

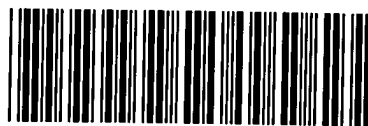
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Annual Report & Accounts 2018 – 2019

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High Speed Two (HS2) Limited Annual Report & Accounts 2018 – 2019

Presented to Parliament pursuant to the
Government Resources and Accounts Act 2000
(Audit of Non-profit-making Companies) Order
2009 as amended by the Government Resources
and Accounts Act 2000 (Audit of Public Bodies
Order 2012).

Ordered by the House of Commons to be printed
on 18 July 2019.



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ISBN: 978-1-5286-1523-5

CCS: CCS0719595676

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Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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Introduction

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Curzon Street station, Birmingham

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Chair's introduction

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The need for a high speed rail network in this country has been understood for nearly two decades. In 2001, the then Strategic Rail Authority identified the lack of capacity on our major railways and the need to separate long distance services from local, regional and freight services. In the past 18 years, the strategic case has strengthened. The Government's National Industrial Strategy has highlighted the need to improve connectivity between regions, major cities and our major supply chains.

The regional growth plans being developed by local authorities in the Midlands and the North have emphasised the vital role transport plays in our regional regeneration plans. HS2 is a critical enabler to these ambitious plans.

HS2 is more relevant to the country than ever before and this year we have taken major steps forward in moving the project from concept to reality. The work now being undertaken at Euston, Old Oak Common, Curzon Street in Birmingham and at some sixty other sites along the route is visible evidence of this progress. This has already resulted in the creation of thousands of jobs. HS2 has become a critical success factor in the national economy in its own right – and this will be the case for at least the next two decades.

That progress, however, should not obscure the scale and complexity of the task. At 345 miles HS2 is a truly national project of the kind we have not seen in this country since the Victorian era. Leading on such a programme is a huge task and the responsibility for doing so is borne by HS2 Ltd's Chief Executive, Mark Thurston, and his Executive team.

In the past year, we have made significant progress on Phase One and positive progress in preparing Phases 2a and 2b. This has involved constant and constructive engagement with our supply chain to ensure that we are meeting specific targets on cost and schedule. This approach will continue through the life of the programme.

The programme continues to evolve and, as we progress with this evolution, we have strengthened our processes and controls in a rigorous and systematic manner.

This process will also continue and we will adopt the recommendations of the recent report on delivering major transport infrastructure schemes by the Permanent Secretary at the Department for Transport (DfT). The report sets out the importance of appropriate governance, transparency and an open culture which encourages those who work on such projects to follow very clear and rigorous guidelines.


In this, my first year as Chairman, I see implementing these guidelines across the programme as a key priority for both myself and my Board colleagues. The guidelines will set the tone for HS2 – including our working partnerships with all of our stakeholders. Progressively they will lead to stronger, more productive partnership arrangements with Transport for the North, Northern Powerhouse Rail, Midlands Connect, Network Rail, DfT and the Scottish Government.

HS2 is much more than a railway. The investments we make – and have made – are already delivering major economic and social benefits that will be seen for generations. HS2 will help the UK to deliver our ambitious Industrial Strategy. The progress during the past year has helped us bring that goal nearer to reality.

Allan Cook
Chair

CEO's review

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In the past year we have made significant progress across both phases of HS2 and in getting our organisation match-fit for delivery of main civils works for Phase One.

Making progress

On Phase One, we have completed a huge range of enabling works, including utility diversions, demolitions and land clearances. We have also embarked on one of the biggest archaeology programmes in our nation's history. These early works – which will represent an investment of almost £1 billion – are well underway across 250 locations, including 60 active construction sites and 30 live archaeological sites.

We have completed two of the biggest enabling works in the programme – the demolition at the site of the new Victoria Road Crossover Box, and the painstaking removal of three disused 220 tonne container cranes, at Willesden in west London, the site of the project's Rail Logistics Hub.

In Birmingham, Curzon Street is now unrecognisable as it prepares to become the cornerstone of the HS2 route. In London, the area around Euston station is changing as we start to demolish the 1970's 'black towers' and make way for the new London HS2 terminal.

Underpinning these enabling works is the biggest land acquisition programme the UK has ever seen. We have already spent over £2 billion purchasing 1,274 properties along the Phase One route – including a number of key sites, such as those in Euston – 35% of the overall land required to build HS2.

We have also made good progress towards building the HS2 stations, unveiling the latest station designs for Old Oak Common, Curzon Street and Birmingham Interchange. In March, we appointed the Construction Partner for Euston, who will work with HS2 to design and build the new HS2 station.

Protecting the environment

We are already delivering mitigation works and benefits, with approximately 50 new wildlife habitats and the planting of more than 350,000 trees since 2017. These form part of the 'Green Corridor' we are committed to delivering along the HS2 route.

Creating jobs and opportunities

The scale of our work is reflected in the size of the workforce; HS2 is currently supporting more than 9,000 jobs, including 293 apprenticeships. Over 2,000 companies are benefiting from being part of the HS2 supply chain – 99% of which are UK-based companies and 70% of which are SMEs. We have launched our Skills, Employment, and Education Strategy, which sets out how we will work with our supply chain, the National College for High Speed Rail, as well as local and regional stakeholders, to make sure a whole generation can benefit from employment and training opportunities as a result of HS2.

Stimulating regeneration

In addition to the benefits of jobs and skills that HS2 is delivering, there is already evidence of HS2 acting as a catalyst for regeneration and renewal. A good example of this is the £250 million of funding, announced by Government in the Spring Statement, for our partners to kick-start development on the west London site to create jobs and homes; more than 25,000 new homes, together with up to 65,000 new jobs, will be created around the Old Oak Common HS2 interchange.

In Birmingham, the Curzon Street area has attracted £724 million of investment as a direct result of HS2. Further north, Leeds has attracted more than £500 million of investment attributable to HS2 since the route was announced.

CEO's review continued

Gaining consent

Progress on Phase Two, although less obvious and visual than that on Phase One, has also been significant – especially with the Phase 2a hybrid Bill, which is on course for Royal Assent by the end of 2019. On Phase 2b, we have completed the public consultation on the Working Draft Environmental Statement (WDES) and the Equalities Impact Assessment (EQIA), supported by a programme of engagement events in communities along the Eastern and Western legs of the route. To be closer to our key stakeholders on Phase Two, we have put in place plans for a new office in Manchester.

Maintaining support

We have seen strong, proactive support for HS2 – one example was the #hs2alltheway Parliamentary event hosted by the Core Cities group, Midlands Connect, the Northern Powerhouse Partnership and Transport for the North. The first HS2 Economic Growth Conference brought together a number of panel speakers to reiterate the case for HS2 to an audience of over 500 public and private sector practitioners.

Engaging with communities

Together with the support of many advocates and stakeholders, we have made huge efforts to make clear why Britain needs HS2. But how we deliver HS2 is equally important. We are acutely aware of the impact of HS2 on affected residents, businesses and communities. We aim always to be respectful and sensitive, balancing that with our obligations to the public purse.

This is particularly important when we are purchasing land and property. Anyone who has ever bought or sold a home knows how complex and stressful this can be, and HS2 is doing this on an unprecedented scale and within a tight timeline. The vast majority of our acquisitions have been done without issue, but we have not got every process right in all cases, and we are committed to making improvements where possible.

We have also benefited from the constructive input supplied by Deborah Fazan, the independent Residents' Commissioner, who works to ensure all those who are eligible for the Government's property compensation and assistance schemes get clear information and know their entitlements.

Across all affected groups, we have worked hard to stay true to our values of integrity, leadership, respect and safety. In the past year, we have connected with almost 41,000 people through 2,117 engagement activities. We have awarded over £3.3 million to local projects through our Community and Business Funds, and held 80 primary school workshops on construction safety. We have improved our service to the public by establishing our community hub and public response facility at our HQ in Birmingham. We also launched a new HS2 website to help people better understand and access information about HS2 Ltd and its work.

As part of our 'Responsible Business' programme we have launched charity partnerships with Groundwork, the Social Mobility Foundation and Rethink Mental Illness – the charity chosen by our employees.

Delivering safely

As ever, we have maintained a strong focus on safety – and led our contractors in this with our first health and safety supply chain event, which was attended by more than 300 leaders from across the UK, and a roundtable event to identify ways in which we can improve support for good mental health across the construction sector.

Celebrating diversity

We were proud to be named a VERCIDA top gender-inclusive employer for 2018; the award recognises our commitment to equality and diversity in the workplace and is a testament to the great work done by the HR Directorate and the Equality, Diversity and Inclusion (EDI) team throughout the year.

