used by the London 2012 Olympics and Crossrail.

Hybrid Bills for Phases 2a and 2b are expected to be deposited in 2017 and 2019 respectively. Approval of these Bills will be subject to the Select Committee process and the timing of this may affect the future development of the second phase of the route.

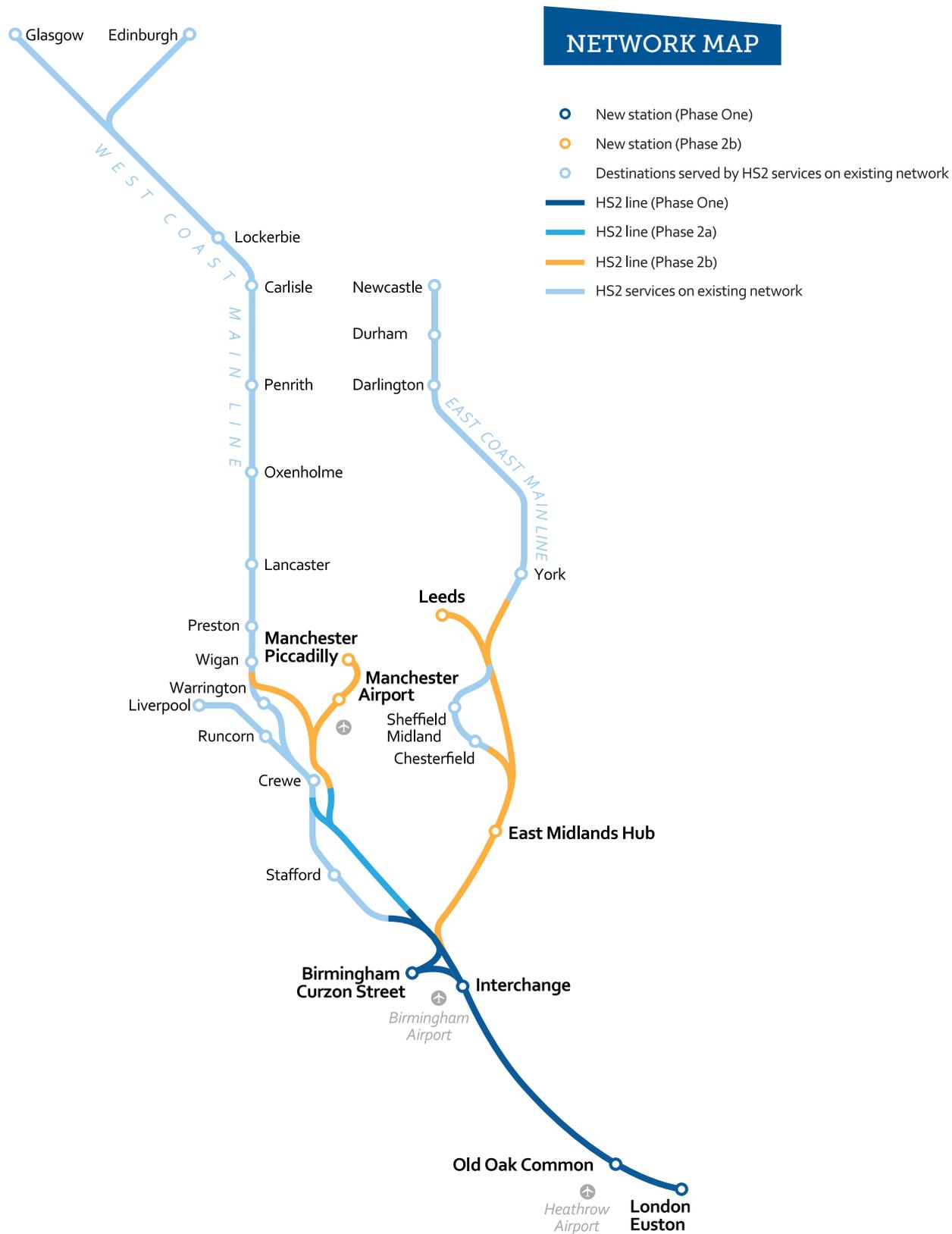
## Principal risks

The HS2 Ltd Executive and Board, supported by the Audit and Risk Assurance Committee (ARAC), regularly review and monitor the risks facing the Company throughout the year. The key identified risks have been set out in the Governance Statement.

On behalf of the Board



Mark Thurston, Chief Executive and Accounting Officer  
Signed on 6th July 2017



## DIRECTORS' REPORT

The Directors present their report together with the Strategic Report and the Financial Statements of the Company for the year ended 31st March 2017. The Company is registered in England and Wales and has registration number 06791686.

### Directors of the HS2 Ltd Board

Directors who have held office on the HS2 Ltd Board between 1st April 2016 and 31st March 2017 are:



**Sir David Higgins**  
Non-executive Chair



**Mark Thurston**  
CEO  
CEO from 1/03/2017 and  
Accounting Officer from  
2/03/2017



**Steve Allen**  
CFO



**Alison Munro, CBE**  
Executive Board Member



**Lord Andrew Adonis**  
Non-executive Board Member  
resigned 21/04/17



**Richard Brown, CBE**  
Non-executive Board Member



**Mel Ewell**  
Non-executive Board Member  
From 15/9/2016



**Christine Emmett**  
Non-executive Board Member



**Roy Hill**  
Interim CEO  
Interim CEO from  
9/12/2016 until 1/03/2017.  
Accounting Officer from  
9/12/2016 until 2/03/2017



**Simon Kirby**  
CEO (Resigned)  
Chief Executive and Accounting  
Officer until 8/12/2016



**Neil Masom, OBE**  
Non-executive Board Member



**Roger Mountford**  
Non-executive Board Member



**Duncan Sutherland**  
Non-executive Board Member



**Baroness Jo Valentine**  
Non-executive Board Member

Unless otherwise indicated, all Directors served throughout the full year.

## 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.

During Roy Hill's secondment to HS2 Ltd as Chief Executive Officer, Roy remained an employee of CH2M Hill.

Mark Thurston has confirmed that he has no ongoing interests, personal or financial, with CH2M Hill or any of its subsidiary companies following his departure to join HS2 Ltd in March 2017. To avoid any perception of conflict, Steve Allen, Chief Financial Officer, acts as Accounting Officer in respect of all matters where CH2M Hill is involved.

## Remuneration Report and Governance Statement

The Remuneration Report (page 52) and Governance Statement (page 59) are required under the Government's Financial Reporting Manual (FReM) and form part of these financial statements. The Governance Statement addresses the Company's risk and control framework.

## Results

The Company has prepared its financial statements for the reporting period in accordance with International Financial Reporting Standards (IFRS). As a Non-Departmental Public Body, the Company also adopts the interpretations of IFRS and additional disclosure requirements contained in the Government Financial Reporting Manual for 2016/17 (FReM), where these are compatible with the requirements of the Companies Act. The audited financial statements for the year ending 31st March 2017 are set out in the Financial Statements Section.

## Going concern basis

The development and delivery of HS2 as part of the Government's wider high speed rail agenda is in accordance with the aims of DfT as our sponsor and is funded entirely by capital contribution from the DfT as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013.

In November 2015, following a Government-wide spending review, the level of resources available for HS2 Ltd for 2016/17 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021.

In view of the Parliamentary approval of the Phase One hybrid Bill on 23 February 2017, various Government statements demonstrating its support for high speed rail and the continuing financial support from the DfT, confirmed by the Spending Review 2015, the Directors are confident that sufficient resources will be available to meet the Company's operational and investment plans and budgeted expenditure.

Consequently, it is considered appropriate to adopt a going concern basis for the preparation of its Financial Statements.

## Company policy on payment of creditors

HS2 Ltd observes the principles of the Confederation of British Industry's 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 31st March 2017 shows that 94% of invoices received were paid within 30 working days (2015/16: 90%).

No claims have been paid in 2016/17 (2015/16: two) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

## Financial instruments

HS2 Ltd has no borrowings and is funded by capital contribution from the DfT. The Company aims to maintain minimal holdings of cash and cash equivalents appropriate to its short-term needs and has only one significant third-party receivable being the loan to the National College of High Speed Rail. For these reasons, the Company is considered to have no material credit, liquidity, interest rate or market risk.

## Dividends

As a company limited by guarantee it is not permissible to pay a dividend.

## Political and charitable contributions

During the year, the Company made no charitable or political donations.

## Our people

The Company recognises that the commitment of a skilled and experienced workforce is key to our objectives. The size of the Company's workforce as at 31st March 2017 was 1,415. This figure includes secondees, interims, contractors and Executive Directors, but excludes Non-Executive Directors.

HS2 Ltd believes that a diverse and inclusive workforce creates a dynamic environment that enables us to deliver our objectives in an effective way. Policies are in place to cover issues including working conditions, pay, equality and diversity, employee relations, succession planning, conflicts of interest and whistleblowing. Staff policies include provision for disabled people in areas such as recruitment, the provisions of the Equality Act 2010, fair access to training, development and promotion and HS2 Ltd became a member of the Business Disability forum in April 2016.

We have in place a People Strategy and we use a number of performance indicators to monitor and measure our performance against our People Strategy, including:

- » Workforce plans;
- » Headcount, workforce costs (actual vs planned) and the proportion of permanent to temporary labour;
- » Monthly reporting and up-to-date organisation charts and data;
- » Results of the annual staff survey; and
- » Feedback from the workplace forum.

Employee performance is managed using mid-year and full-year performance reviews. Regular communications are made to employees on matters impacting them, including, overall programme progress, news and publications and briefing and professional development opportunities.

Alongside developing future talent working with the National College for High Speed Rail, we are committed to growing capability inside the organisation. For example, we ran our first graduate recruitment campaign and hired HS2 Ltd's first six graduates. We have development programmes in place for the Executive, Senior Leader and Line Management. We have put in place a number of technical skills frameworks, building skills for different functions across the organisation and providing solutions where there are identified gaps in capability. Supporting our people processes, we have a behavioural framework which is built around our values and is aligned with our HR processes to engender the right culture.

## 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 programme. The following demonstrates how we have sought to meet our obligations under the Equality Act 2010 for the year 2016/17.

Our approach to EDI has developed considerably and in a number of areas HS2 Ltd is seeking to set the standard for the rail and infrastructure industries and the UK as a whole. We have measured our EDI Strategy in year one and have exceeded expectations in a number of areas. Our work is organised into four themes: Organisation; Supply Chain; Communities; and Design and Operations.

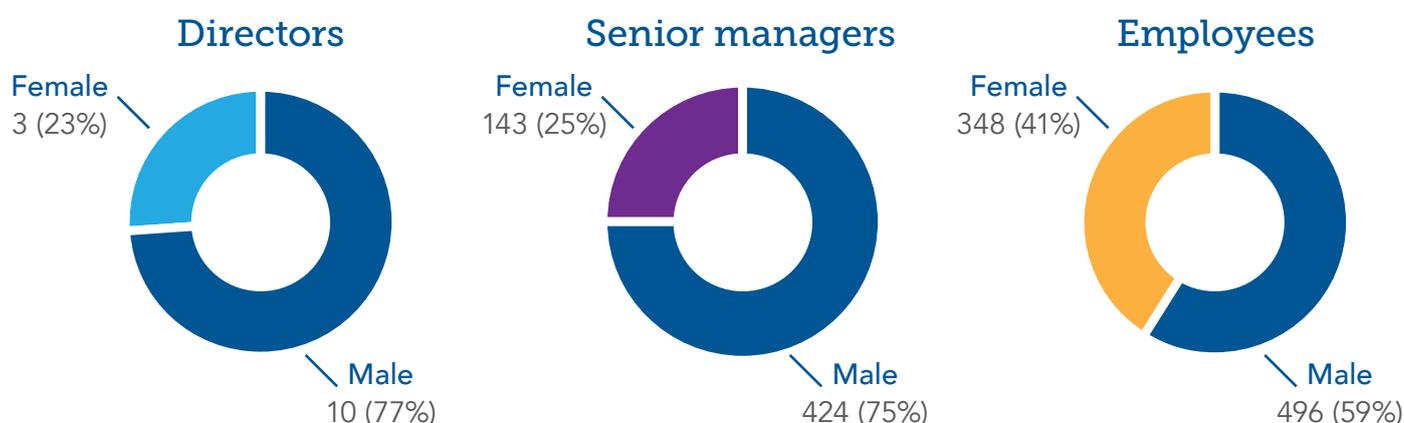
Our long term EDI goals are:

- » To change our organisation by becoming an exemplar of EDI practice and an employer of choice;
- » To change the infrastructure and rail sectors by encouraging exemplar EDI practices through contract requirements;
- » To lead change in the provision of rail services by building a more accessible and inclusive railway;
- » To change lives by maximising the benefits of HS2 within disadvantaged communities by generating business, training and employment opportunities.

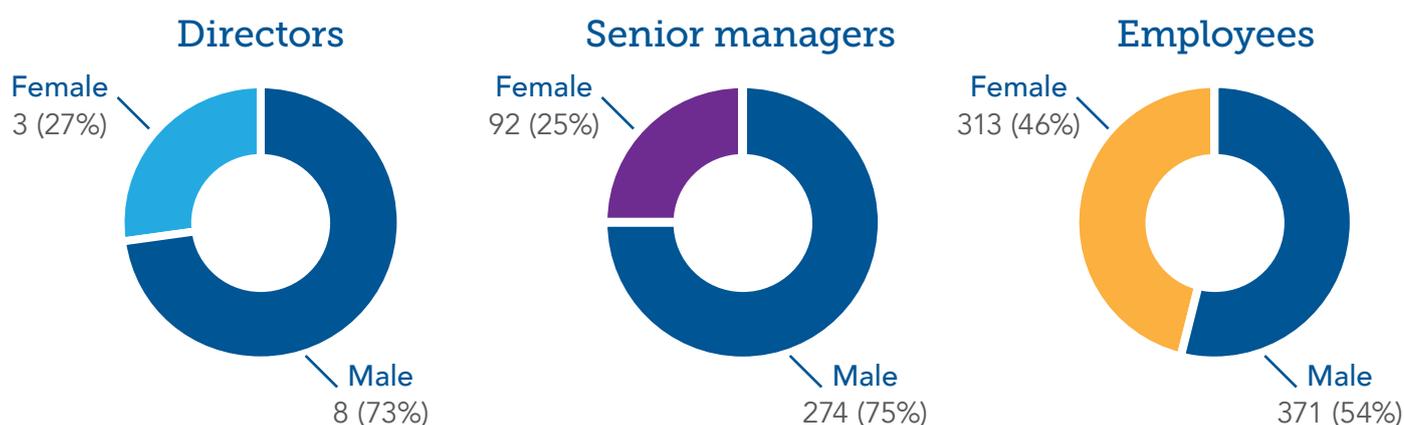
We have developed a five-year plan to help us to realise our ambitions.



The charts below show directors, senior managers and employees by gender as of 31st March 2017.



The charts below show directors, senior managers and employees by gender as of 31st March 2016.



The overall proportion of female employees has fallen to 35% in 2016/17 from 46% in 2015/16. The reasons for this are linked to:

- i. Moving from the planning to the construction phase of the programme where the construction workforce remains unbalanced in terms of gender; and
- ii. The move to Birmingham which has negatively impacted on the representation of women at HS2 because relocation support was targeted at more senior roles (which have a higher percentage of men) meaning junior staff were less likely to be able to relocate.

A number of mitigations have been put in place during 2016/17 and these will be further developed over the next year to help address the decline in gender balance within the Company.

### Sickness absence

Recorded staff absence due to sickness equated to an average of 1.9 days per employee during the year (2015/16: 1.9 days) for direct employees of HS2 Ltd.

### Staff pensions

Permanent staff are automatically enrolled into a stakeholder (defined contribution) pension scheme, unless they choose to opt out. Seconded staff follow the arrangements within their host organisation. As a consequence, no pension liabilities rest with HS2 Ltd.

## Personal data-related incidents

The Director of Corporate Health, Safety, Security and the Environment has the responsibility of Senior Information Risk Owner (SIRO) and has been supported by the Information and Cyber Security Manager.