Strengthening our organisation

Our people remain our strongest asset. They are the key to our capability – which we are building and rigorously testing through the HS2 Improvement Programme (HIP). This year, my Executive team was strengthened by the appointment of a new Chief Operating Officer, Richard Robinson, and a new Chief Financial Officer, Michael Bradley. We have also continued to improve the systems and processes that support our people in doing their jobs, and are well underway to ensure that we have the most optimal structure for the efficient and economic delivery of a project of the scale and complexity of HS2.

Meeting our challenges

Since his arrival, our Chairman, Allan Cook, has been assessing all aspects of HS2 – including the progress we have made, and the strategic case for this huge intervention in our nation and the investment in our economy. From his introduction to this Annual Report, his view is clear – as is mine – the UK needs HS2 more than ever if we are to truly rebalance our economy and help the Midlands and the North realise their full potential.

However, I have also made clear in the past year that, as a result of the further scheme development work we have done, we know we are facing significant pressures on the cost and schedule for delivering the HS2 programme. We are working with our supply chain to address these pressures to ensure we deliver value for money for UK taxpayers.

Looking ahead

In the year ahead, we will see an unprecedented amount of construction of civil engineering work begin across the line of route. We recognise the impact this will have on people in the areas in which we are working. Sir Mark Worthington has been appointed as independent Construction Commissioner. He will investigate any unresolved disputes and provide independent advice on how to make complaints. We welcome this check on our performance.

As our main civil engineering work progresses, so will our various landscape, habitat and woodland creation initiatives. We are working with Government agencies to devise a web-based platform to identify environmental opportunities that HS2 can support.

An exciting period of progress lies ahead for the Parliamentary progress of Phase Two. We have completed the Commons Select Committee for Phase 2a, and during 2019 we expect to complete the same process in the Lords, with a plan to achieve Royal Assent of the Phase 2a hybrid Bill.

As construction work increases in Phase One and the hybrid Bills for Phases 2a and 2b move through the Parliamentary process over the upcoming year, the need for timely, informative engagement with our communities will continue to grow. This means reaching out to communities who have lower awareness of the project and ensuring that we engage with the diverse range of people who will be impacted by the project in the coming years.

We'll continue to focus, support and work internally with our supply chain to offer equal opportunities to all and improve equality, diversity and inclusion across our industry. Equally, we will continue to set stretch targets for our health and safety performance across all aspects of the project.

While 2019/20 is likely to be another challenging year for HS2 as we work to resolve the pressure on cost and schedule, it is also a year in which we have the opportunity to ensure the value and importance of HS2 to the UK is more widely understood.

Mark Thurston

Chief Executive and Accounting Officer

Highlights of the year

9,000
jobs

More than 9,000 jobs supported.

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293 apprenticeships supported.

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£1 million allocated as part of our Phase One Woodland Fund, helping to provide approximately 85 hectares of new woodland creation.

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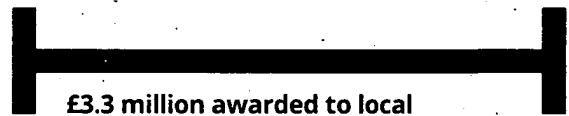
60 active construction sites.

2,000
businesses



A supply chain of over 2,000
businesses – 70% are SMEs.

£3.3m
to local projects



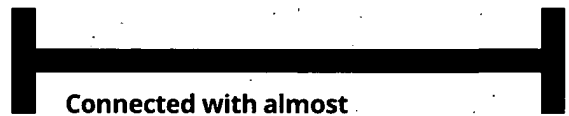
£3.3 million awarded to local
projects through our Community
and Business Funds.

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30 live archaeological sites.

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Connected with almost
41,000 people through 2,117
engagement activities.

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Strategic Report

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Construction work, Old Oak Common, London

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Business model

Remit and scope

HS2 Ltd is a company limited by guarantee, wholly funded by the Secretary of State for Transport, represented 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 authority to build track and stations infrastructure for the high speed network is being sought, or for Phase One, has already been granted, by Parliament. The high speed network is being delivered in phases.

- Phase One between London and the West Midlands. The Phase One legislation received Royal Assent in February 2017, and Enabling Works have been underway throughout the year including site clearance, ecological surveys and Ground Investigations. Main Works Civils Contracts (MWCC) split over seven packages were awarded to four joint ventures (JVs) in July 2017. A construction partner contract has also been let for Euston station, with Old Oak Common station contract award expected shortly. Notices to Proceed are expected to be issued to the MWCCs in 2019/20 to authorise main civils work to commence.

- Phase Two infrastructure is being delivered in two parts; the West Midlands to Crewe section, (Phase 2a) is proposed to open shortly after Phase One, and the remainder of Phase Two, Crewe to Manchester and the West Midlands to Leeds (Phase 2b), is due to open in the first half of the 2030s. There will be a separate hybrid Bill for each phase, with the Phase 2a Bill currently going through its Parliamentary stages in the House of Commons following a Second Reading on 30 January 2018. The target Royal Assent for the Phase 2a Bill is December 2019. Design activities for Phase 2b are well underway, with a Phase 2b Bill deposit intended for 2020.

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

Relationship with the Department for Transport

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

The Framework Document

The Framework Document sets out the requirements and expectations on us as a public body and covers issues such as the appointment of the Board, risk management protocols, expectations for financial management, and controls on expenditure. The Framework Document was revised in May 2018 and can be found through the following link:

www.gov.uk/government/publications/hs2-ltd-framework-document-may-2018

The Development Agreement

The HS2 Development Agreement was updated and published in November 2018. The Development Agreement sets out HS2 Ltd's role in developing, building and operating the new railway and the DfT's role as sponsor and client.

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.

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;
- seek to design commercial opportunities into hybrid legislation whenever it is practical and affordable to do so and where those opportunities are consistent with delivering value for money and its legal obligations;
- seek to maximise proceeds when disposing of surplus land and to seek to make strategic land acquisitions when appropriate and consistent with our legal obligations;
- co-operate with and support the Master Development Partner (Lendlease Euston Development LLP) to realise development and regeneration at Euston; and

- act as the proxy operator and the infrastructure manager of the railway, working with the West Coast Partner to be appointed by the DfT (such function will transfer to the West Coast Partner once appointed).

The Development Agreement can be found through the following link:

assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/769850/hs2-development-agreement.pdf

Company strategy

HS2 Ltd is about more than just building a new railway line. We are already acting as a catalyst for growth across Britain and will be an integral part of a modern integrated transport network. This is a transformational investment for the UK. The new high speed railway being built will better connect people across Britain, linking into the existing rail network to provide a seamless passenger experience. As a high performing, innovative organisation, we deliver value for money by applying worldwide design and construction techniques.

Our seven strategic goals are:

We will be a catalyst for economic growth.

We will create a step-change for rail capacity and connectivity.

We will be good neighbours and protect the natural environment.

We will foster skills and create new employment opportunities.

We will set new standards for health, safety, and security for the construction and operation of the railway.

We will deliver value for money to the taxpayer.

We will set new standards for customer experience.

HS2 is already delivering on many of these goals.

Business model continued

Corporate and business plans

As required in the Framework Document, HS2 Ltd produces an annual Corporate Plan providing a rolling three-year forward look and a review of the previous year against the plan. The 2018/19 financial year is covered by the 2018–2021 Corporate Plan.

Business Model and organisational development

The Company's head office is in Birmingham, at the heart of the high speed network. Approximately two-thirds of staff are based there. During 2018/19 the majority of our London-based staff moved to our offices at Euston, at the heart of the Euston station transformation area.