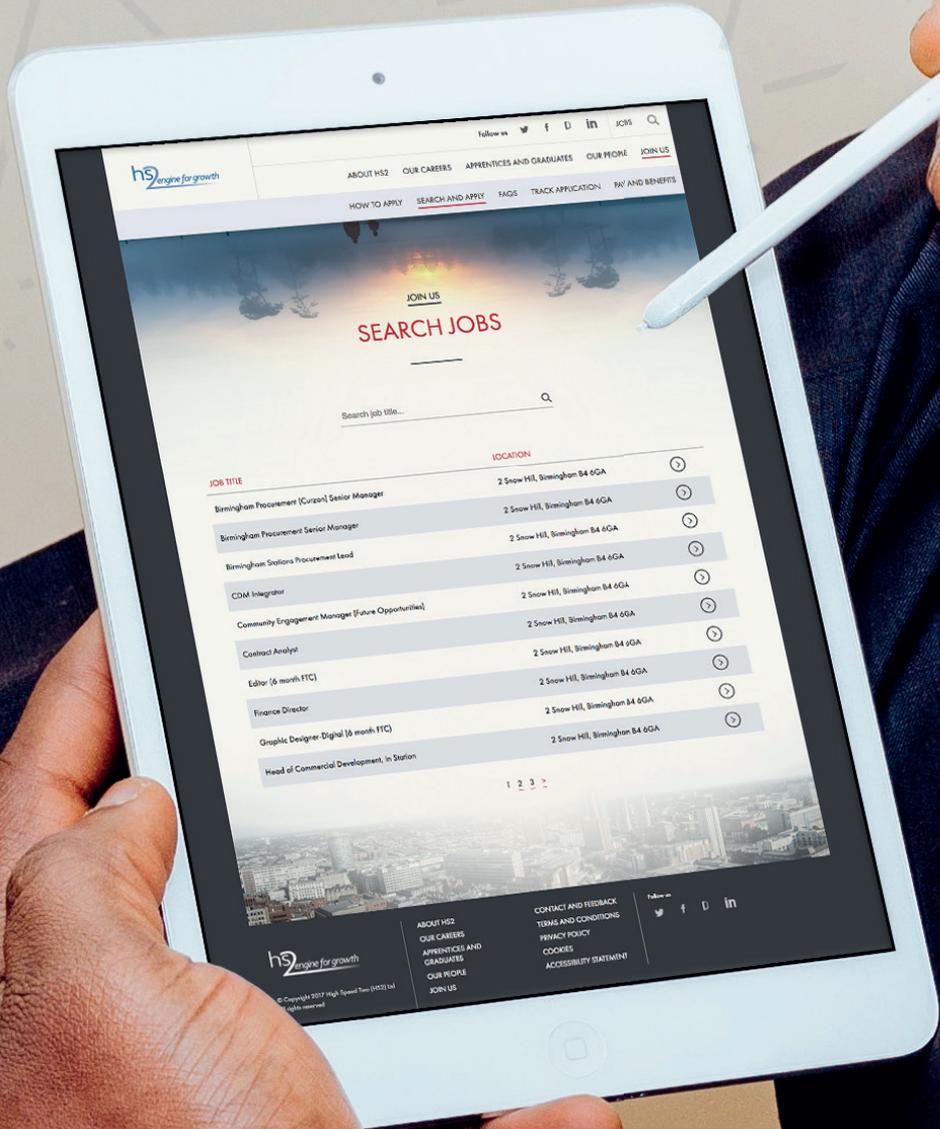
During 2016/17, the organisation’s business area Information Asset Owners joined the Information Governance Group which assesses risks associated with information management and other data processing activities within the organisation.

HS2 Ltd reports annually its position in relation to the Security Policy Framework and planned future work to the Cabinet Office via the DfT.

HS2 Ltd promotes good information management practices through the mandatory completion of information security training for both new starters and continual education and awareness for existing staff which this year has included cyber security awareness and maintaining confidentiality when working remotely. We will build on these awareness activities in 2017/18.

There have been no protected personal data-related incidents meeting the criteria for reporting to the Information Commissioner’s Office in 2016/17 (2015/16: none). However, HS2 Ltd has recorded other protected personal data-related incidents, deemed by the Data Controller not to fall within those criteria, and these are set out in the table below.

Category	Nature of incident	2016/17	2015/16
i.	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	3	0
ii.	Loss of inadequately protected electronic equipment, devices or paper documents from outside secure Government premises	0	1
iii.	Insecure disposal of inadequately protected electronic equipment, devices or paper document	2	0
iv.	Unauthorised disclosure	7	4
v.	Other	6	5



## **EDI – CAREERS WEBSITE**

To achieve HS2 Ltd’s aim to be the industry leader for equality, diversity and inclusion (EDI), our workforce should reflect the true diversity of the UK. Simon Mallender, HS2 Ltd HR Advisor, has commented: “We need to attract a more diverse range of candidates and not just in terms of their industry experience.” This means we need to make sure that everyone can find out about and apply for opportunities. In 2016 we started a relaunch of our careers site. Our previous HS2 Ltd careers website wasn’t designed with the needs of all potential candidates in mind.

We had two goals: to attract candidates outside the profile of the traditional rail employee, and to make the site fully accessible to people with disabilities. To achieve these, we engaged our employment advertising partner, and the Digital Accessibility Centre (DAC). We learned that we needed to create a brand that would inspire people and make them realise the scope of what HS2 is aiming to achieve. We fully redesigned the site and the DAC took it through a rigorous accessibility testing process.

The new site design was met with excitement. “It feels more inclusive than exclusive,” one focus group respondent said. “I don’t think I’ve ever seen an organisation go to such efforts for a recruitment drive,” another said.

***“Achieving an externally verified EDI standard is a strategic goal for HS2. Our AA web accessibility accreditation is the first externally verified EDI standard that HS2 has achieved.”***

Mark Lomas  
Head of EDI

## Disclosure of information to auditors

As far as the Directors and the Chief Executive, as the 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.

## 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 and extensions under FOI to consider the public interest test. 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 FOI and EIR in 2016/17 within 20 days was 95% (2015/16: 81%) and within 40 days was 100% (2015/16: 92%).

## Directors' third party indemnity provisions

The Company has appropriate directors' and officers' liability insurance in place in respect of legal action against, among others, its Executive and Non-Executive Directors.

## 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 2017 are available at the gov.uk website.

On behalf of the Board



Mark Thurston, Chief Executive and Accounting Officer  
Signed on 6th July 2017



## SUSTAINABILITY REPORT

This report provides information required by HM Treasury on HS2 Ltd's sustainability performance in line with the Government's Financial Reporting Manual (FRoM) and meets the requirements laid down in the Greening Government commitments.

Throughout 2016/17, HS2 Ltd remained a largely office-based organisation responsible for the design and promotion of the high speed rail network, and for planning ahead for its construction and operation.

We occupy leased premises in London and Birmingham and have an increasingly mobile workforce. We have captured data on greenhouse gas emissions, waste arising and water consumption on a quarterly basis where possible. The tables below cover the years to 31st March 2017 and 2016.

Greenhouse Gas (GHG) Emissions <sup>a</sup>		2016/17	2015/16
Gross Emissions (tonnes CO <sub>2</sub> e <sup>b</sup> )	Scope 1: Direct emissions	47	51
	Scope 2: Indirect emissions	1,105	1,065
	Scope 3: Business Travel emissions <sup>c</sup>	639	513
	Total Emissions	1,791	1,629
Related Consumption Data	Estates Electricity (kWh) <sup>d</sup>	2,680,857	2,304,866
	kWh per FTE	1,895	2,054
	Private Car Usage (road miles)	139,825	51,178
	Hire Car Usage (road miles)	132,640	58,913
Financial Indicators	Total Energy Expenditure	£352k	£367k
	Expenditure on Business Travel	£4,073k	£1,916k

<sup>a</sup> Greenhouse gas factors for electricity, gas and water consumption from 'Greenhouse gas reporting – conversion factors 2016' Department for Business, Energy & Industrial Strategy, 1st June 2016.

<sup>b</sup> tCO<sub>2</sub>e = tonnes of carbon dioxide equivalent emissions.

<sup>c</sup> Scope 3 business travel emissions are included as other indirect GHG emissions and include grey fleet, rail travel, hire cars and flights. Voluntary reporting of international rail and air travel is also included.

<sup>d</sup> Estimated - energy costs are included in overall service and accommodation charges by the landlords in the case of one location and are not separately identified.

Waste		2016/17	2015/16
Non-Financial Indicators	Total Admin Waste (tonnes)	166	48
	Recycled Waste (tonnes)	120	31
	Admin Waste - kg per FTE	117	43
	Percentage recycled	72%	64%
Water		2016/17	2015/16
Non-Financial Indicators	Estates Water (cubic metres (m3))	25,915	11,600
	m3 per head	18.3	10.30
	Emissions from Water Consumption (tonnes CO2e)	8.90	3.99

During 2016/17, our focus has been on the development of our sustainability approach document, *Transforming Lives, Building for the Future*, available online at [www.gov.uk/government/publications/hs2-supplier-guide](http://www.gov.uk/government/publications/hs2-supplier-guide). The document helps to explain how we define sustainability; how sustainability will help achieve our strategic goals and objectives; and how we embed it in our work.

At HS2 Ltd we define sustainability in its broadest sense, not just environmental, but social and economic sustainability too. HS2 is being built using public money. Not only do we have a duty to use that money efficiently, we also have an obligation to ensure that in all our activities we provide wider social, economic and environmental benefits for the people of this country.

Our approach document contains our commitments for how we will deliver sustainability for HS2. We will only be successful in delivering these commitments if sustainability is embedded in our DNA. We have elevated sustainability to be one of the three key methods of successful delivery, alongside innovation and collaboration, as part of defining HS2 Ltd's culture.

We have also further integrated sustainability into HS2 Ltd's Independent Design Panel with appointment of Professor Paul Leinster CBE and Kirsten Henson to the Panel in December 2016. The Panel acts as an independent advisor and critical friend – in 2016 it provided constructive feedback on the Sustainability Approach document, and our approaches to Carbon, Climate Change Resilience and the Circular Economy.

## Environmental protection and management

Building HS2 will inevitably cause some local effects on the environment and communities. However, we are committed to limiting these effects whilst promoting environmental benefits.

In 2016/17, the Phase One (London to West Midlands) hybrid Bill (now Act) continued to be scrutinised through Parliament, with the majority of petitions lodged being environmentally focused. As a result of the process, we have made a number of changes to the design, for example, extending the tunnel in the Chilterns Area of Outstanding Natural Beauty (AONB).

In addition to the environmental plans defined within the Act, we have also committed to support particular communities through additional environmental funding which includes £3 million for the Colne Valley, £3 million for the Chilterns AONB and £1 million for Calvert. Furthermore, in response to the effect on ancient woodland, an additional £5 million has been made available to support further woodland planting along the line of the Phase One route.

For Phase 2a (West Midlands to Crewe) we published our Working Draft Environmental Impact Assessment Report for consultation in September 2016, so that the public and other interested parties could review and comment on the preliminary environmental information. This is prior to the formal Environmental Statement that will be deposited in parliament alongside a Phase 2a hybrid Bill. This is currently intended for deposit before the end of 2017.

For Phase 2b (Crewe to Manchester, West Midlands to Leeds), we published a Sustainability Statement in November 2016 alongside the preferred route that described how sustainability issues have been considered and incorporated to assist decision making, and highlights key sustainability impacts – both beneficial and adverse.

We have also been developing our Environmental Management System and processes, and are on target to achieve certification to BS EN ISO 14001 by the end of 2017.

Phase One have been gearing up for construction by setting the standards we will require our contractors to adhere to. For example, we have set air quality emission standards for the use of Ultra Low Emission Vehicle cars and vans, and Euro VI heavy goods vehicles.

We have also adopted a programme requirement for all new buildings – within the scope of Part L of building regulations (e.g. our stations) – to achieve ‘nearly zero energy’ status. The aim is to design and construct new buildings that have a very high energy performance, with the nearly zero or very low amount of energy required to operate the building covered to a very significant extent by energy from low carbon sources, including energy from low carbon sources produced on-site or nearby.

A 30% carbon reduction target has been adopted for the Enabling Works Contracts which will be delivered between 2017 and 2020. For the civil, station and railway system (design and construction) contracts – which will be delivered between 2017 and 2026 – a 50% carbon reduction target has been adopted. We recognise that the carbon reduction targets are ambitious; they are designed to empower and challenge HS2 Ltd and our supply chain to think and behave differently to deliver reduced carbon and reduced cost solutions.

Over the past year our approach to materials and waste has become more integrated as we including facilitating the beneficial reuse of timber and reductions in the material use associated with bridge construction. We have also developed a metric to measure our material efficiency.

On the ground, we have started demolition of the National Temperance Hospital in the London Borough of Camden. Our contractors are currently achieving 98% for the diversion of waste from landfill, thus outperforming their 95% target.

We have developed a sustainable sourcing plan for Phase One of the route and we have collaborated with [CIRIA](#)<sup>6</sup> to produce a responsible sourcing handbook which provides guidance and practical advice to both our supply chain and the wider industry on how this can be achieved. We hope this will enable organisations of all sizes to engage with this important topic.

*Visualisation of operational railway*



<sup>6</sup> Construction Industry Research and Information Association

To keep us on track, we are using the **BREEAM**<sup>7</sup> – a sustainability assessment method that gives a rating to assess our infrastructure, stations, depots and other railway buildings, with the target to achieve an ‘Excellent’ rating – we are on track. We are also working with **CL:AIRE**<sup>8</sup> to ensure efficient and legally compliant reuse of excavated material within construction.

We have committed to seek no net loss in biodiversity on Phase One of HS2 calculated using a method which compares losses of biodiversity through construction against gains in biodiversity as a result of the habitats to be created. In early 2016, we published a report

showing that we were approximately 3% away from our objective. We are currently working to refine the calculation and we are continuing to review opportunities to address this and achieve our no net loss in biodiversity objective.

As part of the first phase of HS2, we are creating 650 hectares of new woodland between London and Birmingham, and have appointed a specialist nursery provider to grow up to seven million trees and shrubs (see page 29). This will help reduce the visual impact of the line and create new wildlife habitats. The trees will replace lost woodland and help create ‘green corridors’ linking isolated wooded areas with new planting.



## Design that is future proof

Great design is essential to HS2 and great landscape design will be pivotal to its success. The HS2 Landscape Design Approach (LDA) sets out clear aspirations for the landscape design in order for external spaces to work well, be visually pleasing and respond sensitively and appropriately to the landscape context along the line of the route. The document is available online at [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/550791/HS2\\_Landscape\\_Design\\_Approach\\_July\\_2016.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/550791/HS2_Landscape_Design_Approach_July_2016.pdf). Landscape Design will be the means to merge and consolidate the work and designs of other HS2 disciplines such as engineering, architecture, ecology, noise, heritage and horticulture.

The 120-year design life of HS2 will extend well into the next century. Even if global greenhouse gas reduction targets are met, we can expect Britain's climate to change. Technology will advance, both during the construction of HS2 and beyond, so we need to maintain an adaptable and flexible approach to ensure future trends can be incorporated in HS2.

The design of our rolling stock and stations will be based around the people using them and we will provide an accessible service that can be used safely, independently, easily and with dignity, by everyone.

HS2 Ltd has incorporated climate resilience into its key design and decision-making processes. This includes altering design standards to reflect projected changes in parameters, building climate resilience into the Phase 2a Environmental Impact Assessment, and increasing the adaptive capacity of the organisation.

As HS2 will exist as part of a wider infrastructure network, we have worked with partners, including Oxford University, to categorise, assess and prioritise vulnerabilities arising from climate change impacts on HS2's interdependent infrastructure.

We have also developed and applied our approach to incorporate the 2016 Environment Agency climate change allowances for flood risk and drainage design into all phases of the programme.

## REMUNERATION REPORT

The Remuneration Report for HS2 Ltd includes the remuneration of the Chair and other members of the Board. Changes in the composition of the Board and a summary of its members' commitments in 2016/17 are shown in the Governance Statement on page 59.

### Board members

The Chair, Sir David Higgins, is contracted to work for three days per week. 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 in line with the rates allowed under HS2 Ltd's business expenses policy.

All Non-Executive Board members have fixed-term appointments and fee levels are set by the Secretary of State through the DfT. Non-Executive Board members are entitled to a month's notice period with no compensation for early termination of their contracts. Executive Board members are entitled to notice as stated in their contracts.

*Two Snowhill*



The fees and salaries of the Board members during the year were as follows:

**Single total figure of remuneration (subject to audit)**

Board member	Fees and salary (£)		Bonus payment (£)		Taxable benefits <sup>9</sup> (£)		Pension benefit (£)		Total (£)	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Lord Andrew Adonis* (from 1/07/15)	22,800	17,100 (22,800)	-	-	-	700	-	-	22,800	17,800 (22,800)
Steve Allen* (from 1/10/15)	415,000	207,500 (415,000)	-	-	-	-	-	-	415,000	207,500 (415,000)
Richard Brown, CBE	23,750	22,800	-	-	-	-	-	-	23,750	22,800
Mel Ewell (from 15/09/16)	13,300 (22,800)	-	-	-	-	-	-	-	13,300 (22,800)	-
Christine Emmett	39,900	31,350	-	-	9,100	5,300	-	-	49,000	36,650
Sir David Higgins	240,000	240,000	-	-	900	1,000	-	-	240,900	241,000
Roy Hill ** (from 9/12/16 to 2/3/17)	212,495 (582,000)	-	-	-	-	-	-	-	212,495 (582,000)	-
Simon Kirby * (to 8/12/16)	574,038 (750,000)	750,000	-	-	-	-	-	-	574,038 (750,000)	750,000
Neil Masom, OBE	38,950	38,000	-	-	12,800	17,600	-	-	51,750	55,600
Roger Mountford	39,900	26,363	-	-	-	600	-	-	39,900	26,963
Alison Munro, CBE	158,873	157,004	35,000	35,000	-	-	16,065	7,920	209,938	199,924
Duncan Sutherland	38,475	41,325	-	-	10,900	11,800	-	-	49,375	53,125
Mark Thurston * (from 1/3/17)	44,583 (535,000)	-	-	-	5,417 (65,000)	-	-	-	50,000 (600,000)	-
Baroness Jo Valentine	22,800	22,800	-	-	-	-	-	-	22,800	22,800

\* The Director was appointed or departed during the relevant financial year; annual equivalent amounts are shown in brackets

\*\* The Director was seconded into HS2 Ltd and these amounts are the amounts invoiced by CH2M Hill

<sup>9</sup> Taxable benefits include benefits in kind for travel and accommodation, other than in the case of Mark Thurston where the benefit is a cash allowance in lieu of employer pension contributions

## Pension liabilities

Employees of HS2 Ltd are eligible to participate in a defined contribution pension scheme, in which the Company matches the employee contributions rate on a 2:1 basis to a maximum of 6% (2015/16: 5%) which means the maximum employer contribution is 12% (2015/16: 10%). The HS2 Ltd pension scheme is managed on the Company's behalf by Legal & General Ltd. For the year ended 31 March 2017, employers' contributions were £5.5 million (2015/16: £3.0 million).

Staff on secondment from DfT and other Government entities are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The Scheme is an unfunded defined benefit scheme and liability rests with their employer, and not the Company.

Staff on secondment from other commercial entities are covered by the provisions of that entity's scheme, where applicable and liability rests with the seconding company and not HS2 Ltd.

## Remuneration policy

As an Executive Non-Departmental Public Body (NDPB), HS2 Ltd is subject to regulations applying to pay policy across Government. 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 workforce with the skills and experience needed to manage the HS2 programme, whilst specifying clear limits and controls and added disclosures.

In line with the Government's policy on transparency, HS2 Ltd published details of those who receive more than £150,000 per annum most recently at 30th September 2016 on the Cabinet Office website, which can be found through the following link:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/579776/Senior\\_officials\\_\\_high\\_earners\\_\\_salaries\\_as\\_at\\_30\\_September\\_2016.csv/preview](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/579776/Senior_officials__high_earners__salaries_as_at_30_September_2016.csv/preview).

## Median staff cost (subject to audit)

The total annualised remuneration of the highest-paid Director at 31st March 2017 was £600,000 per annum<sup>10</sup> (2015/16: £750,000 pa). This was 8.8 times the £67,900 pa median salary of the Company's workforce at 31st March 2017 (2015/16: 12.0 times the median salary of £62,400 pa). The median is determined as the mid-point of all salaries of the workforce comprising employees, secondees and temporary staff.

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 (2015/16: none). Actual staff remuneration (on an annualised basis) for full-time work at 31st March 2017 (excluding the highest paid director) ranges from £21k to £415k per annum.

## High Speed Two (HS2) Ltd off-payroll appointees, consultancy and temporary staff

As part of the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury on 23rd May 2012, bodies have been asked to report on their off-payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. This data is shown in the following tables.

For all off-payroll engagements as of 31st March 2017, for more than £220 per day and that last for longer than six months	
Number of existing engagements at 31 March 2017	336
<b>Of which:</b>	
Number that have existed for less than one year at time of reporting	111
Number that have existed for between one and two years at time of reporting	142
Number that have existed for between two and three years at time of reporting	70
Number that have existed for between three and four years at time of reporting	9
Number that have existed for four or more years at time of reporting	4

The Company confirms that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that further evidence has been sought.

For all new off-payroll engagements, or those that reached six months in duration, between 1st April 2016 and 31st March 2017, for more than £220 per day and that lasted for longer than six months

Number of new engagements, and/or those that reached six months in duration between 1st April 2016 and 31st March 2017	374
Number of the above which include contractual clauses giving the Company the right to request assurance in relation to income tax and national insurance obligations	352
Number for whom assurance has been requested	374
<b>Of which:</b>	
Number for whom assurance has been received	121
Number for whom required assurance has not been received	253
Number of those in the line above, who have now left the Company	3
Remaining cases (all in the final stages of review)	250

All new contracts include contractual clauses giving the Company the right to request assurance. For all new engagements the Company requests tax compliance evidence and there are no contracts where an individual is exempt from this requirement. All individuals engaged are served tax compliance letters, evidence of tax compliance is received, and the engagement would have ceased if the required evidence had not been received. Work is being done to ensure all new engagements have the appropriate contractual clauses. For the remaining 250 outstanding cases, we are in the final stage of review where assurance is being sought.

**For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1st April 2016 and 31st March 2017**

Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	2
Total number of individuals on payroll and off payroll that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both on payroll and off-payroll engagements.	13

During the year 2016/17, the Company employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff in 2016/17 is shown in the table below.

	Consultancy £'000	Temporary Labour £'000	Total £'000
Expenditure by HS2 Ltd	10,830	54,777	65,607

Consultancy is the provision of objective advice relating to strategy, structure, management or operations of the organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business as usual' environment when in-house skills are not available and will be time limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Temporary labour includes staff seconded from other bodies, contract and agency personnel.

## Payments under compensation schemes

As part of its strategy to move its headquarters to Birmingham, the winding up of the team following completion of the hybrid Bill for Phase One and the wider management restructure, HS2 Ltd incurred costs related both to relocation and redundancy.

Relocation and redundancy costs are disclosed in full in the year of relocation or departure respectively.

### Relocation Payments

Band	2016/17 Number/Cost
<£10,000	23
£10,000 - £25,000	1
£25,000 - £50,000	2
£50,000 - £100,000	–
>£100,000	–
Total cost	£115,532

Relocation payments are made with HS2 Ltd's approved policy and within HMRC guidelines.

### Exit Payments (inclusive of redundancy, pay in lieu of notice and other contractual entitlements) (subject to audit)

2016/17 Band	Number of compulsory redundancies	Number of other departures agreed
<£10,000	16	1
£10,000 - £25,000	9	3
£25,000 - £50,000	3	–
£50,000 - £95,000	–	–
>£95,000	–	5
Total number of packages	28	9
Total cost	£322,772	£890,501

Although not part of the Civil Service Compensation Scheme (a statutory scheme made under the Superannuation Act 1972), HS2 Ltd was required to seek approval for schemes of redundancy and relocation. It is also required to seek approval for any enhancement of scheme terms beyond statutory levels, which it did not receive before agreeing the payments leading to the qualification of the accounts<sup>11</sup>.

On behalf of the Board



Mark Thurston, Chief Executive and Accounting Officer  
Signed on 6th July 2017

<sup>11</sup> Voluntary redundancies were paid at 4 weeks per year of service.

## 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 relevant 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 (FReM) and the Companies Act 2006, 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 FReM have been followed, and disclose and explain any material departures in the financial statements;
- » Ensure that the Annual Report and Accounts (ARA) as a whole is fair, balanced and understandable; 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 Chief Executive and designated Accounting Officer of HS2 Ltd, I am personally responsible for safeguarding the public funds under my control, for ensuring propriety, regularity and value for money in the handling of those public funds, and for the day-to-day operations and management of the Company.

I am required to ensure that HS2 Ltd as a whole is run on the basis of the governance, decision-making and financial management standards that are set out in HM Treasury's *Managing Public Money*.

This Governance Statement sets out how I and my predecessors have discharged our responsibilities during 2016/17.

## Accountability

The Secretary of State for Transport (SoS) is accountable to Parliament for the activities and performance of HS2 Ltd and for securing Parliamentary or Treasury approval as necessary. The Secretary of State for Transport lays HS2 Ltd's Annual Report and Accounts before Parliament, approves capital contribution payments and, through officials of the DfT, agrees with the HS2 Ltd Board the strategic objectives and policy framework within which the Company operates. The Secretary of State for Transport also reviews the performance of the Chair of the HS2 Ltd Board (on advice from the new Nominations Committee).

HS2 Ltd is accountable to the Secretary of State for Transport for the effective, efficient and economical discharge of its functions in developing a new high speed route as part of a wider transport network. The SoS's role is discharged by the DfT as our Sponsor. The relationship between the SoS and the Company

is set out in a Development Agreement (DA) and a Framework Agreement. Further information on these documents is available on the 'Our Governance' page of the Company website at <https://www.gov.uk/government/organisations/high-speed-two-limited/about/our-governance> and is summarised on pages 12–13.

The Board is responsible for reviewing the performance of the Company against its policy, strategy and risk frameworks and for making key decisions to ensure it meets its objectives.

As Chief Executive and Accounting Officer, I have responsibility for maintaining a robust system of internal controls that support the achievement of the Company's 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.

My Executive Committee supports the Board, HS2's strategic direction and client relationships as well as managing operations and programme delivery.

## Corporate governance principles

As an NDPB, HS2 Ltd seeks to comply with the principles of 'Corporate Governance in Central Government Departments: Code of Good Practice 2017'. Full details of the code can be found through the following link:

<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

In summary:

- » The Board seeks to uphold the seven key principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

- » The composition of the Board is balanced between executive and non-executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of non-executive Board members.
- » The remit of the Board and the roles and responsibilities of its members have been clearly defined in Standing Orders approved by the 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 (an external Board evaluation was undertaken during 2016/17).

### **The HS2 Ltd Board**

The HS2 Ltd Board meets on a monthly basis (or otherwise as required). Its role is to:

- » Set the Company's strategic aims and objectives in accordance with the requirements of the Development Agreement and ensure that they are achieved;
- » Ensure effective governance of the Company, making sure that decisions are made at the right time with the right information;
- » Shape, challenge and direct the Company;
- » Hold the Executive to account for the day-to-day performance of the Company;
- » Oversee the commitment of funds and any other significant commitments by the Company;
- » Monitor performance and risk; and

- » Oversee the health of relations with stakeholders and commercial partners.

The Non-Executive Directors of the Board are appointed by the Secretary of State for Transport as sponsor and sole member of HS2 Ltd. The Chair and the eight Non-Executive Directors are independent Directors. The Chief Executive, the Managing Director for Phase Two and the Chief Financial Officer are Executive Directors.

Legal duties are imposed on the Directors by virtue of their office, including duties under company, health and safety, employment and competition law.

Prior to any Board meetings, the Executive reviews the proposed agenda items. The General Counsel is the Company Secretary and provides the secretariat to the Board.

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

New governance arrangements have now been approved by the Board that are more appropriate to the future activities of HS2. These new arrangements will come into force early in 2017/18.

### **Role of the Chair**

The role of the Chair of the HS2 Board is set out in full in paragraphs 13.9 to 13.13 of the Framework Document which can be found through the following link: <https://www.gov.uk/government/publications/high-speed-two-hs2-ltd-framework-document-december-2014>

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.

### Board decision making

Effective, structured decision making is crucial as the Company progresses towards the construction of the railway. In 2016/17, Board discussions covered a number of regular agenda items including updates from the Board sub-committees, Health and Safety, Finance, Corporate Affairs, and the Residents' Commissioner.

During the year, the Board approved the 2016/17 Business Plan and Budget and reviewed progress against them. Through the Audit, Risk and Assurance Committee, the Board also reviewed the Annual Report and Accounts and the following:

- » Updates on Phase One (including Euston station), Phase 2a, and Phase 2b;
- » A specific update of the costs baseline (Baseline 6.1<sup>12</sup>);
- » Progress and close out of Review Point 1 (RP1) which was part of a wider process, since superseded, aimed at demonstrating readiness to award and manage contracts;
- » Strategic approach to contracting;
- » Invitation to tender approval and release for Main Works Civils Contracts;
- » Early Works Contractor award;
- » Rolling stock and depot strategy and launch of the procurement process for rolling stock;
- » Phase 2b route announcement;

- » Approval of the Implementation Partnership Agreement with Network Rail and DfT;
- » Updates on progress in addressing the concerns of petitioners in connection with the Phase One hybrid Bill;
- » Findings of the National Audit Office Value for Money Study; and
- » Activities of the Board sub-committees (covering investment and procurement matters, risk/audit, health and safety and remuneration).

More detail on the business conducted at the Board meetings is available on the gov.uk website.

### Board effectiveness

In 2016/17, an independent Board assessment was undertaken in accordance with corporate best practice. A number of improvements were identified, which were approved by the Board in October 2016 and presented to the Major Projects Review Group. A paper reporting on the status of these improvements was presented to the April 2017 Board meeting. Good progress is being made on all actions including: the establishment of two new Board sub-committees (considering time/cost/quality performance and the Board's own performance) and initiatives to improve quality of Board papers.

### Board commitment and attendance

Biographies of the current 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 36 and details of their contractual commitments and remuneration are disclosed in the Remuneration Report on pages 52 and 53.

<sup>12</sup> Baseline 6.1 relates to Phases One and 2a, it does not cover Phase 2b

All Board members have been present at monthly meetings during their periods of appointment, except where indicated below (between April 2016 and March 2017):

	07/4	05/5	17/5*	02/6*	15/6	07/7	01/9	06/10
Lord Andrew Adonis	✓	✓	✗	✓	✗	✗	✗	✗
Steve Allen	✓	✓	✓	✓	✓	✓	✓	✓
Richard Brown, CBE	✓	✓	✗	✓	✓	✓	✓	✓
Christine Emmett	✓	✓	✓	✓	✓	✓	✓	✓
Mel Ewell	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✗
Roy Hill	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sir David Higgins	✗	✓	✓	✓	✓	✓	✓	✓
Simon Kirby	✓	✓	✓	✓	✓	✓	✓	✗
Neil Masom, OBE	✓	✓	✓	✓	✓	✓	✓	✓
Roger Mountford	✓	✓	✓	✓	✓	✓	✓	✓
Alison Munro, CBE	✓	✓	✗	✓	✓	✓	✓	✓
Duncan Sutherland	✓	✓	✓	✓	✓	✗	✓	✓
Mark Thurston	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Baroness Jo Valentine	✓	✓	✗	✗	✓	✓	✓	✓

	03/11	08/12	12/1	23/1*	02/2	15/2*	02/3	24/3*
Lord Andrew Adonis	✗	✓	✓	✓	✓	✗	✓	✓
Steve Allen	✓	✓	✗	✓	✓	✓	✓	✓
Richard Brown, CBE	✓	✓	✓	✗	✓	✓	✓	✗
Christine Emmett	✓	✓	✓	✓	✓	✓	✓	✓
Mel Ewell	✓	✓	✓	✓	✓	✓	✓	✓
Roy Hill	✓**	✓**	✓	✗	✓	✓	✓	n/a
Sir David Higgins	✓	✓	✓	✓	✓	✗	✓	✓
Simon Kirby	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a
Neil Masom, OBE	✓	✗	✓	✓	✓	✓	✓	✓
Roger Mountford	✓	✗	✓	✓	✓	✓	✓	✓
Alison Munro, CBE	✓	✓	✓	✓	✓	✓	✓	✓
Duncan Sutherland	✓	✓	✓	✓	✓	✓	✓	✗
Mark Thurston	n/a	n/a	n/a	n/a	n/a	n/a	✓**	X - COI
Baroness Jo Valentine	✓	✓	✗	✗	✗	✓	✗	✓

\*Extraordinary meetings

\*\*As observer

X - COI Not permitted to attend due to conflicts of interest

### Changes to Board membership

Mel Ewell was appointed as a Non-Executive Director on 1st September 2016.

Simon Kirby announced his resignation from the Company in September 2016 and stepped down as Chief Executive Officer and Executive Director on 8th December 2016. HS2 Ltd welcomed Roy Hill as interim Chief Executive Officer and Executive Director on 9th December 2016.

On 1st March 2017, Mark Thurston joined as Chief Executive and became an Executive Director of the HS2 Board and Accounting Officer on 2nd March 2017 (taking over from Roy Hill).

Lord Andrew Adonis resigned on 21st April 2017.

### Conflicts of interest – Board

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 periodically on the gov.uk website. Board members are asked regularly to confirm that their entry is complete and up to date. This can be found through the following link:

<https://www.gov.uk/government/organisations/high-speed-two-limited/about/our-governance#register-of-business-interests>

The Board are mindful of the potential for a perceived conflict of interest in connection with Mark Thurston resulting from his employment with CH2M Hill prior to his commencement with HS2 Ltd as CH2M Hill is a major supplier to HS2 Ltd. To address this, it was agreed that Mark Thurston would not act as Accounting Officer nor participate in any decisions in connection with CH2M Hill for a period of six months (until 1st October 2017).