HS2 Ltd Organisation Structure

CEO's Office

Mark Thurston
Chief Executive Officer

- Chief of Staff
- Briefings and Submissions

Phase Directorates

<p>Phase One</p> <p>Jim Crawford Phase One Managing Director</p>	<ul style="list-style-type: none"> • Phase One Programme Area South • Phase One Programme Area Central • Phase One Programme Area North 	<ul style="list-style-type: none"> • Phase One Programme Route Wide • Phase One Engineering • Phase One Health, Safety & Security 	<ul style="list-style-type: none"> • Phase One Project Controls • Phase One Senior Business Manager
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Enabling Functions

Human Resources	Chief Financial Officer (CFO)	Chief Operating Officer (COO)	Legal & Company Secretariat
<p>Neil Hayward Human Resources Director</p> <ul style="list-style-type: none"> • Organisational Development & Capability • Reward • Equality, Diversity & Inclusion • Skills, Employment & Education • Employee Relations, Industrial Relations & Employee Policy • HR Operations • Resourcing 	<p>Michael Bradley Chief Financial Officer</p> <ul style="list-style-type: none"> • Finance • Sponsorship • Programme Management • Estates & Facilities Management 	<p>Richard Robinson Chief Operating Officer</p> <ul style="list-style-type: none"> • Procurement & Supply Chain • Commercial Development • Information • Land & Property 	<p>Nicole Geoghegan General Counsel & Company Secretary</p> <ul style="list-style-type: none"> • Deputy Company Secretary • Insurance • Counter-Fraud & Business Ethics • Assistant General Counsel • Senior Commercial Lawyer • Senior Legal Counsel (Contracts/Insurance) • Lead Property Lawyer

Phase Two

Tim Smart

Interim Phase Two
Managing Director

- Phase 2a Director
- Phase Two Project Controls

- Phase Two Hybrid Bill Delivery
- Phase Two Delivery
- Phase Two Health, Safety & Security

- Phase Two Senior Business Manager

Safety & Assurance

Emma Head

Safety & Assurance Director

- Security & Resilience
- Health, Safety, Security & Environment Policy & Assurance
- Quality & Document Control
- Assurance
- Internal Audit (Provided through GIAA)
- Health, Safety, Security & Environment (Commercial, L&P, Facilities)
- Health, Safety, Security & Environment Culture Development
- Business Information & Reporting
- Occupational Health

Infrastructure

Chris Rayner

Director of Infrastructure

- Asset Management
- Commercial Railway Operations
- Proxy Operator
- Rolling Stock Depots Programme
- Building Information Modelling
- Design
- Chief Engineering
- Environment
- Innovation
- Specification & Technical Assurance
- System Capability
- Town Planning

Strategic Stakeholder Engagement

Tom Kelly

Strategic Director for Stakeholder Engagement

Community Engagement

- Stakeholder & Business Engagement
- Projects & Events
- Strategy
- Public Response
- Area Central
- Area South & Camden
- Area North & Phase 2a
- Consultation & Engagement Phase 2b

Corporate Affairs

- Corporate Communications
- Internal Communications
- External Communications
- Creative Services
- Freedom of Information
- Public Affairs

Financial review

Company financial performance for the year ended 31 March 2019

HS2 Ltd is entirely funded by the provision of capital contributions from the DfT. Combined capital and resource expenditure in FY 2018/19 amounted to £2,083.7 million (FY 2017/18: £1,160.3 million). Capital expenditure comprises the cost in the year of Phase One and Phase 2a, 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. Resource expenditure comprises the costs of Phase 2b which have not yet reached the point of development at which capitalisation can occur.

This year's financial statements for the year ended 31 March 2019 show the following results:

- capital expenditure of £1,826.4 million (2017/18: £931.1 million);
- resource expenditure of £257.3 million (2017/18: £229.2 million); and
- net assets of £2,824.9 million (2017/18: £1,352.0 million).

A detailed account of HS2 Ltd's finances is provided in the financial statements (page 64–89). The land and properties acquired to bring the railway into operational condition are purchased by HS2 Ltd as agent for the Secretary of State and are recognised as assets in the DfT's financial statements. They are therefore not included in HS2 Ltd's financial statements.

Going concern

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 2019/20 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021. As is the case for all capital projects funded by central government, future funding allocations for the period after 2021 are expected to be confirmed in an upcoming Spending Review (currently expected in 2019).

HS2 Ltd has the commitment to deliver the programme in view of Royal Assent to the High Speed Rail (London-West Midlands) Act 2017 on 23 February 2017, various Government statements demonstrating its support for high speed rail, the continuing financial support from the DfT, confirmed by the Spending Review 2015, and that the company expects, within the year, to receive a decision on Notice to Proceed from Government. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The Statement of Financial position (SoFP) as at 31 March 2019 shows net assets of £2,824.9 million.

Key Performance Indicators (KPIs)

Key Performance Indicators for 2018/19 are presented in the following table:

Construction: enabling and main works

KPI	Indicators	Target/measures	How we did
Ensuring Value for Money	Demonstrate our commitment to efficiency and benchmarking.	(Phase One) Provide DfT with the necessary information to support the Final Business Case for the Phase One route by end of December 2018.	Our Main Works Civils Contractors reported at Gateway 4 in September 2018 that the complexity of the design, along with emerging information from ground investigations, were leading to cost and schedule pressures. Gateway 5 was therefore extended to allow more time for design refinement work (including value engineering and design optimisation). As a result we now have a much better definition of the scope, cost and schedule. The initial inputs into the Final Business Case to DfT will be aligned with notices to proceed to construction on each of the seven main works civils contracts.
		(Phase Two) Monitor progress against cost efficiency plans for the design and delivery of the Phase 2a and Phase 2b routes.	<p>Phase 2a Efficiency plans for Phase 2a have been developed and have undergone independent review. We have delivered over 50% of the target efficiency savings to date. We are continuing to identify further opportunities (such as scale modelling of Porous Portals and advanced modelling of floodplains) that could drive further efficiencies across the whole project (Phase One, Phase 2a and Phase 2b).</p> <p>Phase 2b Our work on the current opportunities register for efficiency plans are progressing. Particular focus has been on earthworks and there are a number of new opportunities associated with this that are now being considered. However, recognising that Phase 2b is at an earlier stage of design than Phase One and Phase 2a, we still have more work to do to refine our efficiency plans further and ensure that Phase 2b is value for money.</p>
Securing permission to progress from scheme design to detailed design and construction	Phase One Main Works Civils Contract progress.	Complete Gateway 6 for the Main Works Civils Contracts by end of March 2019 in readiness for approval to issue the first 'Notice to proceed', confirming the target price and scheme design.	Following Gateway 4 submissions in September 2018, we have worked with our MWCC Joint Ventures to give them more time to better define the scope and mitigate the impact of, cost and schedule pressures. As a result, Notice to Proceed date has been moved.

Key Performance Indicators (KPIs) continued

Preparing the way: Parliament, Land & Property, Procurement

KPI	Indicators	Target/measures	How we did
Hybrid Bill progress – Phase 2a	Phase 2a bill progress through Select Committee, to receive Royal Assent by December 2019.	Resolve the majority of petitioners' issues through the petitioning process.	In February 2019 we deposited Additional Provision 2 for the Phase 2a hybrid Bill. A programme of petitioner engagement has been carried out throughout the year and we were able to reach agreements with over 65% of initial petitioners.
Hybrid Bill progress – Phase 2b	Progress towards depositing the Phase 2b bill by Q3 2019, to achieve Royal Assent by 2022.	Compare the planned versus actual percentage complete of key milestones leading up to bill deposit.	The Phase 2b Hybrid Bill is continuing its progress towards its planned deposit date of June 2020.
Rolling stock Procurement	Progress towards appointing our Rolling Stock supplier.	Issue the rolling stock ITT to the market.	The Rolling Stock ITT was issued to the market on 26 July 2018.

Creating a positive HS2 legacy for the country: Health & Safety and Skills

Health & Safety	H&S Enterprise Index Score	The average across all measures in the index is ≥ 1.2 .	Our Health and Safety index score for the year was 1.22, exceeding our target for the year.
Skills	Delivering on our Skills, Employment and Education Strategy.	Deliver on the programme of skills, employment and education interventions outlined in the Skills, Employment and Education Strategy.	Our Skills, Employment and Education (SEE) Strategy was launched in September 2018. We have also established a new Skills Taskforce chaired by our CEO to drive skills initiatives within HS2 Ltd. SEE requirements are embedded in all of our major contracts and our contractors are continuing to meet or exceed the targets they have been set.

Maximising benefits, minimising impacts: Communities and Stations

KPI	Indicators	Target/measures	How we did
Community Engagement	Delivering on our commitments outlined in the Community Engagement Strategy.	Deliver on the 10 Community Commitments outlined in the Community Engagement Strategy.	We continue to improve our approach to community engagement, publishing our second report on our progress in April 2019, which brings together a number of case studies to help demonstrate what has been achieved so far.
Stations	Onboard the Euston Master Development Partner (MDP).	Progress on the agreement and implementation of the Euston MDP's business plan.	The MDP's Initial Business Plan was approved by the Secretary of State on 26 July and notification issued to the MDP on 27 July 2018 by the Landowners' Representative.

Delivering a service: Design and Partnership Working

Quality Performance	Programme Requirements.	Act on 80% of Design Panel recommendations relevant to 2018/19 period.	Through 2018/19, 95% of design panel recommendations have been acted on by HS2 Ltd and contractor design teams, exceeding our target of 80%.
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Fitting HS2 into the national landscape: Environment and Sustainability

Environment at the heart of HS2	Carbon Emissions.	Forecast change in carbon footprint against baseline for Enabling Works Contracts (30%); and civil, station and railway system contracts (50%).	<p>All Main Works Civils Contract (MWCC) carbon footprint baselines have been established and are being reviewed, along with estimates from Station Design (SDSC) contractors for Euston, Curzon Street and Old Oak Common stations.</p> <p>Carbon baselines will be comprehensively 'locked' at Notice to Proceed for MWCC and when Schedule 17 planning approval is gained for SDSC.</p>
	Biodiversity.	Forecast no net loss in biodiversity.	Whilst more work is still to be done to analyse how the final design will fully contribute to the No Net Loss (NNL) in biodiversity, initial data submissions are showing positive progress towards the project objective.