Mark Thurston had no direct or indirect financial interest in CH2M Hill when he commenced his employment at HS2 Ltd. Where any discussions are held at the Board or any other forum in relation to CH2M, Mark Thurston absents himself from the meeting and Steve Allen (Chief Financial Officer and Executive Director) acts as Accounting Officer for that item. Prior to any Board or committee packs being distributed, a conflicts check is undertaken and, as necessary, papers in relation to any identified item are withheld from Mark Thurston.

During Roy Hill's secondment to HS2 Ltd as Chief Executive Officer, Roy Hill had a direct conflict of interest in connection with CH2M Hill (in that he was an employee of CH2M Hill and hence had a financial interest in CH2M Hill). To address this conflict, during his secondment, Roy Hill did not act as Accounting Officer nor participate in any decisions in connection with CH2M Hill. Accordingly, papers relating to any decisions in which CH2M Hill had an interest, were withheld from Roy Hill and he absented himself from any part of a meeting in which CH2M Hill matters were to be considered.

Further, during 2016/17, Sir David Higgins, Chair of the HS2 Board, was appointed as Chair of Gatwick Airport and Baroness Valentine was appointed as Chair of Heathrow Southern Railway Ltd. Both appointments have involved bespoke arrangements being implemented to ensure that the Chair and Baroness Valentine are not required to make any decisions relating to HS2 Ltd which would conflict with their new roles (and vice versa).

## Conflicts of interest – Procurement

HS2 Ltd operates a Conflicts of Interest Policy that covers both internal staff and our supply chain. The process is supported by a dedicated Compliance team and a Conflict of Interest Panel to manage actual, potential or perceived conflicts of interest. Our approach seeks to avoid any perceived advantage that may arise from the engagement of personnel who are currently or have previously worked with HS2 Ltd by organisations who:

- i. will be bidding for HS2 Ltd contracts or
- ii. are commissioning studies, reviews or other examinations of HS2 Ltd activities.

Where an actual, potential or perceived conflict of interest could prejudice a tender process, prejudice procedural fairness or cause any legal non-compliance by the Company, the Panel will refuse to provide its consent to a provider working for both HS2 Ltd and any member of its supply chain.

During the year, concerns were identified regarding the proposed award of the Phase 2b Development Partner contract to CH2M Hill and the Company's Chairman appeared before the Transport Select Committee in connection with this matter. During the standstill period (being the statutory period of notification as to the outcome of the procurement that a company must allow prior to signing the contract), an unsuccessful bidder raised concerns regarding an individual who had worked for HS2 Ltd for some 4+ years and who allegedly assisted CH2M in the preparation of their bid. An investigation was undertaken in response to these concerns. Prior to the conclusion of such investigation, CH2M withdrew their bid.

On another occasion, HS2 Ltd conducted a procurement and, prior to awarding the framework

contracts to the winning bidders, concluded that two of the three proposed framework contractors were conflicted and unable to receive any work. Accordingly, it was right and proper to discontinue the procurement process.

On every procurement, there is an obligation on bidders to comply with the procurement rules as set out in HS2 Ltd tender documents, including the identification of any conflicts of interest and a requirement to declare any actual or perceived conflicts of interest in order that these can be assessed by our Conflicts of Interest Panel. Based on these assessments, safeguards are always put in place to manage conflicts and these are monitored diligently by HS2 Ltd. In light of the concerns raised on the Phase 2b Development Partner procurement, HS2 Ltd is considering what additional steps it can take to ensure strict compliance with the requirements.

During 2016/17, Beth West had roles as both an HS2 Ltd Executive Committee member and a Governor of the Board of the National College for High Speed Rail. Over this period, the Company made a loan to the National College for High Speed Rail, details of which can be found in note 9. As the College was seen as integral to the delivery of HS2's future skills requirements, Beth West's dual role was not initially seen as a conflict and hence not referred to the Conflicts Panel.

Once authority for HS2 to provide a loan to the College was granted by the DfT, Beth West took no part in further discussions, in order to prevent such a conflict arising, and appropriate checks were made before amounts were paid.

HS2 provided working capital to the College from March 2016. HS2 met £0.5 million of the College's

start-up costs directly during 2015/16, to further our common objectives prior to the College's incorporation. HS2 has treated these payments, in the accounts, as an expense. In May 2016, DfT gave HS2 the authority to make a loan to the College. In October 2016, HS2 and the College agreed in writing that the working capital created a loan obligation, repayable to HS2. Repayment and interest terms are expected to be settled, through a formal loan agreement, in Summer 2017. Total payments from HS2 to the College during 2016/17 were £4.0 million, all of which has been treated as a loan (see note 9).

### **Ethics and values**

The Board abides by the Cabinet Office model Code of Practice for Board members of NDPBs.

### **Professional development**

Board members have met and worked with staff, have attended background briefing sessions and dedicated training sessions and have become familiar with specific issues relating to the HS2 work programme.

An induction process is in place for new Board members (in line with Cabinet Office and UK Corporate Governance Code guidance), which includes introductory meetings with the Chairman followed by briefings with the Chief Executive and other members of the Executive team.

### **Board sub-committees**

There are six sub-committees of the Board with advisory or decision-making delegations, as set out in their Terms of Reference.

#### **Audit and Risk Assurance Committee**

The Audit and Risk Assurance Committee (ARAC) provides independent assurance to the Board that effective arrangements are in place throughout the Company for risk management, assurance and internal controls.

The Committee meets quarterly or as matters arise and its members are all Non-Executive Directors: Neil Masom, OBE (Chair), Baroness Jo Valentine and Roger Mountford.

ARAC oversees HS2 Ltd's assurance and risk frameworks, reviews internal audit outcomes and receives regular updates from the Company's internal and external auditors. The Committee also approves internal and external audit 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 Committee provides a report to the Board and Accounting Officer after each meeting and provides the Board and Accounting Officer with an Annual Report, timed to support the finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year. ARAC considered the following significant matters in 2016/17:

- » HS2 Ltd Risk Management Strategy and approach and risk appetite;
- » Risk deep-dive reviews on certain matters (e.g. fraud and bribery, security, IT and enterprise resource planning, funding, land & property management);
- » Integrated audit and assurance plan;
- » Review of the Period 9 and year-end financial statements and related audit reports;
- » A range of internal audit reports under the annual programme; and
- » Initial findings of the National Audit Office's value for money review.

### **Remuneration Committee**

The Remuneration Committee reviews HS2 Ltd pay policy and advises on matters concerning the remuneration of senior executives. The Committee determines and agrees with the Board, within the guidelines delegated by HM Treasury and DfT, the framework and broad policy for the remuneration of the Company's employees. The remuneration of Non-Executive Directors is a reserved matter for the Chairman and the DfT.

Its members are all Non-Executive Directors: Christine Emmett (Chair), Richard Brown, CBE and Duncan Sutherland. The terms of reference of this Committee allow for an observer from the DfT to attend meetings. The DfT observer is currently Jonathan Moor, Director General, Resources and Strategy.

### **Commercial and Investment Committee**

The Commercial and Investment Committee (CIC) was established to enhance the Board's scrutiny of major investment decisions. Its function is to review procurement and investment proposals in more detail and at an earlier stage than the Board, and to assess the readiness of that decision for consideration by the Board. This ensures that the Board is presented with clear and well-evidenced proposals and, where appropriate, alternative choices for decision. The CIC provides a report to the Board on all matters that it considers, and identifies the key issues for consideration by the Board when proposals for investment or procurement are presented for the Board's approval.

The CIC's members are all Non-Executive Directors: Roger Mountford (Chair), Christine Emmett and Neil Masom, OBE.

### **Health, Safety and Environmental Committee**

The Health, Safety and Environmental Committee (HSE) provides independent assurance to the Board that effective arrangements are in place for the management of health and safety matters and environmental matters.

The HSE Committee is required to satisfy itself as to the adequacy and effectiveness of HS2 Ltd's health, safety and environmental policies and strategies, and of the principles, policies and practices adopted in complying with statutory and regulatory requirements in relation to health, safety and environmental matters affecting the activities of the Company. It provides assurance to the Board that the Executive Team is adequately managing HSE risk and exercising suitable controls with respect to HSE matters.

The Committee meets quarterly and as matters arise. Its members are all Non-Executive Directors: Richard Brown, CBE (Chair), Neil Masom, OBE and Christine Emmett.

### **Nominations Committee**

The Nominations Committee is an advisory body for the Board that reviews and makes recommendations in relation to Board composition, succession planning for Board members, and Board effectiveness. The Committee meets once every six months or as matters arise. Its members are all Non-Executive Directors: Baroness Jo Valentine (Chair), Richard Brown, CBE and Christine Emmett.

## Programme Committee

The Programme Committee is an advisory body for the Board that reviews the cost and time performance of the HS2 programme of works/ services in more detail than time permits at the Board to ensure that the Board is presented with clear and accurate information in relation to such performance. The Committee meets quarterly or as matters arise. Its members are both Non-Executive Directors: Mel Ewell (Chair) and Neil Masom, OBE.

## HS2 Ltd Executive 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 HM Treasury. Where any discussions are held at the Board or any other forum in relation to CH2M, the Chief Executive absents himself from the meeting and Steve Allen (Chief Financial Officer and Executive Director) acts as Accounting Officer for that item.

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 the Company. The AO ensures that company governance, decision-making and financial management follow guidelines set out in *Managing Public Money*.

The AO signs the Financial Statements and, supported by the Board, ARAC and CFO, 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 also 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 through the following link:

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

During March 2017, Mark Thurston, as incoming Accounting Officer, held a series of handover meetings with Roy Hill, outgoing interim Accounting Officer to provide himself with the necessary assurances that a sound system of internal control was in place that supports the achievement of the Company's policies, aims and objectives commensurate with the Company's maturity.

Items discussed as part of the handover to Mark Thurston included (but were not limited to):

- » Land & Property - Land Assembly and notices;
- » Organisation Structure (Developing our company) and Governance;
- » The updated estimate of schedule and cost (known as Baseline 6.1) and contract readiness;
- » Business Planning and affordability;
- » Tax changes resulting from intermediary's legislation (IR35); and
- » IT Systems.

Mark Thurston is scheduled to attend Government training on 'the role and responsibilities of the Accounting officer in Government' in June 2017.

Prior to this, in November/December 2016, Roy Hill as incoming interim Accounting Officer, held a similar series of handover meeting with Simon Kirby with a similar list of topics which at the time included progress on obtaining Parliamentary approval to the Phase One hybrid Bill. Roy attended Accounting officer training on 1st November 2016.

## Executive Team

The Executive Team manages the day-to-day management and operations of HS2 Ltd and in 2016/17 has comprised (unless otherwise stated, the relevant Executive member served throughout the year):

Position	Executive	Started	Left
Chief Executive Officer	Simon Kirby		8/12/16
	Roy Hill (Interim)	9/12/16	1/3/17
	Mark Thurston	1/3/17	
Chief Financial Officer	Steve Allen		
Managing Director, Phase One	Jim Crawford		
Managing Director, Phase Two	Alison Munro, CBE		
Managing Director, Railway Operations	Chris Rayner		
Director of Corporate Health & Safety, Security & Environmental Management	Emma Head		
Technical Director	Andrew McNaughton		

The following Directors served on the Executive for part of the year but stepped down from their roles on 2 February 2017 (unless otherwise stated) following a reorganisation.

Organisational Effectiveness and Change Director	Nina Cope (Interim)		
HR Director	Peter Gregory		
Programme and Strategy Director	Alistair Kirk		4/1/17
Commercial Director	Beth West		
Programme Development Director, Internal Sponsor	Stuart Westgate		
Corporate Affairs Director	Janine Mantle		
Director of Community Engagement	Julie King	5/12/16	

'Left' indicates that either the individuals left HS2 Ltd or, due to organisational changes, that they remained within HS2 Ltd but no longer served on the Executive Committee.

The Executive meets monthly to consider strategic and operational issues related both to the Company and the programme (and more frequently to consider operational matters). The Executive delegates the detailed scrutiny of certain issues to a range of formally constituted forums, including Programme Board (scrutiny for the Phase teams), Investment Panel (investment decisions), Management Committee, Business Transformation Panel (change management), People Panel (workforce-related issues) and HSE Panel (health, safety and environment matters).

## Workforce

The HS2 Ltd workforce is made up of employees; secondees from Government departments; secondees and contractors from private companies and agency staff, working in a fully integrated organisation structure. A workforce plan has been developed in line with the Company's organisational development principles.

During the year, HS2 Ltd, in common with the rest of the public sector, faced significant challenges brought about from changes to the Intermediaries Legislation (also known as IR35). HS2 Ltd reviewed and further amended its approach to address these changes. More detail on off-payroll arrangements are given on page 55.

Performance is measured through achievement of the organisation's strategic objectives and behaviours that align with the Company's core values. Employee engagement is encouraged through annual staff surveys, a workplace forum and regular 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 employment policies are in place including those covering working conditions, pay, equality diversity and inclusion, employee relations, succession planning, conflicts of interest and whistleblowing.

## Suppliers and contractors

HS2 Ltd employs specialist suppliers and contractors to perform those services and works that are needed to achieve the objectives of the Company. Suppliers and contractors are procured and managed in accordance with Government-wide and EU procurement legislation. The Company has a robust Governance structure in place in connection with procurement decisions including a Conflict of Interests Panel which considers any cases where a potential conflict might exist.

As outlined in the Strategic Report, the Company has undertaken extensive market communications in order to ensure that its procurement strategies are appealing to, and appropriate for, the relevant market. The Company has been using behavioural assessments to test how closely suppliers are aligned with its values and how effectively they will collaborate with the Company and other suppliers to support the achievement of our goals and objectives.

## Risk management

HS2 Ltd has adopted an enterprise risk management framework in line with HM Treasury guidance *Management of Risk: Principles and Concepts* (also known as 'The Orange Book'), Cabinet Office *Framework for the Management of Risk in Government, 2017* and following ISO31000: Risk Management – Principles & Guidelines. Each business area identifies, assesses, treats and monitors its risks (both threats and opportunities), discussing the most significant at the relevant governance forum.

The Company's Risk Management Strategy and Risk Management Plan provide clarity of the principles, accountability and responsibility for risk management to enable optimal decision-making. The process for risk management is described in the Risk Management Procedure, primarily:

- » Identification of risks to the achievement of the Company's policies, aims and objectives;
- » Assessing the likelihood of those risks to be realised, their potential impact and their current significance;
- » Managing the risks efficiently, effectively and economically; and
- » Monitoring and reporting the status of risks, controls and management actions.

Each monthly performance report submitted to the Board sets out the Company's primary risks. ARAC reviews risks and the Company's risk management systems regularly and advises the Board accordingly.

HS2 Ltd's objectives in relation to the management of risk are to:

- » Embed risk management as a fundamental tenet for the management of all aspects of HS2 Ltd, ensuring that uncertainty and risk (both threat and opportunity) are considered in decision making;
- » Develop and portray a robust understanding of the Company's risk profile to support, guide and enable effective decision making;
- » Provide a detailed understanding of the risks to HS2 Ltd and the aggregate effect on cost, schedule, reputation and safety and other output targets;
- » Support the identification and implementation of risk treatment actions that are prioritised, effective and timely, in order to constrain threats and optimise opportunities within acceptable limits;
- » Ensure clear responsibility for the management of risk between the Company and its partners, giving accountability for the execution of risk management activities to appropriate specific individuals within each organisation; and
- » Develop a unified, consistent risk management culture throughout the Company, its partner organisations and the wider supply chain.

## Risk appetite

HS2 Ltd has developed a risk appetite statement which is considered by ARAC and agreed by the Board and which reflects its approach to managing risk.

'HS2 Ltd wishes to be seen as having a best in class approach to risk management and to be respected within the UK for developing a world class railway whilst deploying exemplar practices in health and safety, equality diversity and inclusion, community relations and environmental control.

The Company puts safety at its very heart and therefore has no appetite for any risks that could result in injury or loss to the public, passengers or our workforce. We also recognise that our reputation is influenced by our ability to manage public funds wisely to deliver HS2 to programme and within its' funding envelope. We will therefore only tolerate low levels of risk to the achievement of programme targets.

In pursuit of excellence the Company is however prepared to accept commercial and operational risks in order to stimulate innovation both within the Company and its supply chain and to test established norms and introduce best practice which may accelerate programme delivery, reduce cost or enhance the passenger experience.

In doing so the Company will carefully monitor and assess the individual and compound implications of this approach both for HS2 Ltd and for our stakeholders to minimise their exposure to any actual or reputational risk.

HS2 Ltd recognises that its risk profile will change significantly over time as it moves from consultation and approvals, to construction, delivery and operations. Our risk appetite will therefore remain dynamic and be reviewed as the programme develops.'

In 2016/17, the risk appetite statement was translated into operational Risk Management procedures with updated risk escalation criteria and guidance for setting local risk tolerances within the corporate Appetite. The Risk Appetite statement will continue to be reviewed as the organisation develops.