Key Performance Indicators (KPIs) continued

Equipping our organisation to deliver: Governance and Capability

KPI	Indicators	Target/measures	How we did
Robust Systems and Controls	Budget compliance.	Year end outturn not to exceed 1% of Q3 forecast, and to be no more than 5% less than forecast.	Our Final Year Spend was 3.5% less than forecast, and comfortably within the target.
	Use of Earned Value (EV) Management to monitor cost and schedule performance.	% EV 50% of Phase One delivery spend being monitored by Earned Value Management.	52.6% of delivery spend currently under EV as of March 2019, exceeding our target.
Developing our capability and re-inducting staff	Demonstrate good governance and company ethics.	Track the number of reports into our whistleblowing line ('breaches of ethics') and number of fraud incidents.	<ul style="list-style-type: none"> Staff can confidentially report any suspicion of fraud or bribery either to their line manager, directly to the Head of Fraud & Business Ethics or via the 'SPEAK OUT Line' which is open 24 hours, seven days a week. Via our 'Speak Out' reporting line, HS2 Ltd is tracking the number, and nature, of whistleblowing reports. There is a robust reporting culture at HS2 Ltd, which will assist to prevent (and mitigate) fraud losses. The Counter Fraud and Business Ethics function reports quarterly into HS2 Ltd's Executive Committee and twice a year into HS2 Ltd's Audit and Risk Assurance Committee.
			Ensure all new starters undertake governance training.
			Mandatory Governance Training now forms part of our on-boarding process for all new starters via an e-learning module launched in February 2019.
	Respond to governance audit outcomes.		All actions from the NAO and GIAA audits in (2017/18) have been completed.

Equipping our organisation to deliver: Governance and Capability continued

KPI	Indicators	Target/measures	How we did
Developing our capability	Demonstrate sufficient capability across HS2 Ltd's enterprise functions to award, manage and monitor the Main Works Civils Contracts and deliver Phase One.	Deliver the Improvement Programme to the satisfaction of the HS2 Ltd Board.	The re-assessment of Enterprise Capability has been re-scheduled to align with changes to Notice to Proceed timing and to allow for Capability to be further embedded in the organisation. All Capability Areas are on track to achieve Level 3 maturity by the time of Notice to Proceed. 13 Capability Areas have been mandated to achieve a Level 4 post-Notice to Proceed with phased, target dates.
	FY20 talent management processes defined by March 2019. Succession planning completed for top two levels of organisation including critical roles (ELT/SLT reports).	FY20 talent management approach defined, agreed, and communicated to the business. Critical roles at the Executive and Senior Leadership levels have a defined and identified successor(s).	Our talent management process has been defined and approved, and we have identified critical roles in the organisation (aligned with the end of year performance management process). Talent engagement sessions with line managers/employees, along with e-learning, are scheduled from June 2019, to further support and embed this across HS2 Ltd.
Equality, Diversity and Inclusion	Seek to exceed industry benchmarks where available.	Percentage of staff who are from Black and Minority Ethnic Groups (BAME); are disabled; are women.	We continue to exceed industry benchmarks and our targets for Equality, Diversity and Inclusion. Our core workforce comprises*: 36% Women; 19% BAME; 15% Disabled**.

* Staff data includes HS2 Ltd payrolled staff, secondees and non-executive directors, engineering delivery partner and delivery partner.

** The Disability data represents the percentage of HS2 Ltd staff that have moderate or substantive adjustments via the Clear Talents tool.

Environmental Sustainability Report

Since 2015, HS2 has continued to develop its approach to sustainability reporting in order to define sustainability in the broadest sense so that it encompasses both social and economic, as well as environmental sustainability. We use the five guiding sustainability themes below when dealing with environmental sustainability:

Image removed	Spreading the benefits: economic growth and community regeneration
Image removed	Opportunities for all: skills, employment and education
Image removed	Safe at heart: health, safety and wellbeing
Image removed	Respecting our surroundings: environmental protection and management
Image removed	Standing the test of time: design that is future-proof

Environmental sustainability

This section of the report focuses on how we have implemented environmental sustainability as defined by our environmental policy.

Over the past 12 months we have begun to monitor early environmental impacts related to our enabling works. We have embedded sustainable design into our main works civils and stations contracts and incorporated sustainability requirements into the procurement criteria for our rail systems contracts. We have defined environmental performance requirements and processes for the rolling stock and started to develop our sustainable approach for operations. Also, we have embedded lessons learnt from Phase One into the design currently underway for Phase Two.

Sustainability assessment

HS2 Ltd has adopted the Building Research Establishment Environmental Assessment Methodology (BREEAM) to assess our sustainability progress for the design and construction of all our stations, depots, control centres and infrastructure works on Phase One. Since 2015, we have worked closely with Building Research Establishment (BRE) to pilot the application of the BREEAM Infrastructure scheme on our infrastructure works and continue to provide feedback to inform the development of BRE's emerging CEEQUAL Version 6 standard (CEEQUAL is the evidence-based sustainability assessment, rating and awards scheme for civil engineering, infrastructure, landscaping and public realm projects).

In February 2018, HS2 was the first project to be awarded a BREEAM Infrastructure strategic stage certificate, achieving an 'excellent' rating. Our enabling works and main works contractors have continued to build on this success, with our four main works civils contractors (MWCC) working towards achieving a BREEAM 'excellent' design stage certificate over the course of 2019. As the designs of our four stations progress they remain on track to achieve the 'excellent' rating we require of all our buildings.

Civils contract/station	BREEAM standard	Target rating	Design stage rating	Construction stage rating
MWCC Lot S1 & S2	Infrastructure	Excellent (70%)	82.86% – Submitted	On target
MWCC Lot C1		Excellent (70%)	76.97% – On target	On target
MWCC Lot C2 & C3		Excellent (70%)	79.60% – On target	On target
MWCC Lot N1 & N2		Excellent (70%)	75.73% – On target	On target
Euston station	Bespoke Buildings	Excellent (70%)	81.50% – On target	On target
Old Oak Common station		Excellent (70%)	83.72% – On target	On target
Interchange station		Excellent (70%)	77.41% – On target	On target
Curzon Street station		Excellent (70%)	81.20% – On target	On target

Waste and resource use

At HS2 we have adopted a holistic approach to waste and resource use based on our circular economy principles. This focuses on reducing finite resource consumption as well as waste minimisation and management.

In 2018/19, a total of 5,015 tonnes of construction waste was produced, with 99% diverted from landfill and 23,588 tonnes of demolition waste produced, with 97% diverted from landfill. A number of reuse opportunities have focused on habitat creation schemes, with surplus felled timber used for local community projects including joinery and furniture schemes and ecological mitigation works for woodland protection in the form of additional hedging and wood chippings for temporary and permanent pathways. A total of 60,040 tonnes of excavated material was produced over the year, of which 99% was beneficially reused.

We are actively seeking reuse opportunities for the large volumes of surplus excavated material that will be produced by our contractors, particularly in the London area where much of the route is in tunnel. Through our innovation portal and waste collaboration group we have invited our supply chain to submit proposals for innovative use of this surplus London Clay. We are also working in

partnership with the Environment Agency (EA) and have identified opportunities for the beneficial reuse of earthwork materials in flood defence schemes. This includes the Thames Estuary Asset Management 2100 programme, a programme to refurbish and replace tidal flood defences in London, Kent and areas in and around the Thames estuary. The proposed opportunity seeks to reuse around 500,000m³ of material to construct a new 2.5km embankment. The scheme also has the potential to create between 404ha and 459ha of intertidal habitat which offers UK taxpayers a long-term cost effective and sustainable way to manage flood risk.

Carbon minimisation

HS2 Ltd continues to improve the robustness of its carbon management system and has aligned its approach using the 'PAS 2080:2016 Carbon Management in Infrastructure' framework. To date, over half of our awarded infrastructure contracts possess a carbon management process independently verified in accordance with PAS 2080, with the remainder due to receive verification towards the end of 2019.

Environmental Sustainability Report continued

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In June 2018, HS2 ran a Low Carbon Concrete event with the Supply Chain Sustainability School. The event aimed to raise the level of ambition in the construction industry, encouraging collaborative working to increase the uptake of innovative low-carbon concrete products. Through events such as this, HS2 Ltd is demonstrating the continuing partnership we have with other infrastructure client organisations, our supply chain and the wider rail industry to collectively address carbon reduction challenges.

HS2 Ltd continues to investigate opportunities to minimise operational energy demand, consumption and associated carbon emissions and costs. This includes, but is not limited to, maximising energy efficiency in our buildings, generating on site renewables and investigating the opportunities for procuring low carbon electricity. HS2 will continue to progress this work as a key priority with the intention of identifying during 2019/20 the preferred approach to procurement of electricity for railway operations.

Over the past 12 months, a key focus of our climate change adaptation and resilience work has been conducting climate change resilience and in-combination climate change impact assessments for the Phase 2b proposed scheme. These assessments will conclude in 2020 and will be reported in the Phase 2b Environmental Impact Assessment. On Phase One, we continue to work with our supply chain partners to optimise climate resilience. We have also carried out work with the British Standards Institute to assist in developing new standards in understanding and managing climate change adaptation and resilience.

Protection of the natural and historic environment

In June 2018, we set out plans to deliver a 'green corridor' consisting of new wildlife habitats, native woodlands and community spaces to help blend the new line into its surrounding landscape and environment. In the vicinity of the Phase One route, which covers 216km from London to the West Midlands, the green corridor encompasses:

- up to 7 million new trees and shrubs, including over 40 native species, specific to each location. The new native woodland covers over 9 square kilometres of land;
- over 33 square kilometres of new and existing wildlife habitat – equating to an area the size of 4,600 football pitches. That's an increase of around 30%;
- tailor-made habitats for wildlife, ranging from bat houses to 226 new ponds for great crested newts and other amphibians;
- earthworks and landscape re-using around 90% of the material excavated during construction; and
- the potential to support community projects and develop amenity spaces such as access routes, public parks, open spaces and nature reserves.

HS2 Ltd has been working to address the challenges of the Government's 25 year environment plan, while also devising a web based platform to identify project initiatives for HS2 Ltd to take forward. As the green corridor takes further shape there will be opportunities for environment groups, landowners and local communities to get involved.

A £5 million Woodland Fund for Phase One is in place to create new native woodland, connect existing woodlands and restore existing ancient woodland sites within a 25 mile zone surrounding the Phase One route. The first £1 million of this was provisionally allocated during 2018/2019, and is anticipated to provide approximately 85ha of new woodland creation and approximately 45ha of ancient woodland restoration.

Applications for the remaining £4 million of the Woodland Fund for Phase One are currently open and we anticipate further applications for new woodland creation and ancient woodland restoration projects in the vicinity of the route.

In June 2018, we announced a £2 million Phase 2a Woodland Fund.

During 2018/19, the HS2 plant procurement contract has successfully delivered 125,000 trees and shrubs to sites along the route to begin the advanced planting sites that will, over time, begin to deliver landscape and ecology benefits that have been identified for the project.

HS2 Ltd's archaeology programme is the largest ever undertaken in the UK. 2018 saw the commencement of major investigations at St James's Gardens Burial Ground (London), St Marys' Stoke Mandeville (Buckinghamshire) and Park Street Gardens burial ground in Birmingham. Numerous archaeological sites have been identified across the length of Phase One, notably a series of settlements dating from prehistory (the period before the invention of writing systems), through to the medieval period, have been discovered in South Warwickshire, already changing our understanding of how our ancestors used this landscape.

The commencement of the HS2 Ltd archaeology programme in autumn 2018 generated significant positive media publicity and coverage, as did a series of heritage open days which were well attended. Contractor innovations have included the use of digital recording on site and more efficient artefact processing for the off-site works at St James's Gardens. Drones for the recording of setting have also been used, notably to further our understanding of the War of the Roses Edgcote Battlefield (1469), confirming how the presence of key features in the landscape and their inter-visibility could have influenced events and the outcome of the battle.

Safeguarding communities

To control the effects of noise and vibration that might otherwise arise from the construction of the scheme, HS2 continues to invest in measures such as noise insulation packages. Approximately 300 properties will or have already benefited from this in the Euston area.

Environmental Sustainability Report continued

Our contractors are also managing noise and vibration effects through the use of best practicable means (BPM) in order to reduce noise (including vibration) at neighbouring residential properties and other sensitive receptors arising from construction activities.

HS2 aims to avoid pollutant emissions to air and minimise public and workforce exposure where emissions cannot be avoided. This is being achieved by setting strict requirements for all construction vehicles (HGVs and Light-duty vehicles) and Non-Road Mobile Machinery (NRMM) across the route, which goes above and beyond current national best practice, steering the construction industry towards a cleaner future. Our Air Quality Strategy provides further information on these requirements. During calendar year 2018, our contractors achieved 98.7% compliance with the Strategy across the Phase One route.

HS2 Ltd, as a responsible business, focuses on improving the environment, helping communities thrive and supporting social mobility through a number of programmes including our skills, employment and education work. Everyone at HS2 is able to volunteer in the communities where they live and work in support of the areas outlined above. We do this by working with a number of charity partners.

We are helping to positively transform the environment in a number of community locations along the route of the line. We are also working with the Social Mobility Foundation where we support programmes to help young people from low-income backgrounds to reach their full potential both at university and in their careers.

In collaboration with Groundwork UK, we have also awarded £3 million to 49 projects (during FY 2018/19) along the Phase One line of route. This total includes two community environment fund (CEF) strategic projects, four business and local economy fund (BLEF) projects and 51 CEF local projects, for more information see the Groundwork interactive map:

www.groundwork.org.uk/Sites/hs2funds/pages/hs2-community-and-business-funds-project-map

Our funding has also led to an additional £3.5 million in cash and in-kind match contributions from other organisations associated with the projects which demonstrates the wider benefits and legacy which CEF & BLEF promotes. The funding has been awarded to such a range of different projects; from a mobile museum in Amersham to youth provision in Coventry and support to social enterprises in Birmingham.

Chart removed

Corporate data

The below table provides information required by HM Treasury on HS2 Ltd's sustainability performance in line with the Government's Financial Reporting Manual (FReM) and meets the requirements laid down in the Greening Government commitments (GGC).

Greenhouse Gas (GHG) Emissions ¹		2018/19	2017/18
Gross Emissions (tonnes CO ₂ e) ²	Scope 1: Direct emissions	250	163
	Scope 2: Indirect emissions (electricity consumption):		
	Market ³	155	
	Location ⁴	864	865
	Scope 3: Indirect emissions (business travel emissions) ⁵	461	456
	Total emissions (market-based method) ⁶	867	n/a
	Total emissions (location-based method)	1,575	1,484
Related consumption data	Estates electricity (kWh) ⁷	3,051,254	2,458,898
	kWh per FTE	2,197	1,821
	Private car usage (road miles)	40,185	35,860
	Hire car usage (road miles)	185,623	126,553
Financial indicators	Total energy expenditure ⁸	£10k	£118k
	Expenditure on business travel	£3,302k	£3,322k
Waste		2018/19	2017/18
Non-Financial Indicators	Total waste arisings (tonnes)	178	131
	Waste diverted from landfill (tonnes)	172	125
	Waste arisings – kg per FTE	128	97
	Percentage diverted from landfill	97%	95%
Water		2018/19	2017/18
Non-Financial Indicators	Estates water (cubic metres (m ³)) ⁹	14,811	24,012
	m ³ per FTE	10.7	17.8
	Emissions from water consumption (tonnes CO ₂ e)	5.1	8.3

¹ Greenhouse gas factors for electricity, gas, water consumption and business travel from Greenhouse gas reporting – Conversion factors 2018, Department for Business, Energy & Industrial Strategy, June 2018.

² tCO₂e = tonnes of carbon dioxide equivalent emissions.

³ The market-based method reflects emissions from electricity that reflect the energy attributes associated with the supply of electricity. (Supplier programme: 0.25mt CO₂e/MWh).

⁴ The location-based reflects the average emissions intensity of grids on which energy consumption occurs. HS2 has used the grid average rather than the residual mix, as indicated as permissible in GHG Protocol Scope 2 Guidance (An Amendment to the GHG Protocol Corporate Standard), World Resources Institute.

⁵ Scope 3 business travel emissions are included as other indirect GHG emissions and include grey fleet, rail travel, hire cars and domestic flights.

⁶ Total emissions from sources subject to the carbon reduction target (i.e. scope 1, scope 2 and UK business travel), the scope of emissions has been defined in accordance with the Greening Government Commitments.

⁷ Includes estimates where direct meter readings were not available. Reduction in total energy expenditure is due to vacating office premises at Canada Square. The figure, as per previous years, does not include the energy costs incurred by third parties who manage HS2 Ltd properties on our behalf.

⁸ Energy expenditure directly incurred by HS2.

⁹ Includes estimates where direct meter readings were not available.