### **Identified key risks to the organisation and their management**

HS2 Ltd is in a period of rapid change as it commences the delivery phase of one of the largest and most complex engineering programmes in Europe. Its systems, controls and processes – including governance and operational models – are being comprehensively reviewed in order to ensure that they are the most effective to deliver the programme on time and on budget. The Company works closely with the DfT, other Government bodies and with the private sector to share knowledge and experience, including in the areas of capacity, capability and affordability.

The areas in which our key risks arise are summarised in the following table:

Risk area	Areas in which key risks arise	Controls
1. Schedule, cost and risk	HS2 Ltd is remitted with delivery of the railway into service, on time and on budget and to manage its risks appropriately.	HS2 Ltd ensures that these success factors are prioritised via personal performance objectives, training in connection with HS2’s revised governance regime, focused Management Information (MI) and supplier KPIs.
2. Affordability	Ensuring that the HS2 programme for each phase is delivered within the overall scope and funding envelope agreed with Government (including any contingency funding) and that in each year, its short-term activity including programme, budgets, workforce plans, risk management and procurement pipelines are aligned to the overall programme timescales and agreed resources.	Affordability is controlled through a detailed annual business planning exercise identifying activities and workforce required to meet the programme within budget. Controls are built into the programme management of the work including monthly progress reporting, controlled procurement, clear accountability and delegated authorities for any change.
3. Stakeholder relationships	In addition to Government as Sponsor, there are a significant number of stakeholders in the HS2 programme, including local authorities, the rail industry, people affected and the public at large.  Their objectives may not be aligned with those of HS2 Ltd.	Communications and engagement strategies and plans are developed for all our stakeholder groups. HS2 Ltd works with DfT and the High Speed Rail Group to continually develop a unified message.
4. Securing necessary Parliamentary approvals	The hybrid Bill petitioning process and securing parliamentary approvals is a regulated process and whilst Phase One is complete, it will shortly commence for Phase 2a and then 2b. Subsequent to Royal Assent, extensive approvals are required to enable the works to proceed.	The hybrid Bill petitioning process is led by a dedicated and expert team with relevant expertise drawn from across the Company as required. Acquisition of land and property is also led by a dedicated team working closely with the DfT. Local Planning approvals are coordinated by the Phase teams. The Corporate Communications Team and Community Engagement Team are available to provide support.

Risk area	Areas in which key risks arise	Controls
5. Governance	<p>The governance framework within which HS2 Ltd operates must be robust, transparent and operating effectively.</p> <p>HS2 Ltd also operates as a Government Arm's Length body and is subject to 'Managing Public Money' Efficiency Reform Group controls and a wide range of other external controls which it must comply with.</p>	<p>The Board approved a revised governance regime in April 2017. This will be implemented early in 2017/18. This revised regime will be reviewed at regular intervals to ensure its effectiveness.</p> <p>HS2 Ltd ensures that it engages suitably qualified and experienced staff who are familiar with the Government framework of controls with which it operates.</p>
6. Organisational maturity and capacity	<p>Given the scale of the HS2 project, effective controls and processes need to be in place, working as planned and delivering value for money. The recent move to Birmingham and organisational restructure has led to the loss of knowledge and experience from the organisation. This has occurred before all process design has been completed and embedded.</p> <p>This, with resource constraints, and potential lack of awareness of them, could result in a lack of adherence to them, both within the company and as an Arm's Length Body (ALB) of government.</p>	<p>The Company has a workforce planning process to identify the needs of the programme and ensure that capacity issues are identified and addressed and a comprehensive learning and development programme intended to support the delivery of appropriate capabilities.</p> <p>The Company is investing in a new Enterprise Resource Planning (ERP) system from April 2018. In the meantime, it is raising the importance and awareness of operating in a controlled environment and of compliance with company and Government governance. This message is being delivered through its capability programme and other targeted training, to existing and new staff and partners. Enhanced monitoring is also being introduced in order to detect and correct errors speedily.</p>
7. Design development	<p>The development of the design takes place over several years. Designs are likely to require to be updated during this time. This may result in a lack of alignment between different elements designed at different times.</p>	<p>The Company has in place a robust design and assurance framework to ensure that it is at an adequate state of maturity. This includes an internal assurance and quality function that is a key part of the overall design assurance framework.</p>

Risk area	Areas in which key risks arise	Controls
<p>8. Readiness for Phase One construction</p>	<p>The High Speed Rail (Preparation) Act 2013 allows the SoS to incur expenditure in preparation for a high speed rail network. Using these powers, the Company has undertaken certain activities in readiness for construction to ensure adequate progress of the programme prior to Royal Assent. These activities include the advanced acquisitions of property, design and survey activity, ground investigations, works relating to utilities diversions and enabling works (such as demolitions).</p>	<p>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 by the Managing Director, Phase One.</p>
<p>9. Developing Phase Two</p>	<p>It is an integral part of the development of Phase Two that: the design is being developed robustly, mindful of cost; costs are at a reasonable level of confidence (including risk allowances) for the stage of development; and any legal and policy risks are identified and managed.</p>	<p>The controls used successfully to secure the hybrid Bill for Phase One are being similarly deployed (with lessons learnt exercises for further refinement).</p> <p>Risk analysis in accordance with HS2 Ltd procedures and Government good practice is utilised to estimate costs.</p> <p>KPIs have been cascaded to HS2 Ltd’s professional services contractors to support cost objectives.</p>

Risk area	Areas in which key risks arise	Controls
<p>10. Purchasing and managing land and property on behalf of the Secretary of State</p>	<p>HS2 Ltd manages various compensation schemes for land and property owners in accordance with instructions from the DfT.</p> <p>HS2 Ltd also manages on behalf of the DfT the programme of critical negotiated acquisitions needed to ensure delivery of the programme on time and subsequently manages any properties acquired.</p>	<p>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 Company/DfT board with appropriate specialist property and legal advice. Major business acquisitions are subject to further approval by HM Treasury.</p> <p>Appropriate management of property is achieved through arrangements with a specialist property management company.</p>
<p>11. Supply chain capacity</p>	<p>To be successful HS2 requires an engaged, skilled and capable supply chain with adequate capacity. There exists the possibility that other major infrastructure programmes, with similar delivery timescales and skills requirements, may impact on this capacity and the resources available to deliver Phase One on time and to budget.</p>	<p>There has been early engagement with the supply chain to ensure awareness of HS2's requirements.</p> <p>We are also putting in place provisions to mitigate this at an early stage; through supporting the establishment of the National College for High Speed Rail (NCHSR); targeted engagement with the supply chain; and, where appropriate, by placing requirements on our suppliers with respect to apprenticeships and skills development.</p>

## Internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk. It supports the achievement of HS2 Ltd's policies, aims and objectives, while safeguarding the funds and assets of the organisation in accordance with HM Treasury's *Managing Public Money*.

The Company adopts the 'three lines of defence' approach as recommended by HM Treasury's guidance on assurance frameworks. The key elements are:

1. First line – within business areas based on routine management controls, robust policies and procedures, performance data and risk registers. Assurance comes from the evidence provided of the implementation of these by those within the Company who best know its operations;
2. Second line – oversight of management activity though not independent of the management chain including compliance reviews, reviews of policy and quality arrangements. Assurance is more objective than first line assurance; and
3. Third line – independent and objective assurance designed to provide the Accounting Officer with an independent opinion on the framework of governance and control.

## First Line

- » Corporate policies, processes, and procedures

HS2 Ltd's policies, strategies, plans, processes, procedures, forms, work instructions and guidance documents are maintained in line with the quality and document control procedures.

These documents are essential elements in making sure that activities are carried out in a consistent and efficient manner, complying with the Sponsor's Requirements, requirements arising from the Parliamentary process, and legal and regulatory requirements.

The Company maintains risk registers at corporate, programme, individual projects and directorate levels.

- » Governance

The Company's governance regime includes the HS2 Board, six Board sub-committees, the Executive Committee, four Executive sub-committees and a number of Phase and sub-Phase forums to ensure that the right decision is made with the right information. Individual delegations are clear and have been structured to align with role accountabilities.

- » Analytical modelling

Economic and business modelling remains essential to the work of HS2 Ltd to ensure that the costs and benefits of the programme included in the HS2 business case are based on a rigorous assessment of transport demand.

## Second Line

### » Internal assurance

Expert advice is provided across the Company in areas such as legal, finance, human resources, cost management, planning, project management and procurement as well as in specialist areas to help ensure that the Company meets its statutory and regulatory obligations, providing an 'independent' perspective to the Phase/delivery teams. These resources are often internal to the Company: they may be external where additional short-term capacity or specialist skills are required.

### » Development Agreement and Review Points

Since the last Annual Report, the DfT has redesigned the method for approval of delegations to HS2 Ltd to focus on procurement tranches rather than the former Review Point process. The Capability Programme, in collaboration with both delivery focused and enabling directorates, has proactively managed the development and mobilisation of business capability in alignment with business requirements, outlined in the Corporate Strategy.

The HS2 Ltd Integrated Assurance and Approvals Plan defines at an enterprise level when capability maturity will be assured in advance of procurement milestones, and how such assurance activity interfaces with DfT/HMT assurance and approvals.

### » Systems of internal control

HS2 Ltd completes a Management Assurance Review (MAR) twice a year, resulting in the production of a Management Assurance Statement (MAS) which is signed off by the Accounting Officer and is submitted to the DfT. Evidence is gathered from internal stakeholders across the organisation and the MAS is endorsed by the ARAC before being submitted to the DfT. The purpose of the MAS is to:

- Provide a self assessment of the effectiveness of our systems of internal control;
- Identify areas where controls may not be operating effectively; and
- Identify and instigate future actions for improvement.

The MAR actions are captured on the 'Audit Actions Tracker' and reported to ARAC on a regular basis. The Company also undertakes a yearly programme of compliance and quality audits, which are reported to ARAC.

## Third Line

### » Independent assurance

Assurance on the effectiveness of HS2 Ltd's system of internal control, independent of management, is obtained from audit carried out under the annual internal audit programme. This is presented in audit reports and management letters. The Company works closely with its internal auditors, the Government Internal Audit Agency, to design and implement the audit programme, to; provide assurance in critical business areas; identify best practice; and to develop processes and controls which follow best practice.

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 noted the considerable amount of work being undertaken as part of maturing the Company in readiness for construction activities.

Based on his findings, it is his view that a 'limited' assurance rating was appropriate, meaning that there were 'significant weaknesses in the framework of governance, risk management and control such that they are, or could become, inadequate and ineffective'. This is a lower level of assurance than the 'moderate' opinion given by the Head of Internal Audit in 2015/16 (which meant that arrangements were adequate and effective for 2015/16) as the Company's risk management, governance arrangements and control systems continue to develop and mature as the Company transforms from a development organisation to a construction based organisation.

The Company is certified with both the ISO 9001 (Quality) and OHSAS 18001 standards (Health & Safety) and is accredited for the Chartered Institute of Purchasing and Supply (CIPS). The Company is also subject to regular external review including, but not limited to, those of the Infrastructure and Projects Authority (IPA)<sup>13</sup>, Major Projects Review Group (MPRG) and the National Audit Office (NAO).

## Areas for development identified in the 2015/16 Financial Statements and progress to date

The main areas that were identified in 2015/16 for development in 2016/17 included:

### 1. Fixed Asset controls and records

We have undertaken a thorough review of the processes and controls around fixed assets including the developed of a comprehensive *Accounting for Infrastructure Assets* policy paper for adoption from April 2017 and plans to drive longer term improvements in our fixed asset controls and records to ensure they are fit to support larger and more complex asset purchases. This has involved a collaborative and consultative approach with DfT and the NAO.

Further work is needed on developing skills and expertise within the Finance team regarding the accounting for and management of fixed assets.

### 2. The quality and transparency of data produced by Human Resources (HR) and the identification of areas where HR controls may still need improvement

Although progress was made in the early part of the year, there has been continuing issues with operational HR controls as evidenced through a 'limited' audit opinion from Internal Audit and a significant number of issues with data for the year end payroll resulting in overpayments which have been or are in the process of being recovered.

In particular, HS2 Ltd embarked on a number of contiguous redundancy programmes in order to reshape the company for future operations. Given the nature of these programmes with settlements in excess of statutory terms, approvals were needed from HM Treasury in advance and such approvals were not sought prior to settlement. These payments were therefore not properly authorised, as reflected

in my statement and the NAO's qualification of the accounts on regularity grounds. Further targeted work will be needed in 2017/18 to drive the necessary operational improvements in HR, so that error and re-work is eliminated.

### 3. The development of further controls and reporting on the HS2 Ltd pay remit to provide assurance on remuneration levels (including enhanced People Panel and Remco reporting)

The proposed approach to each yearly pay review is presented to the Remuneration Committee and ultimately for the HS2 Board's approval.

### 4. Plans for strengthening first line of defence controls including those informing our requirements for our replacement ERP system

Considerable work has been undertaken on our 'future state' requirements under a new ERP system including agreement to a company-wide data and systems architecture structure which integrates all operations and reporting. Alongside this, work has progressed well on new banking arrangements and insurances as part of a robust financial platform for the future.

### 5. The general control environment

HS2 continues to mature and grow into a complex and large scale company and with it must be commensurate growth in its systems, processes and controls in order to demonstrate probity and value for money as a commercial body working within the government sector and subject to the Government framework of controls. In some areas, these processes remain underdeveloped (such as its HR controls and procurement to pay processes) and further targeted work, including the implementation of a robust ERP system and further internal training and education, is planned over the course of the next year.

## Areas for development arising in 2016/17

2016/17 has been a significant achievement for HS2, following the grant of Royal Assent for Phase One. It has also been a year of significant change for the company, including the transition of our HQ from London to Birmingham. A number of areas have been identified for improvement, as a result of the NAO's qualification, report and management letter; the work of internal audit; and the company's own continuous improvement efforts.

1. Significant improvements in the general controls environment are planned. HS2 Ltd needs to ensure that it develops a culture and behaviours which balance the need to operate as a commercially aware enterprise driving cost and schedule with its duties as a public sector body operating within a defined and regulated framework. At the heart of this will be a strong systems environment backed by a robust governance framework with well defined, written processes. This will be delivered through a strong business change programme to ensure that those working for HS2 Ltd are clear about their responsibilities and the consequences of non-compliance.
2. Significant further enhancement of HR controls to eliminate ongoing issues, which cause error and overpayment or the risk of lost assets or security breaches. A full overhaul is planned of operational HR processes to ensure that these are robust and well managed within constraints of an arm's length body.
3. Embedding of the Integrated Assurance and Approvals Plan (IAAP), which ensures that the assurance activities positively contribute to the quality of decision-making within HS2 Ltd.
4. Further enhancements of HS2 Ltd's Whistleblowing/Raising Concerns capability along with:
5. Improvements in 'Procurement to Pay' and contract management controls in order to demonstrate probity, value for money and appropriate anti-fraud, bribery and corruption controls;
6. Improvements in the collection and reporting of data in order to manage the long and short term aspects of time and cost control across the programme;
7. The operationalisation of significant changes in the organisational structure and governance framework of HS2 Ltd (including new delegations) which require significant system changes, manual work and both business change and user training;
8. Implementation of physical and personnel Security Policies;
9. Testing and exercising of the Business Continuity Management Plans. Targeted development training for managers, including provision of a portal to provide access to training and learning materials to staff;
10. Enhancement of the information made public through transparency reporting on gov.uk, including the Gifts and Hospitality Register; and
11. Targeted development training for managers, including provision of a portal to provide access to training and learning materials to staff.

## Regulation, Parliament and the public

The Company's Annual Report and 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 and openness. Relevant documents relating to governance are published on the gov.uk website.

## Conclusion

HS2 Ltd is progressing rapidly towards becoming a mature construction client organisation with processes, systems and controls which are appropriate for a Programme of such scale and complexity. That journey is not yet complete and the Company's capability programme is central to us developing the necessary measures. This financial year has demonstrated the need to develop further the control environment and to balance the commercial needs of the programme with the duties and responsibilities inherent in a government organisation operating within a well-defined framework.

As reflected in the information presented in this statement, it is my view that in spite of some clear control issues in 2016/17, HS2 Ltd's internal control and governance mechanisms are broadly fit for purpose and appropriate to our current stage of development and maturity. However, I recognise the need for rapid improvement given the size and scale of future challenges and where 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.

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 and that this will mean a focus on the application of strong controls and clear processes.

As Accounting Officer, I am required to confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

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

This report is for the financial year 2016/17 and to the date of signing.



**Mark Thurston, Chief Executive and Accounting Officer**  
Signed on 6th July 2017

## REPORT OF THE INDEPENDENT AUDITOR

### The Certificate of the Comptroller and Auditor General to the sole member 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 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' 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, 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.