Non-financial information

Health, Safety, Security and Environmental Management

Taking responsibility for our own and others' health, safety, security and wellbeing is one of HS2's core values. In 2018/19, we set ourselves a HSSE company objective, divided into five distinct elements:

1. deliver health and safety through design process;
2. improve health and safety performance across HS2 and the supply chain, evidenced by a shift in our Health and Safety Performance Index (HSPI) to 1.2 (from a 0.6 baseline at February 2018);
3. instil a safety leadership approach that is supportive of mental and physical health and wellbeing, as well as safety;
4. undertake scenario planning and identify suitable controls are in place to secure HS2 against external threats; and
5. environmental compliance with Undertakings & Assurances, raising profile of and communicating success as appropriate.

The highlights from our performance against this objective are set out below:

Deliver health and safety by design

During 2018/19, we have delivered strong performance in embedding Construction Design and Management Regulations 2015 (CDM) into our organisation and extending our training and capability. The Government Internal Audit Agency (GIAA) audit highlighted a number of strengths in this area.

Achieving a Health and Safety Performance Index of 1.2

The year-end figure for the HSPI was 1.22, meaning we exceeded our target.

Safety Leadership, including health

Excellent progress has been made. This includes our supply chain health and safety conference – Safe at heart: HS2 Together – in October and the leadership and promotion of a number of health topics, including mental wellbeing, during the year.

Secure HS2 against external threats

Very good progress has been made.

Business Continuity Champions have been trained and appointed, over 100 staff have been trained as Gold or Silver incident response commanders, and we have tested and independently assessed our Incident Management Plan.

Environmental Compliance

HS2 continues to implement its obligations under the EMRs and is working closely with stakeholders along the route. HS2 and its contractors have closed out a number of Undertakings & Assurances and have plans in place to close any outstanding actions.

Fraud, Corruption and Speak Out

As we move from design to main construction of Phase One, the main fraud threats remain, and we are preparing for a possible shift in the types of fraud that we must combat. We are running fraud awareness training sessions to alert our employees to such fraud and corruption threats. We, together with our complex supply chain and law enforcement agencies, target our activities to proactively identify fraud before losses are incurred and mitigate the impact of fraud.

The confidential, independent Speak Out service is now fully operational within HS2 Ltd. We are now concentrating on embedding the service throughout our supply chain at every level. This will ensure we have the best possible chance of the early detection of attempted frauds, protecting the taxpayer from financial loss.

We are also working with our colleagues in the Cabinet Office to undertake a data analytics initiative to identify suspicious land or property transactions.

Community Engagement Report

Our aim is to be a good neighbour every single day, by respecting the people and communities we impact. The Community Engagement Team acts as the voice of the local communities within HS2, working throughout HS2 Ltd and our supply chain to reflect the views of local people. Through our residents charter we have identified 10 community commitments, which we use as the basis for measuring our success.

We publish public progress reports to demonstrate our progress against our 10 commitments. We publish these reports every six months to provide transparency about our performance across a range of indicators and to demonstrate how we are continuously learning. We published our first public progress report in Autumn 2018, covering the period January to June 2018. This report drew on case studies, along with data such as figures from the helpdesk on the numbers of complaints and enquiries we received, and the number of people we reached through funding awarded and the events we have held. The last progress report, covering July to December 2018, was published in April 2019.

The last two community engagement progress reports can be found at the links below:

www.hs2.org.uk/documents/community-engagement-progress-report-january-to-june-2018

www.hs2.org.uk/documents/community-engagement-progress-report-july-to-december-2018

Approved by the Board on 12 July 2019 and signed on its behalf by:



Mark Thurston

Chief Executive and Accounting Officer

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Directors' Report

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Directors' Report

The Directors present their report together with the financial statements of the Company for the year ended 31 March 2019. The Company is registered in England and Wales and has registration number 06791686.

Directors who have held office on the HS2 Ltd Board between 1 April 2018 and 31 March 2019 are:

- Michael Bradley, Chief Financial Officer, Executive Director (from 5 November 2018);
- Richard Brown, Non-Executive Director;
- Allan Cook, Non-Executive Chairman (from 5 December 2018);
- Christine Emmett, Non-Executive Director (until 14 September 2018);
- Melvyn Ewell, Non-Executive Director;
- Sir David Higgins, Non-Executive Chairman (until 31 July 2018);
- Neil Masom, Non-Executive Director (until 14 September 2018);
- Sir Terry Morgan, Non-Executive Chairman (1 August 2018 to 4 December 2018);
- Roger Mountford, Non-Executive Director;
- Richard Robinson, Chief Operating Officer, Executive Director (from 24 September 2018);
- Ed Smith, Non-Executive Director (from 1 August 2018);
- Duncan Sutherland, Non-Executive Director (until 29 June 2018);
- Mark Thurston, Chief Executive Officer, Executive Director;
- Baroness Jo Valentine, Non-Executive Director (until 14 September 2018); and
- Andrew Wolstenholme, Non-Executive Director (from 1 June 2018).

Conflicts of interest – Board

Board Members update HS2 Ltd on conflicts of interest on appointment and if and when they arise. All business interests are disclosed and recorded in the Register of Board Members' Business Interests, which is maintained and published periodically on the Gov.uk website:

assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/773796/HS2_Ltd_Register_of_Business_Interests_190123.pdf

Should a conflict be identified, Members are excluded from the affected part of the meeting and prevented from receiving any relevant materials where appropriate.

Principal activities

The principal activities of HS2 Ltd are set out in the Strategic Report under the Remit and Scope section (page 14).

Dividends

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

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. Managing Public Money, Annex 5.5, sets out the Government's standard indemnity for Board members. It states, "The government has indicated that an individual board member who has acted honestly and in good faith will not have to meet out of his or her personal resources any personal civil liability which is incurred in the execution or the purported execution of his or her board functions, save where the board member has acted recklessly".

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 days of invoice date.

Monitoring of payments made during the year ended 31 March 2019 shows that 70% of approved invoices were paid within 30 days of invoice date (2017/18: 71%). One claim has been paid in 2018/19 (2017/18: none) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

Charitable and political contributions

During the year, the Company made no political contributions. We have two charity partners that the company works with and promotes. Staff can use their volunteering days to support these charities, and the Company provides no financial charitable contributions to either partner.

Likely future developments

All likely future developments are known and included in the Remit and Scope section (page 14).

Disclosure of information to auditors

As far as the Directors and the Accounting Officer are aware, there is no relevant audit information of which the auditors are unaware. The Directors and Accounting Officer 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.

Approved by the Board on 12 July 2019.



Mark Thurston

Chief Executive and Accounting Officer

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Corporate Governance Report

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Archaeological works, St James Gardens, London

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Corporate Governance Report

Statement of Directors' and Accounting Officer's responsibilities

The Directors and Accounting Officer are responsible for ensuring that the Annual Report and financial statements are prepared 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 HS2 Ltd 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 and Accounting Officer 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 and Accounting Officer are required to comply with the requirements of the Government Finance Reporting Manual (FRm) and the Companies Act 2006, and in particular to:

- observe the Accounts Direction issued by 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 FRm 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 HM 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.

Fair, balanced and understandable requirement

The Accounting Officer confirms that the Annual Report and Accounts as a whole are fair, balanced and understandable and takes personal responsibility for the Annual Report and Accounts and the judgments required for determining that they are fair, balanced and understandable.

Corporate Governance Report

Governance Statement

Accounting Officer's Introduction

As Chief Executive and designated Accounting Officer (AO) 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, for keeping proper records, for safeguarding the company's assets, 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 have discharged my responsibilities during 2018/19.

Role of the Accounting Officer

The Chief Executive is designated as the AO for HS2 Ltd by the Department's Principal Accounting Officer, acting on behalf of HM Treasury. The AO signs the financial statements, supported by the Board and Audit and Risk Assurance Committee (ARAC), and 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 and Staff Report on behalf of the Board following Board approval.

The AO ensures that HS2 Ltd has effective complaints procedures. These are available through the following link:

www.hs2.org.uk/how-to-complain

During the reporting year, and following changes to the structure of the Executive Sub-Committees, the Executive Committee established a new Sub-Panel. The Audit and Risk Assurance Panel is a decision-making and review body chaired by the Chief Financial Officer. This Panel oversees the effective management of Risk and Assurance on behalf of the HS2 Ltd Executive Committee in a manner that facilitates 'fit for purpose' regimes reflecting an appropriate and proportionate level of audit and assurance activities. It makes a number of decisions

on behalf of the HS2 Ltd Executive Committee (as expressly described in its Terms of Reference) and monitors the performance/effectiveness of HS2 Ltd's controls environment.

On adoption of the Terms of Reference for the Panel, Members considered the six-monthly accounting officer meetings and agreed a review of the business conducted in the meetings. The accounting officer meetings are now diarised to follow the Audit and Risk Assurance Committee to avoid duplication of topics and add an extra opportunity for discussion of dischargeable Accounting Officer duties.

The HS2 Ltd Board

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

- ensure that HS2 Ltd delivers the Company's obligations under the Development Agreement;
- challenge and scrutinise the activities of the HS2 Ltd Executive;
- contribute external skills and best practice to the activities of HS2 Ltd;
- shape the strategic aims and objectives of HS2 Ltd;
- ensure that HS2 Ltd delivers the core benefits of the HS2 Project and makes best efforts to deliver the wider benefits; and
- ensure that HS2 Ltd carries out the HS2 Project economically and efficiently, offering best value for money for taxpayer funds, and to schedule.

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 Non-Executive Directors are independent Directors. The Chief Executive, Chief Operating Officer and Chief Financial Officer are Executive Directors.

Governance arrangements were reviewed by both the Executive and the Board (and adjustments have been implemented) in the reporting year.

Corporate Governance Report

Governance Statement continued

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 below and details of their contractual commitments and remuneration are disclosed in the Remuneration and Staff Report on pages 51-60.

Attendance at the HS2 Ltd Board and Committee (between April 2018 and March 2019)

Board Member	HS2 Ltd Board	Audit and Risk Assurance Committee	Remuneration Committee	Commercial and Investment Committee	Health, Safety and Environment Committee	Nominations Committee	Programme Committee
Number of meetings attended/Number of eligible meetings							
Michael Bradley CB Executive Director	4/4						
Richard Brown Non-Executive Director	9/11		4/4		2/3	2/2	
Allan Cook CBE Chairman	3/4				1/1		
Christine Emmett* Non-Executive Director	5/5		1/1	2/4	1/1	2/2	
Mel Ewell Non-Executive Director	9/11		3/3	5/5			2/3
Sir David Higgins* Non-Executive Director	3/4						
Neil Masom* Non-Executive Director	4/5	3/3		3/4	1/1		3/3
Sir Terry Morgan* Chairman	3/3				1/1		
Roger Mountford Non-Executive Director	10/11	5/6		9/9			
Richard Robinson Executive Director	6/6						
Ed Smith Non-Executive Director	6/7	3/3					
Duncan Sutherland* Non-Executive Director	3/3		1/1	2/2			
Mark Thurston Executive Director	11/11						
Baroness Jo Valentine* Non-Executive Director	4/5	3/3				2/2	
Andrew Wolstenholme** Non-Executive Director	4/9						

* Denotes now left the Company.

** Andrew Wolstenholme resigned in April 2019 and was only paid fees until December 2018.

Changes to Board membership

In the reporting year, the following changes occurred to the Board Membership:

- Andrew Wolstenholme was appointed Non-Executive Director on 1 June 2018 and resigned as a Non-Executive Director in April 2019;
- Duncan Sutherland ceased to be a Non-Executive Director on 29 June 2018;
- Sir David Higgins ceased to be Non-Executive Chairman on 31 July 2018;
- Sir Terry Morgan appointed to the Board as Non-Executive Chairman on 1 August 2018;
- Ed Smith was appointed Non-Executive Director on 1 August 2018;
- Christine Emmett ceased to be a Non-Executive Director on 14 September 2018;
- Neil Masom ceased to be a Non-Executive Director on 14 September 2018;
- Baroness Jo Valentine ceased to be a Non-Executive Director on 14 September 2018;
- Richard Robinson appointed Executive Director on 24 September 2018;
- Michael Bradley CB was appointed Executive Director on 5 November 2018;
- Sir Terry Morgan resigned as Non-Executive Chairman on 4 December 2018; and
- Allan Cook was appointed Non-Executive Chairman on 5 December 2018.

Personal data related incidents

In the 2018/19 period, one incident met the criteria for reporting to the Information Commissioner's Office (ICO). Following notification the ICO determined no further regulatory action was required at that time.

The details of the incident is as follows:

On 20 and 22 December 2017, a contractor sent emails from their HS2 account to their personal Yahoo email account. Three spreadsheets were attached to these emails which contained approximately 17,000 lines of data which included limited personal details from approximately 6,000 data subjects along with commercially sensitive information.

This unauthorised data disclosure went undetected until 14 December 2018 when it came to light during a data subject request search being completed by the HS2 Data Protection Officer.

The contractor (no longer working for HS2 Ltd) was contacted and assurances were obtained from them in relation to any further use of, and destruction of, the information in question.

The data disclosure was reported to the Information Commissioner's Office (ICO) on 4 January 2019. Following their review of the incident and in light of the actions that HS2 Ltd took in response, the ICO have confirmed that no further action will be taken.

Corporate Governance Principles

As a Non-Departmental Public Body, HS2 Ltd seeks to comply with the principles of HM Treasury 'Corporate Governance in Central Government Departments: Code of Good Practice 2017'.

assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf

Corporate Governance Report

Governance Statement continued

In summary and in line with best practice of the UK Corporate Governance Code 2016:

- The Board seeks to uphold the seven key principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership in order to deliver the long-term success of the Company.
- The composition of the Board at 31 March 2019 is three Executive Directors and five independent Non-Executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of the Board Chair and Non-Executive Board members.
- As identified in the Framework Document, the Secretary of State has delegated authority to the HS2 Ltd Board to appoint up to three Executive Directors (in addition to the Chief Executive) to sit on the Board. There are currently two Executive Directors, in addition to the Chief Executive, on the Board.
- The remit of the Board and the roles and responsibilities of its members have been clearly defined, including the role and responsibilities of the Accounting Officer.
- 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.
- The Chairman is undergoing a review of the Board Membership and composition to ensure it has the right skills for the programme, including actively seeking to improve diversity at Board level. At the time of reporting, following a recruitment process, two new Board members were appointed in May 2019. The Chairman will continue to review the Board composition to ensure it has the appropriate levels of skills and experience.

Board decision making

Effective, structured decision making is crucial as the Company progresses construction of the railway.

In 2018/19, the Board of Directors covered a number of regular agenda items including:

- updates from each meeting of Board Sub-Committees, health and safety, finance, HR, corporate affairs and community engagement;
- investment approvals;
- approval of the 2018/19 Supplementary Estimate, the 2019/20 Business Plan and the Outlook to 2023/24 for onward submission to the Department for Transport; and
- approval of the annual report and accounts.

Other key areas of consideration for the board during the financial year were:

- Baseline 1.0 for Phase 2b including benefits, cost, schedule, risk and opportunities;
- consideration of the Strategic Risks for the organisation;
- approved revisions to the Development Agreement (DA) following agreement from the DfT and HS2 Ltd to accommodate a number of issues and/or changes that had arisen since the DA was last updated (July 2017);
- Main Works Civils Contracts Gateway progress reviews and actions arising;
- design development changes to the Phase 2a hybrid Bill scheme for inclusion in Additional Provision 2;
- rolling Stock Invitation to Tender; and
- review and endorsement of the methodology and target maturity levels for capability to support and inform commencement of full construction on Phase One.

More detail on the content of the Board meetings is available on the Gov.uk website:

www.gov.uk/government/organisations/high-speed-two-limited/about/our-governance

Management Information and Quality of Data

Improvements in the collection and reporting of data have continued over the financial year in order to manage the long- and short-term aspects of time and cost control across the programme. The Board has received refined management information, together with a comprehensive forward look of topics and opportunities to enable informal briefings on a topic sufficiently in advance of decisions being required.

Board effectiveness

In the financial year 2018/19, an external board effectiveness procurement was advertised and a provider appointed. Due to the changes to Board composition, the effectiveness review will be conducted in the next financial year, following the arrival of the Chair in December 2018 and two new Non-Executive Directors in May 2019.

Actions from the previous effectiveness reviews were shared with the new Chair in January 2019 and the following key actions have been agreed:

- There will be a programme of key members of the DfT and other key government stakeholders invited to Board meetings and other engagement opportunities on a periodic basis.
- The Nominations Committee will be reconstituted.
- The Chair will consider nomination of a Senior Independent Director as part of his review of the Board composition.
- The work of the Board continues to be categorised, to enable analysis to be done on utilisation of the Board's time and whether any different focus is required.

Board sub-committees

There are five 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 assurance to the Board that effective arrangements are in place throughout the Company for risk management, assurance and internal controls. The Committee meets every two months or as matters arise and its Members are both Non-Executive Directors (Ed Smith, Committee Chair, and Roger Mountford).

The Audit and Risk Assurance Committee oversees assurance on the Company's risk frameworks, internal audit outcomes and receives regular updates from the Company's internal and external auditors. The Committee also reviews 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 reports to the Board and the Accounting Officer after each meeting and provides the Board and the Accounting Officer with an annual report, timed to support the finalisation of the annual accounts and the Governance Statement, summarising its conclusions from the work it has done during the financial year.