## Basis for qualified opinion on regularity

High Speed Two (HS2) Limited implemented both compulsory and voluntary redundancy schemes during the financial year. The terms of these schemes were substantially in excess of both the statutory levels allowed in HS2 Ltd's framework document, and the terms of the Civil Service Compensation Scheme (CSCS). The value and nature of these terms came to light during my audit.

HS2 Ltd operated these schemes on enhanced terms without receiving authority from the Department for Transport and HM Treasury, which its framework document makes clear is required. Neither the Department nor HM Treasury has provided retrospective approval.

For this reason, I consider that the redundancy commitments made this year by HS2 Ltd do not conform with the authorities which govern them, and that the expenditure associated with their enhanced terms is therefore irregular. I have therefore qualified my opinion. I estimate these additional costs to be approximately £1.76 million out of the total £2.76 million commitment for these schemes.

Further details can be found in my report, below.

## Opinion on regularity

In my opinion, except for the matter described in the basis for qualified opinion paragraph above, 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 2017 and of its net expenditure for the year then ended; and
- » the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the 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 and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- » the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements; and
- » In the light of the knowledge and understanding of the group and the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or Directors' Report.

## 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 returns adequate for my audit have not been received from branches not visited by my staff; 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.

Sir Amyas C E Morse, Comptroller and Auditor General

Dated 11th July 2017

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Report of the Comptroller and Auditor General on the 2016/17 Accounts of High Speed Two (HS2) Limited

### Introduction

1. High Speed Two (HS2) Ltd is a company limited by guarantee, controlled and funded by the Department for Transport (the Department). The Department established the company to develop, build and operate a high speed rail network to link London, Birmingham, Leeds and Manchester, and onwards to services on the existing rail network. The Company is classified as a Non-Departmental Public Body (NDPB) by the Cabinet Office and is part of the central government sector.
2. The Department is responsible for setting the framework under which HS2 Ltd operates. This is principally reflected in a framework document<sup>i</sup>, drawn up by the Department with the agreement of HM Treasury, and signed by the Department and the Company.

### My qualified opinion on regularity in respect of HS2 Ltd's redundancy schemes

3. During the year, HS2 Ltd spent outside the agreed framework, and did not comply with HM Treasury rules, by running a redundancy scheme at enhanced terms without the necessary approvals. Relevant commitments of £2.76 million<sup>ii</sup> were, I estimate, £1.76 million in excess of the amounts payable on the statutory rates authorised by the Department.

4. HS2 Ltd's framework document and subsequent agreements give the Company exceptional flexibilities on its rates of pay, so that it is properly equipped for its role, given market conditions in the rail sector.
5. However, the company's framework imposes certain constraints in light of these freedoms, and to protect the taxpayer's interest. These constraints include the following clause.  
*Any proposal by HS2 Ltd to ... pay any redundancy ... above statutory requirements ... requires the prior approval of the Department ... any proposals for extra-contractual payments of any kind to staff must be cleared with the Department and HM Treasury<sup>iii</sup>.*
6. In March 2016 the company sought formal permission for a relocation and redundancy scheme. The Department gave written permission, which included a clear restriction that redundancy terms should be at statutory levels. In April 2016, HS2 Ltd asked the Department to enhance the terms of upcoming schemes beyond this, to a level comparable with the Civil Service Compensation Scheme then operating, but more generous than the new terms for the CSCS on which the Cabinet Office were publically consulting at the time.
7. A senior official at the Department then instructed to a senior executive at HS2 Ltd that no enhancements would be approved. No evidence has been presented to me suggesting that this instruction was passed on within the Company.

<sup>i</sup> High Speed Two (HS2) Ltd Framework Document, December 2014, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/389375/High\\_Speed\\_Two\\_\\_HS2\\_\\_Ltd\\_framework\\_document\\_\\_December\\_2014\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389375/High_Speed_Two__HS2__Ltd_framework_document__December_2014_.pdf)

<sup>ii</sup> These include amounts paid by year end, and provided or accrued for in the financial statements, as well as £0.59 million included in contingent liabilities where notices have been issued but departures remained uncertain at the year end. The contingent amounts are included here since the company has received advice that if these individuals cannot be found permanent roles and their redundancies go ahead, it is contractually committed to pay compensation using the unapproved enhanced terms.

<sup>iii</sup> Ibid., 6.8-6.9.

8. HS2 Ltd made commitments based on enhanced terms despite the absence of an approval to do so. In addition, the enhancements the company actually made were well in excess of those it requested from the Department, or those that would have achieved parity with the CSCS.
9. It is clear to me, and should have been clear to HS2 Ltd as it made commitments, that:
  - » explicit approval from the Department was required for any departure from statutory levels;
  - » the Department rejected the Company's request to enhance schemes to civil service rates;
  - » additional enhancements had been made well beyond civil service rates – for example, where individuals would be due lump sums in excess of the £95,000 CSCS maximum, they were offered 'gardening leave' to work around this constraint; and
  - » in the absence of unequivocal written approval from the Department, the Company did not have the authority for any of these enhancements.
10. Retrospective approval has not been given either by the Department or HM Treasury.
11. I therefore conclude that these transactions do not conform with the authorities which govern them, so have qualified my opinion on regularity. The remainder of my report describes my detailed findings, the actions taken to date by HS2 Ltd and those required of it in the future.

## Detailed findings

### Background

12. During the year, HS2 Ltd decided to run both compulsory and voluntary redundancy schemes, as it needed to restructure its workforce. There were a number of reasons for this. These were the transfer of the company's Head Office to Birmingham; the grant of Royal Assent to the High Speed Rail (London – West Midlands) Bill, moving into the design and construction stage for Phase One of the route; as well as HS2 Ltd's decision to reorganise some areas of its business.

### HS2 Ltd needs Departmental and HM Treasury approval to enhance redundancy payments

13. The rules covering HS2 Ltd's finances are set out in its framework document, described above. This document, agreed with HM Treasury, makes clear<sup>iv</sup>:
  - a. that the benefits package authorised includes only statutory redundancy pay – a condition built into HS2 Ltd staff contracts – with any proposals for extra contractual payments requiring authorisation by the Department and HM Treasury; and
  - b. that the salaries allowed at HS2 Ltd are higher than those that would normally be allowed in the public sector, because of market conditions and the restrictions to wider benefits<sup>v</sup>.
14. HS2 Ltd therefore has bounded flexibility on salaries, but is authorised to make only statutory redundancy payments. Approval is needed from the Department for any departure from this rule, and (assuming the Department is content) from HM Treasury.

<sup>iv</sup> High Speed Two (HS2) Ltd Framework Document, pp23 and 40.

<sup>v</sup> Additional flexibility on salaries is provided by HM Treasury's agreement in November 2014 to remove the restriction for HS2 on pay awards, and to allow 65 posts at HS2 Ltd with salaries above £142,500. HM Treasury noted that these freedoms reflected 'the fact that HS2 is a highly exceptional time-limited project, like the Olympics and Crossrail' and the need to 'ensure HS2 Ltd is equipped to deliver the best possible value for money for the taxpayer more widely'.

The Department reiterated the restriction to statutory terms in March 2016, at the point of approving HS2 Ltd’s request to run compulsory and voluntary redundancy schemes.

**HS2 Ltd’s request to enhance redundancy terms was above revised terms for the Civil Service**

15. In April 2016, HS2 Ltd made a further request to the Department to enhance the terms of its planned schemes. HS2 aimed to secure the required redundancies whilst encouraging staff to delay their departures until key dates, to support programme delivery. The proposed enhancements were as follows:

Scheme design	Pay per year of service	Minimum service
Statutory	1 week (dependent on age)	2 years
As proposed	1 month	1 year
CSCS (revised)	3 weeks	Discretionary for voluntary schemes; 2 years for compulsory schemes.

16. HS2 Ltd argued that the terms proposed were reasonable since they were similar to those of the Civil Service Compensation Scheme (CSCS) operating at the time. However, the Cabinet Office changed CSCS terms in November 2016, before HS2 Ltd finalised any redundancies, from one month to 3 weeks pay per year’s service. HS2 Ltd should have been aware of this change as the Cabinet Office consulted on the proposed changes in February 2016 and publically responded to the consultation<sup>vi</sup> in September 2016.

**HS2 Ltd committed to unapproved redundancy packages at these enhanced terms**

17. I have seen evidence that the Department rejected HS2 Ltd’s request, via an e-mail from a senior official at the Department and a senior executive at the company. No evidence has been presented to me suggesting that this was passed on within the Company. There were some further communications between HS2 Ltd and Departmental officials which made reference to the payment of an enhanced scheme, without any indication at working level that the request had not been approved. Regardless, I would have expected HS2 Ltd to be conscious of the Department’s previous rejection, and in any case to await explicit written approval before taking action.

18. In rejecting this request, Departmental officials emphasised the significant flexibilities in pay and benefits granted by the Department and HM Treasury to HS2 Ltd over Civil Service levels. These allow the company to offer higher pay to compete for high quality rail industry staff, but were granted in the context of wider benefits having been intentionally limited.

19. HS2 Ltd negotiated exits based on their unapproved proposal. The Company also further enhanced redundancy packages well beyond the level of the CSCS scheme (both older and revised versions) using mechanisms described below. Taken together, these factors had the effect of commitments being made significantly in excess of the statutory rates mandated in HS2 Ltd’s framework document.

vi Cabinet Office, Civil Service Compensation Scheme – Response to consultation on proposed reform, September 2016, available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/555286/civil\\_service\\_compensation\\_scheme\\_response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555286/civil_service_compensation_scheme_response.pdf)

**The company’s actual scheme terms remained unapproved and were further enhanced beyond civil service rates**

20.27 staff received offers on the voluntary scheme, with a total value of £1.844 million.

Extra-contractual enhancements which increased this figure included the following.

- a. Redundancy compensation was, as HS2 Ltd had proposed, paid at 1 month’s salary per year’s service, in line with the CSCS terms which had been superseded in November 2016, before any redundancies were finalised. Several constraints in the CSCS scheme, such as a cap on the salary multiplier, were not applied.
- b. All individuals received a lump sum payment in lieu of notice (PILON) based on their full notice period, despite in many cases significant notice having been given and worked.
- c. Under CSCS terms, exit packages are capped at £95,000 per individual, and Cabinet Office approval is required for payments above that level. To ensure that lump sums payable did not exceed the £95,000 cap, HS2 Ltd paid, for those whose compensation and PILON calculated as above would have exceeded £95,000, additional salary for a period of ‘gardening leave’, during which individuals were paid, but asked not to work. In substance this allowed exit packages of more than £95,000 to be paid.

21. The following table contrasts key terms between statutory entitlement, CSCS rates, and the actual voluntary scheme.

Scheme design	Pay per year of service	Minimum service	Cap on salary multiplier	Period on which PILON payable	Overall cap
Statutory	1 week (age-dependent)	2 years	None	Notice period not worked	None
CSCS (revised)	3 weeks	Discretionary	£149,820 <sup>[1]</sup>	Notice period not worked; capped at 3 months	£95,000
Actual	1 month	1 year	None	Full notice period regardless of time worked after notice	‘Gardening leave’ <sup>[2]</sup> paid where compensation and PILON would have exceeded £95,000

[1] 9 individuals in the scheme earned over this level.  
 [2] 9 individuals agreed gardening leave as part of their exit packages. Of these, 8 received a total exit package of more than £95,000.

22. The financial effect of these enhancements is summarised below. In total, the rate payable was double the statutory terms allowed for in HS2 Ltd’s framework document. Applied in full, CSCS terms would have been less than statutory entitlements, primarily as a result of the CSCS cap on notice periods on which PILON is payable.

<i>All figures £, rounded</i>	Compensation	PILON	Salary for 'gardening leave' period	Total
Statutory terms (NAO estimate <sup>[1]</sup> )	43,000	875,000	–	918,000
CSCS (revised) terms (NAO estimate)	389,000	363,000	–	752,000
Actual HS2 Ltd offer	679,000	602,000 <sup>[2]</sup>	563,000	1,844,000

[1] NAO estimates on what would have been payable under statutory and CSCS terms are based on the rules prevailing in November 2016, and draw on a review of all 27 cases. In a small number of cases, we have made assumptions to compensate for incomplete data. This uncertainty in our estimates in these cases is not significant.

[2] The total for PILON actually paid is lower than statutory terms because HS2 Ltd reduced PILON in cases where paying the full amount would breach the £95,000 CSCS cap measured across all elements of the exit package. As described, a 'gardening leave' feature was introduced in these cases. In all voluntary scheme cases, PILON and gardening leave payments taken together exceed contractual entitlements. PILON was not payable in the compulsory scheme.

23. Under its compulsory scheme, HS2 Ltd made 28 staff redundant at a cost of £323,000 and these individuals left before the year end.

24. 39 further staff were given notice of redundancy before the year end at a potential total cost of £593,000. Many of these individuals subsequently found temporary roles and their exit dates have been extended. If they find a new permanent role they will not be made redundant. If they cannot find a permanent role HS2 Ltd are legally obligated to pay compensation at the enhanced rates set out in notice letters.

25. I have estimated the amount that would have been payable under statutory terms for a compulsory scheme. My estimate, below, assumes that the enhancement to statutory compensation terms would be similar to the ratio I found in analysing the voluntary scheme, since the terms on this element were the same.

<i>All figures £, rounded</i>	Compensation	PILON	Salary for 'gardening leave' period
Statutory terms (NAO estimate)	Between 55,000 and 115,000	Nil	Nil
Actual HS2 rate	916,000	Nil	Nil

### **Action taken by High Speed Two Limited and the Department for Transport**

26. Although the majority of redundancy packages formally agreed by HS2 Ltd were not paid during 2016/17, HS2 Ltd have been advised that they have a legal obligation to honour exit packages agreed with or notified to individuals. The Company will honour these obligations.
27. The Department has asked HS2 Ltd not to agree any further redundancy packages under these terms, where the point of obligation has not passed.

### **Further actions required on overall control environment**

28. The sequence of events I describe suggests a weakness in HS2 Ltd's control environment, and provides an example of ineffective communication both between the Company and the Department, and within the Company. Whilst deriving from a single redundancy scheme, these findings highlight the need for improvements in the Company's general control environment, where the Company has itself acknowledged areas of weakness.
29. This is a critical stage in HS2 Ltd's lifecycle. The Company has, with the Department, achieved a significant milestone in securing Royal Assent for the London – West Midlands Bill. Since then, the Company has taken on significant additional delivery responsibilities, including key land and property transactions. The Company expects to award the first tranche of civil engineering contracts later in 2017 which will signal the start of a new phase for the Company.
30. I acknowledged this progress in my report of June 2016<sup>vii</sup>, whilst highlighting cost and schedule pressures faced by the project, and noting<sup>viii</sup> the key challenges faced by the Company in building its capacity – both in terms of people and systems – to keep pace with programme developments. My findings here suggest further work is required in this area.
31. This should focus not only on the Company's systems and processes, but also its culture and behaviours, which should support HS2 Ltd's role as a delivery body with commercial and engineering expertise, operating within a defined public sector framework. Behaviours here fell short of the level required, in my view, on two counts.

vii National Audit Office, Progress with Preparations for High Speed 2, HC 235 of Session 2016-17, available at: <https://www.nao.org.uk/wp-content/uploads/2016/06/Progress-with-preparations-for-High-Speed-2.pdf>

viii Ibid., p30 in particular.

32. Firstly, HS2 Ltd proceeded with several redundancy scheme enhancements beyond its allowed framework, without recognising a breach of that framework. This suggests an insufficient familiarity among HS2 Ltd staff with the framework document. Secondly, the Department responded in writing on a one-to-one basis, and HS2 Ltd did not treat this, or the lack of a more widely-disseminated formal response, as a barrier to progress. This suggests a need for the Department and Company to consider whether the balance between ad hoc or informal interactions, and those at arm's length based on clearly understood roles and responsibilities, is right.
33. A robust control environment, both within HS2 Ltd and in respect of interactions between the Company and the Department, is essential to ensure that delivery risks for the new rail line are appropriately mitigated, and that taxpayer's money is protected as the programme forges ahead. I therefore welcome and endorse HS2 Ltd's identification in its 2016/17 Governance Statement (see page 59) of the need for significant improvement in the general control environment. This work must be given a high priority if the company is to properly support the imminent step change in the scope of its financial responsibilities. I also welcome a joint commitment from the Department and Company to review the failure of controls in this area, and determine the appropriate actions.
34. Given the duration and value of the HS2 project, I expect to report again on the programme during this Parliament. I will report on the progress made in response to the issues identified at an appropriate point.

Sir Amyas C E Morse, Comptroller and Auditor General

Dated 11th July 2017

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## STATEMENT OF COMPREHENSIVE NET EXPENDITURE

	Note	Year ended 31 Mar 2017 £'000	Year ended 31 Mar 2016 £'000
<b>Expenditure</b>			
Staff costs	4	29,993	11,923
Other expenditure	5	71,649	21,913
Non-cash items	5	1,083	590
<b>Net expenditure and comprehensive net expenditure for the year</b>		<b>102,725</b>	<b>34,426</b>
<b>Other comprehensive income</b>			
Items which will not be reclassified to net operating costs			
Net loss / (gain) on revaluation of Assets Under Construction - Railway		3,443	(3,443)
<b>Comprehensive net expenditure for the year</b>		<b>106,168</b>	<b>30,983</b>

The Accounting Policies and Notes on pages 96 to 116 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

	Note	Year ended 31 Mar 2017 £'000	Year ended 31 Mar 2016 £'000
<b>Non-current assets</b>			
Intangible assets	7	20	247
Property, plant and equipment	8	864,480	475,870
<b>Total non-current assets</b>		<b>864,500</b>	<b>476,117</b>
<b>Current assets</b>			
Trade and other receivables	9	14,482	9,912
Cash and cash equivalents	10	13,586	5,009
<b>Total current assets</b>		<b>28,068</b>	<b>14,921</b>
<b>Total assets</b>		<b>892,568</b>	<b>491,038</b>
<b>Current liabilities</b>			
Trade and other payables	11	(144,436)	(86,785)
Provisions	12	(5,047)	–
<b>Total current liabilities</b>		<b>(149,483)</b>	<b>(86,785)</b>
<b>Total net assets</b>		<b>743,085</b>	<b>404,253</b>
<b>Taxpayers' equity</b>			
Revaluation reserve		–	3,443
General reserve		743,085	400,810
		<b>743,085</b>	<b>404,253</b>

The general reserve represents the net investment by the Department for Transport in HS2 Ltd. These accounts are exempt from the requirements of Part 16 of the Companies Act under section 482 of that Act (non-profit-making companies subject to public sector audit). They are subject to audit by the Comptroller and Auditor General under section 25(6) of the Government Resources and Accounts Act 2000.

The Accounting Policies and Notes on pages 96 to 116 form part of these financial statements. The financial statements on pages 92 to 95 were approved by the Board on 6th July 2017 and were signed on its behalf on 6th July 2017 by:



Mark Thurston, Chief Executive and Accounting Officer

## STATEMENT OF CASH FLOWS

	Note	Year ended 31 Mar 2017 £'000	Year ended 31 Mar 2016 £'000
<b>Cash flows from operating activities</b>			
Net operating cost per Statement of Comprehensive Net Expenditure		(102,725)	(34,426)
Increase in trade and other receivables	9	(914)	(657)
Increase in trade and other payables	11	11,530	4,666
Adjustment for non-cash transactions	5	1,083	590
<b>Net cash outflow from operating activities</b>		<b>(91,026)</b>	<b>(29,827)</b>
<b>Cash flows from investing activities</b>			
Increase in trade and other receivables	9	(3,656)	(3,723)
Increase in trade and other payables	11	46,122	26,439
Increase in provisions	12	5,047	–
Purchase of property, plant and equipment	8	(396,732)	(318,569)
Adjustment for other non-cash transactions	5	3,822	3,407
<b>Net cash outflow from investing activities</b>		<b>(345,397)</b>	<b>(292,446)</b>
<b>Cash flows from financing activities</b>			
Capital contribution from DfT		445,000	322,000
<b>Net cash inflow from financing activities</b>		<b>445,000</b>	<b>322,000</b>
Net increase / (decrease) in cash and cash equivalents		8,577	(273)
Cash and cash equivalents at the beginning of the year	10	5,009	5,282
<b>Cash and cash equivalents at the end of the year</b>	<b>10</b>	<b>13,586</b>	<b>5,009</b>

Movements on trade and other receivables and trade and other payables are shown above under operating and investing activities as appropriate.

The Accounting Policies and Notes on pages 96 to 116 form part of these financial statements.

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	General Reserve £'000	Revaluation Reserve £'000	Total Reserve £'000
Balance at 31st March 2015	113,236	–	113,236
<b>Changes in Taxpayers' equity for 2015-16</b>			
Net operating cost for the year	(34,426)	–	(34,426)
Revaluation on Assets under Construction	–	3,443	3,443
Funding from Department for Transport	322,000	–	322,000
<b>Balance at 31st March 2016</b>	<b>400,810</b>	<b>3,443</b>	<b>404,253</b>
<b>Changes in Taxpayers' equity for 2016-17</b>			
Net operating cost for the year	(102,725)	–	(102,725)
Reversal of revaluation on Assets under Construction	–	(3,443)	(3,443)
Capital contribution from the DfT	445,000	–	445,000
<b>Balance at 31st March 2017</b>	<b>743,085</b>	<b>–</b>	<b>743,085</b>

The Accounting Policies and Notes on pages 96 to 116 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General information

HS2 Ltd is a private company without share capital (company registration number 06791686), domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The Secretary of State for Transport is the Company's sole member and undertakes to contribute £1 towards the Company's debts in the event that it is wound up.

The registered office and principal place of business of the Company is Two Snowhill, Queensway, Birmingham B4 6GA, and the Company's principal activities are to develop proposals, design, build and operate a high speed rail network between London, Birmingham, Leeds and Manchester. The period covered by these accounts is 12 months to the 31st March 2017.

## 2. Statement of Accounting Policies

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRSs. As a Non-Departmental Public Body, the Company also adopts the interpretations of IFRS and additional disclosure requirements contained in the Government Financial Reporting Manual for 2016/17 (FReM), where these are compatible with the requirements of the Companies Act.

Where this framework permits a choice of 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 the Company are described below

and have been applied consistently in dealing with matters considered material to the accounts.

### 2.2. Measurement convention

These accounts have been prepared under the historical cost convention. The accounts have been prepared on a going concern basis for the reasons set out in the Directors' Report.

### 2.3. New or amended accounting standards and interpretations

The Company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the period ending 31st March 2017 to determine the impact on the Company's financial statements.

### 2.4. New or amended accounting standards and interpretations not yet adopted

A number of new standards, amendments and interpretations are not yet effective for the period ended 31st March 2017 and accordingly have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods.

- » IFRS 9 Financial instruments, which will replace parts of IAS 39, deals with the classification and measurement of financial assets and financial liabilities, hedge accounting and (following the July 2014 amendment), the impairment of financial assets. IFRS 9 is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1st January 2018, though earlier application is permitted. However, it is yet to receive EU endorsement so it is not possible to predict the actual application date. The impact

of the initial application of IFRS 9 is not expected to be significant. This is because, while the classification of financial assets and liabilities will change, it appears that existing measurement approaches will continue to be appropriate. It is also considered that there will be no significant change to the recognition of impairment on the Company's financial assets, because the expected credit losses on these assets are considered to be immaterial.

- » IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1st January 2018, though it has not yet received EU endorsement. It requires the recognition of revenue as the performance obligations are satisfied. Its implementation is expected to have no material impact on the Company.
- » IFRS 16 covering Leases was issued in January 2016 and will be effective from January 2019. It 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 leases: for most leases of property, the lease will recognise expenditure on a straight-line basis; for most leases of other types of assets, the lessee's expenditure will reduce over the term of the lease. As the Company currently occupies administrative properties based on operating leases, this is likely to have an effect on the statement of financial position, but a more limited effect on the recognition of expenditure. Operating lease commitments are shown in note 14.

There were no new standards issued for 2016/17 and not applied, which would materially affect the Company's financial statements. Other changes due to come in effect after 31st December 2018, are considered to have no material impact on the Company.

## 2.5. Going concern

The future development of HS2 Ltd is based upon the Government's continuing commitment to funding over the life of the programme. Confirmation of £55.7 billion (at quarter 1 2015 prices) during the 2015 Spending Round process demonstrated the Government's continuing support for the programme. The Statement of Financial Position (SoFP) as at 31st March 2017 shows net current assets of £28.1 million. Consequently, the Directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future. The financial statements are therefore prepared on a going concern basis. In forming this view the Directors and management have also reviewed the Company's budgets, plans and cashflow forecasts.

## 2.6. Estimation techniques used and changes in accounting estimates

HS2 Ltd applies the following significant estimation techniques in the calculation of its accruals and in the allocation of expenditure to the respective phases of the HS2 programme.

- » The recognition and valuation of accrued liabilities for work done by its professional service contractors is based on the Company's best estimates of the work done at the balance sheet date. The value of work done is certified, invoiced and paid only when all issues regarding the valuation of work done have been resolved to the Company's satisfaction. Accruals are based on the Company's view of application for payment and other information provided by the contractors leading up to certification; when accruing, the Company takes a view of any disputed amounts.
- » Estimates of the contribution of each business unit are used to allocate costs to the phases of the HS2 programme. Such estimates require a level of judgment and are refreshed each year based on the Company's assessment of the resources devoted to each phase. The costs managed by each business unit include both staff and contract costs; estimates are made and then applied in a uniform manner for all costs managed by the business unit with some minor exceptions where a different treatment is justified.

## 2.7. Financing

The Company is funded by capital contribution from the DfT as its sole controlling party. Funds are credited to reserves in accordance with the FReM.

## 2.8. Leases

### Operating Leases

As a lessee:

Rentals paid for assets under operating leases are charged to the Statement of Comprehensive Net Expenditure. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (for example, if there is a rent-free period at the start of the lease).

## 2.9. Intangible assets

### Recognition

Expenditure on intangible assets is capitalised where the cost is £1,000 or more and is applied on a grouped basis using a threshold of £1,000 where the elements in substance form a single asset. Subsequent acquisitions of less than £1,000 value which are of the same nature as existing grouped assets are appended. Otherwise, expenditure on intangible assets which fall below £1,000 is charged as an expense in the Statement of Comprehensive Net Expenditure.

### Measurement

Intangible assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. All intangible assets are valued on the basis of amortised historic cost as an approximation of fair value.

### Impairment

Intangible assets are monitored throughout the year as to whether there is any indication that an asset may be impaired. At the end of each reporting period, tests for impairment are carried out for any such asset with an indefinite useful life or in the course of construction.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised in the Statement of Comprehensive Net Expenditure.

Where an impairment loss is subsequently reversed, the reversal is credited in the Statement of Comprehensive Net Expenditure, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Amortisation**

Amortisation is provided on all non-current assets from the date at which they are available for their intended use at rates calculated to write off the cost of each asset (less any estimated residual value) on a straight-line basis over its expected useful life. The Company reviews and updates the remaining useful life of its assets each year. The estimated useful lives of the assets currently in service are summarised as follows:

- » Website: 3 years
- » Software: 3 years or the term of the licence

### **Disposals**

When scrapping or disposal of an intangible asset, the carrying amount is written off to the SoCNE and a loss (or gain) is recognised and reported net of any disposal proceeds.

When it becomes probable that the carrying amount of an asset will be recovered principally by a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and carried at the lower of this amount and fair value less selling costs. Where there is a subsequent reduction in fair value,

the loss is reported in the SoCNE, and increases are only recognised as gains in the SoCNE up to the amount of any losses previously reported through the SoCNE.

## **2.10. Property, plant and equipment**

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits, including service potential, associated with the item will flow to the Company and the cost of the item can be measured reliably. For the Railway infrastructure asset, the point at which these criteria are satisfied is considered separately for each phase of the railway, and is taken to be met at the point when key enabling legislation is substantively enacted. A capitalisation threshold of £1,000 is applied to asset classes other than the Railway infrastructure asset, which has no minimum limit. Expenditure below this value is charged as an expense in the Statement of Comprehensive Net Expenditure.

Property, plant and equipment usually comprises single assets. However, capitalisation is applied on a grouped basis using a threshold of £1,000 where the elements in substance form a single asset. Further, where an item includes material components with significantly different useful economic lives, those components are capitalised separately and depreciated over their specific useful economic lives.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense as incurred.

### Measurement

Property, plant and equipment, including railway assets under construction, are valued in accordance with IAS 16 Property, Plant and Equipment and initially measured at cost, comprising:

- » The purchase price;
- » Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- » The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located where an obligation to dismantle or remove the asset arises from its acquisition or usage.

Assets are thereafter carried in the balance sheet using the following measurement bases:-

- » All property, plant and equipment, other than railway infrastructure assets, are considered to be relatively short-life or low-value assets and are valued on the basis of depreciated historic cost as an approximation of fair value.
- » Railway infrastructure assets, when complete and available for their intended purpose, will be valued in accordance with IFRS and any compatible interpretations in the Government's Financial Reporting Manual. During the construction period, such assets are valued at cost. In the prior year, the current cost was subject to an annual revaluation. The Directors no longer believe such a revaluation is appropriate and it has been reversed, further details can be found in note 8.

### Impairment

Property, plant and equipment are monitored throughout the year as to whether there is any indication that an asset may be impaired. At the end of each reporting period, tests for impairment are carried out for any such asset with an indefinite useful life or in the course of construction.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised in the Statement of Comprehensive Net Expenditure.

Where an impairment loss is subsequently reversed, the reversal is credited in the Statement of Comprehensive Net Expenditure, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided on all non-current assets, apart from Assets under construction, from the date at which they are available for their intended use at rates calculated to write off the cost of each asset (less any estimated residual value) on a straight-line basis over its expected useful life. Assets that are under construction, including the railway assets under construction, are not depreciated until such time as they are available for their intended use.

The Company reviews and updates the remaining useful life of its assets each year. The estimated useful lives of the assets currently in service are summarised as follows:

- » Leasehold improvements: over the term of the lease

- » Plant & equipment: 3 years
- » Information technology equipment: between 3 and 20 years

### **Disposals**

When scrapping or disposing of a property, plant and equipment asset, the carrying amount is written off to the SoCNE and a loss (or gain) is recognised and reported net of any disposal proceeds.

When it becomes probable that the carrying amount of an asset will be recovered principally by a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and carried at the lower of this amount and fair value less selling costs. Where there is a subsequent reduction in fair value, the loss is reported in the SoCNE, and increases are only recognised as gains in the SoCNE up to the amount of any losses previously reported through the SoCNE.

### **2.11. Property acquisition**

Properties acquired under the safeguarding directions for the Phase One route are purchased by the Department for Transport (DfT) on behalf of the Secretary of State for Transport and are recognised as assets in the DfT's financial statements. Consequently, the Company does not accrue or make provision for the acquisition of property in the name of the Secretary of State.

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 not redeemed at the balance sheet date is reported in the DfT's financial statements.

HS2 Ltd managed the portfolio of properties acquired as an agent for the DfT for the HS2 programme and recovers its external management costs from and remits rental income to the DfT.

### **2.12. Cash and cash equivalents**

Cash and cash equivalents comprise bank balances held by the Company.

### **2.13. Taxation**

The Company does not currently trade and has no tax liabilities.

### **2.14. Value added tax**

All expenditure is reported net of recoverable VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets.

### **2.15. Provisions**

The Company makes provision for liabilities and charges in accordance with IAS 37 where a legal or constructive liability (i.e. a present obligation arising 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.

## 2.16. Contingent liabilities

In accordance with IAS 37, HS2 Ltd discloses, as a contingent liability, those possible obligations arising from past events, whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within its control; and those present obligations arising from past events not recognised because it is either not probable that an outflow of resources will be required to settle the obligation or the amount cannot be measured with sufficient reliability. Where the time value of money is material, contingent liabilities disclosed under IAS37, are stated at discounted amounts; amounts reported to Parliament are noted separately.

In addition, consistent with its duty to report to Parliament under Managing Public Money, the Company discloses the nature of material but remote contingent liabilities and provides an estimate of their financial effect, even where such disclosure would not be required under IAS37. Remote contingent liabilities not required by IAS 37 are stated at the amounts reported to Parliament without discounting.

## 2.17. 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 in which the error occurred.

### 3. Statement of expenditure by operating segment

The Executive Team and Board receive a monthly programme report which sets out expenditure against the allocated budgets for the financial year. The report covers the results of both HS2 Ltd and the HS2 programme and reflects the way in which the Company is managed.

The figures below, relate to HS2 Ltd only, and show a summary of capital and resource expenditure for the year, including expenditure on tangible and intangible assets.

Year ended 31st March 2017	Resource Expenditure £'000	Capital Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	–	394,386	394,386
Phase Two: between Birmingham and Leeds and Manchester	99,283	–	99,283
Other Capital	–	2,346	2,346
Administration	3,442	–	3,442
<b>Total Net Expenditure</b>	<b>102,725</b>	<b>396,732</b>	<b>499,457</b>

#### Analysed as to:

Programme Costs	99,283	396,732	496,015
Administration Costs	3,442	–	3,442
<b>Total Net Expenditure</b>	<b>102,725</b>	<b>396,732</b>	<b>499,457</b>

Year ended 31st March 2016	Resource Expenditure £'000	Capital Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	–	305,620	305,620
Phase Two: between Birmingham and Leeds and Manchester	31,308	–	31,308
Other Capital	–	12,891	12,891
Administration	3,118	–	3,118
<b>Total Net Expenditure</b>	<b>34,426</b>	<b>318,511</b>	<b>352,937</b>

#### Analysed as to:

Programme Costs	31,308	318,511	349,819
Administration Costs	3,118	–	3,118
<b>Total Net Expenditure</b>	<b>34,426</b>	<b>318,511</b>	<b>352,937</b>

## 4. Staff numbers and costs

	Direct employees	Other personnel	Year ended 31 Mar 2017 Total	Year ended 31 Mar 2016 Total
Whole time equivalent persons employed - average for the year	927	365	1,292	918
<b>Staff costs comprise:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	64,692	54,417	119,109	79,504
Social security costs	7,262	157	7,419	4,709
Other pension costs	5,460	203	5,663	3,284
Chairman and Non-Executives fees	528	–	528	493
<b>Total staff costs</b>	<b>77,942</b>	<b>54,777</b>	<b>132,719</b>	<b>87,990</b>

### Non-cash items include:

Capitalised expenses (Staff costs)	(102,726)	(76,067)
<b>Total non-cash costs</b>	<b>(102,726)</b>	<b>(76,067)</b>
<b>Total staff costs in statement of net expenditure</b>	<b>29,993</b>	<b>11,923</b>

Fees and salaries paid to the Directors are set out in the Remuneration Report (page 52).

Staff seconded from other bodies, together with contract and agency personnel, are shown under 'Other personnel'.

## 5. Other expenditure

	Note	Year ended	Year ended	Year ended	Year ended
		31 Mar 2017 Capital	31 Mar 2017 Resource	31 Mar 2016 Capital	31 Mar 2016 Resource
		£'000	£'000	£'000	£'000
<b>Non-staff expenditure includes:</b>					
Professional services		230,323	52,913	179,579	14,692
Licences and surveys		7,118	1,836	3,417	338
Communication and Information Technology		18,386	5,805	14,743	2,446
Accommodation costs		11,710	3,282	10,220	1,737
Property advice and valuation		8,555	3,688	7,091	1,482
Legal costs		2,441	1,016	3,853	260
Travel and subsistence		3,290	1,184	2,219	327
Auditors' remuneration and expenses		–	140	–	70
Recruitment fees		2,200	610	1,581	249
Other costs		3,815	1,175	3,443	1,403
Costs related to National College for High Speed Rail		–	–	–	497
Costs reimbursed by the DfT		–	–	–	(1,588)
		<b>287,838</b>	<b>71,649</b>	<b>226,146</b>	<b>21,913</b>
<b>Non-cash items include:</b>					
Depreciation of tangible assets		3,648	1,031	3,232	561
Amortisation of intangible assets		174	52	114	20
Loss on disposal of fixed assets	7, 8	–	–	61	9
<b>Total non-cash costs</b>		<b>3,822</b>	<b>1,083</b>	<b>3,407</b>	<b>590</b>
<b>Total other expenditure</b>		<b>291,660</b>	<b>72,732</b>	<b>229,553</b>	<b>22,503</b>

No impairments have been recognised in either 2016/17 or 2015/16.

## 6. Taxation

No liability to pay UK Corporation Tax arose in the two years ended 31st March 2017.

## 7. Intangible assets

	Website £'000	Software £'000	Total £'000
<b>Cost or valuation</b>			
At 1 April 2016	164	1,091	1,255
<b>Depreciation</b>			
At 1 April 2016	128	880	1,008
Charged in year	36	191	227
<b>At 31 March 2017</b>	<b>164</b>	<b>1,071</b>	<b>1,235</b>
<b>Net book value at 31 March 2017</b>	<b>–</b>	<b>20</b>	<b>20</b>
<b>Net book value at 31 March 2016</b>	<b>36</b>	<b>211</b>	<b>247</b>

	Website £'000	Software £'000	Total £'000
<b>Cost or valuation</b>			
At 1 April 2015	164	1,149	1,313
Reversal of Capital Accrual	–	(58)	(58)
<b>At 31 March 2016</b>	<b>164</b>	<b>1,091</b>	<b>1,255</b>
<b>Depreciation</b>			
At 1 April 2015	74	800	874
Charged in year	54	80	134
<b>At 31 March 2016</b>	<b>128</b>	<b>880</b>	<b>1,008</b>
<b>Net book value at 31 March 2016</b>	<b>36</b>	<b>211</b>	<b>247</b>
<b>Net book value at 31 March 2015</b>	<b>90</b>	<b>349</b>	<b>439</b>

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

## 8. Property, plant and equipment (PPE)

	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2016	454,656	16,492	15,645	486,793
Additions	394,386	1,136	1,210	396,732
Revaluation	(3,443)	–	–	(3,443)
<b>At 31 March 2017</b>	<b>845,599</b>	<b>17,628</b>	<b>16,855</b>	<b>880,082</b>
<b>Depreciation</b>				
At 1 April 2016	–	2,761	8,162	10,923
Charged in year	–	2,368	2,311	4,679
<b>At 31 March 2017</b>	<b>–</b>	<b>5,129</b>	<b>10,473</b>	<b>15,602</b>
<b>Net book value at 31 March 2017</b>	<b>845,599</b>	<b>12,499</b>	<b>6,382</b>	<b>864,480</b>
<b>Net book value at 31 March 2016</b>	<b>454,656</b>	<b>13,731</b>	<b>7,483</b>	<b>475,870</b>
<b>Assets under construction railway</b>				
	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2015	145,593	7,296	11,982	164,871
Additions	305,620	9,197	3,752	318,569
Disposals	–	(1)	(89)	(90)
Revaluation	3,443	–	–	3,443
<b>At 31 March 2016</b>	<b>454,656</b>	<b>16,492</b>	<b>15,645</b>	<b>486,793</b>
<b>Depreciation</b>				
At 1 April 2015	–	1,004	6,146	7,150
Charged in year	–	1,758	2,035	3,793
Disposals	–	(1)	(19)	(20)
<b>At 31 March 2016</b>	<b>–</b>	<b>2,761</b>	<b>8,162</b>	<b>10,923</b>
<b>Net book value at 31 March 2016</b>	<b>454,656</b>	<b>13,731</b>	<b>7,483</b>	<b>475,870</b>
<b>Net book value at 31 March 2015</b>	<b>145,593</b>	<b>6,292</b>	<b>5,836</b>	<b>157,721</b>

All assets are owned and there are no assets under a finance lease. The leasehold improvements and IT equipment headings include assets under construction amounting to £11k and £1,976k respectively which are not available for use at the year end, and therefore have not yet been depreciated.

(2015/16: £271k and £1,231k). In 2016/17 HS2 Ltd reviewed and updated the useful economic lives of all its PPE assets in accordance with its accounting policy. Generally, asset lives have been extended resulting in a consequent reduction in the depreciation charge for the year.

Given the interdependency of the assets comprising the railway network, the Company has concluded that the railway network is considered as a single class of asset. The railway network is currently under construction and is valued at historic cost.

## 9. Trade receivables and other current assets

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>Amounts falling due within one year:</b>		
Other receivables	1,146	895
VAT receivables	9,255	8,692
Loans receivable	4,081	–
Prepayments and accrued income	–	325
	<b>14,482</b>	<b>9,912</b>

The loan receivable relates to a working capital loan to the National College for High Speed Rail. The loan agreement is still in draft and HS2 Ltd is working with DfT to obtain their approval before it is finalised. The loan is interest bearing at 3.6% per annum.

## 10. Cash and cash equivalents

	31 Mar 2017 £'000	31 Mar 2016 £'000
Balance at 1 April	5,009	5,282
Net change in cash and cash equivalent balances	8,577	(273)
<b>Balance at 31 March</b>	<b>13,586</b>	<b>5,009</b>

Cash is held in commercial bank accounts.

## 11. Trade payables and other current liabilities

	31 Mar 2017 £'000	31 Mar 2016 £'000
Amounts falling due within one year:		
Trade payables	14,981	3,437
Accruals	129,455	83,348
	144,436	86,785

## 12. Provisions

	Petition undertakings and assurances £'000	Restructuring £'000	Total £'000
At 31 March 2015 and 2016	–	–	–
Provided and charged to the SoCNE in the year	4,609	438	5,047
At 31 March 2017	4,609	438	5,047

	Petition undertakings and assurances £'000	Restructuring £'000	Total £'000
Analysis of expected timing of flows:	–	–	–
Not later than one year	4,609	438	5,047
	4,609	438	5,047

### Petition undertakings and assurances

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, the Company has given a number of assurances to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, the Company 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. For some of these petitions, when Royal Assent was granted for the Phase One hybrid Bill an obligation was created which meant the transfer of economic benefits to settle these obligations became probable and associated provisions were created.

## Restructuring

The Company has made a number of compulsory and voluntary redundancies as part of its strategy to move its headquarters to Birmingham, the completion of the hybrid Bill for Phase One and its management restructure. A provision has been recognised for impacted employees, prior to signing an agreement, only after detailed negotiations with the Company at 31st March 2017 leading to an obligating event on HS2 Ltd.

## 13. Financial instruments

HS2 Ltd has no borrowings and is funded by capital contribution from the DfT. The Company aims to maintain minimal holdings of cash and cash equivalents appropriate to its short-term needs and has only one significant third-party receivable being the loan to the National College of High Speed Rail, refer to note 9. For these reasons, the Company is considered to have no material credit, liquidity, interest rate or market risk.

## 14. Operating lease arrangements

### As a lessee:

	31 Mar 2017 £'000	31 Mar 2016 £'000
Minimum lease payments under operating leases recognised in the Statement of comprehensive net expenditure in the year	8,173	6,289

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 Mar 2017 £'000	31 Mar 2016 £'000
Not later than one year	8,188	7,402
Later than one year and not later than five years	19,756	22,174
Later than five years	13,460	16,797
	41,404	46,373

The Company occupies business premises in Birmingham and London and these arrangements are treated as operating lease obligations as shown above, in accordance with IAS 17. The Company has no finance leases.

## 15. Financial commitments

Financial commitments, which were contracted but not provided for in the financial statements were as follows:

	31 Mar 2017 £'000	31 Mar 2016 £'000
Financial commitments (excluding capital commitments)	19,274	25,343
Property, plant and equipment	126	195
Intangible assets	–	–
<b>Contracted capital commitments at 31 March</b>	<b>126</b>	<b>195</b>

## 16. Contingent liabilities

Contingent liabilities do not represent a current liability for HS2 Ltd at 31st March 2017, but some will result in an obligation to transfer cash in the future, depending on one or more relevant events occurring. They are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation or a transfer of economic benefits has become probable, a provision will be made. As such, these are contingent liabilities within the definition of IAS37 – Provisions, Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- » Under the Parliamentary review process for the hybrid Bill, individuals and organisations were able to raise their objections to the HS2 scheme as petitions. As a result, HS2 Ltd has given a number of assurances to petitioners, which will affect 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.

These Petition undertakings and assurances are contingent upon the future formulation of plans and agreements with the petitioners. Petition undertakings and assurances that are approved and committed but not provided for at 31st March 2017 total £64.9 million (2016: £30.8 million);

- » As part of its normal course of business, the Company has given indemnities to individuals and companies who could be impacted by the construction of HS2. In all cases, work is in the planning phase and no claims have arisen. It is not possible to quantify the liabilities that may arise in the future with any reliability:

- A Framework Asset Protection Agreement with Network Rail Infrastructure Limited (“NR”) dated January 2015. The agreement includes an uncapped indemnity in relation to all losses suffered by NR because of the Company’s works;
  - An agreement with Affinity Water Ltd dated May 2016 in which the Company agrees to protect aquifer sources, provide treatment for any interim effects and compensate Affinity Water Ltd for any long-term impacts on water supplies caused by HS2; and
  - 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 the Company in the course of its work.
- » The Company successfully registered for VAT with effect from April 2014 on the basis that it intended to derive taxable supplies in the future by becoming the licensed operator of the railway network and would generate taxable income from these operations. HMRC have reviewed their original decision to register the Company and have expressed an initial view that although ‘intending trader’ status is applicable from this date, VAT recovery should only apply to expenditure related to future revenue streams and that expenditure related to infrastructure spend, should potentially be out of scope. HS2 Ltd has sought specialist VAT advice to ensure that it remains fully compliant and on this basis, considers that disclosure as a contingent liability is appropriate. In the event that the HMRC view subsequently became a formal ruling, HS2 Ltd would be required to repay up to £138.4 million of reclaimed VAT for the period April 2014–March 2017. HS2 Ltd is currently assessing the likely impact of such a possible ruling on the total cost of the infrastructure but is unable to quantify this potential cost at this stage.
- » The Company has made a number of compulsory and voluntary redundancies as part of its strategy to move its headquarters to Birmingham, completion of Phase One hybrid Bill activities and a comprehensive management restructure to ensure that the Company is fit for purpose as it enters its construction phase. At the year end, 39 employees had been issued with notices of redundancy, though permanent re-deployment was still possible and consultations were on-going. A number of these exits remain uncertain. The potential total exit cost arising from notices issued is £593,000.

As set out in Note 2.11, 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 reported in the DfT’s financial statements.

## 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 Network Rail, which is controlled by the DfT, are carried out on an arm's-length basis.

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>Department for Transport</b>		
Amounts received / (paid) in year:		
Capital contribution from DfT <sup>14</sup>	445,000	322,000
Compensation paid to railway businesses affected by HS2 plans	–	(8,400)
Engineering services	(30,961)	(2,500)
ICT provision	(592)	–
Seconded staff	(772)	(1,200)
Audit services	–	(600)
	412,675	309,300
Amounts incurred in year and recharged to DfT in full:		
Professional fees and staff costs	993	200
Property managed on behalf of the DfT	2,675	1,500
UCL datacentre relocation costs	2,263	1,200
Northern Powerhouse expenditure	474	200
	6,405	3,100
Amounts included in note 11 as payable at end of year	21,961	15,300

<sup>14</sup> As disclosed in the Statement of changes in equity and the Statement of cash flows

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>Network Rail</b>		
Amounts paid in year:		
Engineering services	44,135	23,600
Seconded staff and ancillary services	1,027	1,300
	45,162	24,900
Amounts included in note 11 as payable at end of year	7,712	6,200

None of the outstanding balances are secured and no guarantees have been given or received. There was no bad debt expense recognised during the period.

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

Richard Brown, CBE, a Non-Executive Director of the Company, appointed by the Secretary of State for Transport is also a Non-Executive Director of Network Rail.

Neil Masom, OBE, a Non-Executive Director of the Company, is also a Non-Executive Director of WYG plc. The Company buys services from WYG Environment Planning Transport Ltd which is a wholly owned subsidiary of WYG plc.

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>WYG Environment Planning Transport Ltd</b>		
Amounts paid in year:		
Engineering services	1,273	1,205
	1,273	1,205
Amounts included in note 11 as payable at end of year	563	700

Beth West was both an HS2 Ltd Executive Committee member and a Governor of the Board of the National College for High Speed Rail during 2016/17. Throughout the year, the Company made a loan to the National College for High Speed Rail, details of which can be found in note 9.

During Roy Hill's secondment to HS2 Ltd as interim Chief Executive Officer, Roy Hill remained an employee of CH2M Hill. Details of the amounts paid to CH2M Hill for these services can be found in the Remuneration Report on page 52.

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>CH2M Hill</b>		
Amounts paid in year:		
Engineering services	14,179	35,969
Seconded staff and ancillary services	212	–
	14,391	35,969
Amounts included in note 11 as payable at end of year		
	4,353	3,415

As well as being a direct supplier CH2M Hill are part of a joint venture, HS2 Phase One Engineering Delivery Partner Joint Venture, which acts as an engineering delivery partner to HS2 Ltd.

	31 Mar 2017 £'000	31 Mar 2016 £'000
<b>HS2 Phase One Engineering Delivery Partner Joint Venture</b>		
Amounts paid in year:		
Engineering services	12,335	–
	12,335	–

There is no balance outstanding at the year end with the Joint Venture.

## 18. Losses and special payments

Managing Public Money requires HS2 Ltd to provide a statement showing losses and special payments by value and by type where they exceed £300,000 in total and those that, individually, exceed £300,000. No losses exceeded the threshold value individually.

Losses Statement	31 Mar 2017	31 Mar 2016
Total number of cases	3	21
Total amount (£000)	6	45

The losses disclosed above include two book-keeping losses and a charge for late filing of a PAYE Settlement Agreement.

Special Payments	31 Mar 2017	31 Mar 2016
Total number of cases	54	3
Total amount (£000)	1,219	257

The special payments all relate to redundancy payments in excess of the amounts payable on statutory rates authorised by the Department for Transport. Further information can be found in the Remuneration Report and Governance Statement.

The value disclosed does not include commitments made in respect of cases where at the year end notices of redundancy had been issued, but there was still a possibility individuals could be found permanent roles. These cases are described as contingent liabilities (Note 16) and the effect of enhanced terms in these cases is described in the Report of the Comptroller and Auditor General.

## 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 82 to 84).

## 20. Ultimate controlling party

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