The Committee has considered the following significant matters during the year:

- review and challenge to actions as the output of audit and assurance activity;
- regular Counter-Fraud and Senior Information Risk Owner reports;
- implementing the actions from the previous year's Committee effectiveness review;
- a deep dive on Undertakings and Assurances;
- review and endorsement of the Management Assurance Statement;
- a deep dive on the approach to procurement and contract assurance; and
- review of the assurance approach to Phase One Baseline 7.0.

Corporate Governance Report

Governance Statement continued

Remuneration Committee

The Remuneration Committee reviews the Company's 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 the Department for Transport, 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 Board Chairman and the Department for Transport. Members of the Remuneration Committee are both Non-Executive Directors (Richard Brown, Committee Chair, and Mel Ewell). The Terms of Reference of this Committee allow for an Observer from the Department for Transport to attend meetings. The DfT Observer is currently Nick Joyce, Director General, Resources and Strategy.

The Committee has considered the following significant matters during the year:

- regular review of the Human Resources dashboard;
- endorsement of and progress against CEO, CFO and COO objectives;
- endorsement of Executive and Employee performance related pay awards; and
- review and endorsement of Senior Pay Principles and business case for changes to Appendix 2 of the Framework Document.

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 detail and at an earlier stage than the Board, 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 reports to the Board on all matters it considers, and identifies key issues for consideration by the Board when proposals for investment or procurement are presented for the Board's approval.

Both of the Committee Members are Non-Executive Directors – Roger Mountford, Committee Chair, and Mel Ewell.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee (HSE) provides independent assurance to the Board that effective arrangements are in place for the management of Health, Safety, Security and Environment matters. The HSE Committee is required to satisfy itself as to the adequacy and effectiveness of HS2 Ltd's Health, Safety and Environment policies and strategies, and detailed in its Terms of Reference. The Committee must satisfy itself of the principles, policies and practices adopted in complying with statutory and regulatory requirements in relation to Health, Safety and Environment matters affecting the activities of the Company. It provides assurance to the Board that the Executive team is adequate in managing Health, Safety and Environment risks and exercising suitable controls with respect to HSE matters.

The Committee meets quarterly and as matters arise. Both of the Committee Members are Non-Executive Directors (Richard Brown, Committee Chair, and Allan Cook).

Nominations Committee

The Nominations Committee is an advisory body for the Board that reviews and makes recommendations in relation to the Board composition, succession planning for Board Members, and Board effectiveness. The Committee meets six monthly and as matters arise.

Due to changes in Board Membership and composition, the Committee was suspended as at 1 October 2018, but the new Chair intends to reconstitute.

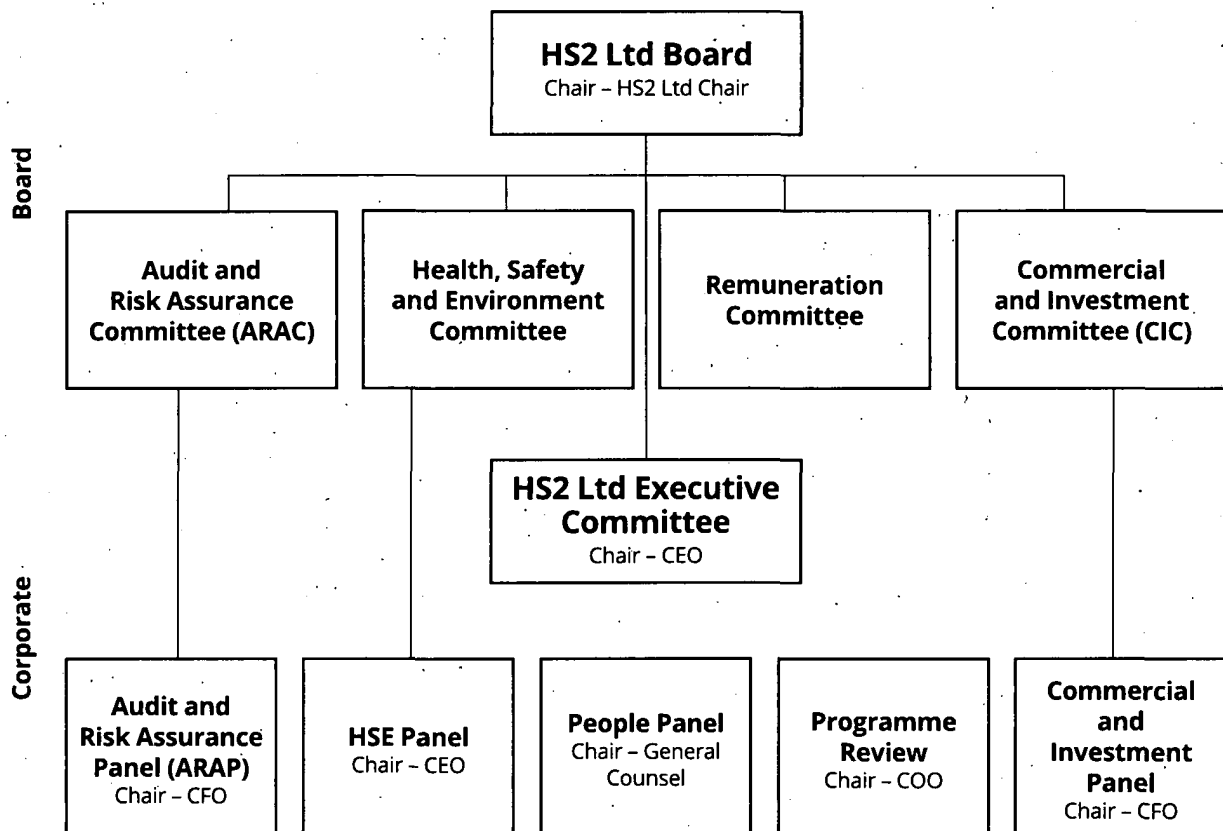
Programme Committee

Due to the growing overlap between the work of the Committee and the CIC, the Programme Committee was suspended as at 1 October 2018.

Prior to this, the Programme Committee was an advisory body for the Board, reviewing cost and time performance of the HS2 Ltd programme of works, and services. To allow for continuity and synergy, the former Chair of the Programme Committee is now a Member of the Commercial and Investment Committee. The work of the Commercial and Investment Committee involves an analysis of an increasing number of 'change' decisions, requiring a clear understanding of time, cost and scope and as such it was expected that there would be duplication of activity between the Programme Committee and the Commercial and Investment Committee.

Cost and time performance are being reported directly to each scheduled meeting of the Board.

Governance Structure



Corporate Governance Report

Governance Statement continued

Executive Team

The Executive Team manages the day-to-day management and operations of HS2 Ltd and in 2018/19 comprised the personnel listed in the table below (unless otherwise stated, the relevant Executive member served throughout the year).

Position	Executive	Started	Ceased to be an Executive member
Chief Executive Officer	Mark Thurston		
Chief Financial Officer	Michael Bradley	5/11/18	
Safety and Assurance Director	Emma Head		
HR Director	Neil Hayward		
General Counsel and Company Secretary	Nicole Geoghegan		
Managing Director, Phase One	Jim Crawford		
Managing Director, Phase Two	Paul Griffiths		31/12/18
Interim Managing Director, Phase Two	Tim Smart	1/12/18	
Infrastructure Director	Chris Rayner		
Strategic Director for Stakeholder Engagement	Tom Kelly		
Chief Operating Officer	Richard Robinson	24/9/18	

Risk Management

HS2 Ltd's enterprise risk management (ERM) framework aligns with HM Treasury Guidance, the Cabinet Office Framework for the Management of Risk in Government and ISO31000: Risk Management.

The Company's Risk Management Strategy and associated procedures provide clarity on the principles, accountabilities, responsibilities and methodology for the effective implementation of risk management across the enterprise in accordance with our Risk Appetite Statement as set out below:

HS2 Ltd aspires to have a best in class approach to risk management, and to be a high performing, innovative organisation, delivering value for money by applying the best in worldwide design and construction techniques, 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 loss or injury to of 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 seek to reduce risk to low levels in respect of the achievement of programme objectives.

In pursuit of excellence the Company is, however, prepared to accept commercial and operational risks which stimulate innovation both within the Company and its supply chain 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 and for our stakeholders, to minimise their exposure to risk.

Our risk appetite is embedded within our assessments of risks and the associated responses.

HS2 Ltd recognises that its risks are changing over time as it moves from consultation and approvals, to construction, delivery and operations. Our risk appetite is dynamic and is being regularly reviewed.

HS2 uses its Enterprise Risk Management (ERM) Framework to integrate and monitor its strategic risks with emerging delivery risks and inherent risks such as business disruption, fraud and bribery, governance and process compliance.

Our 'Risk-Control-Assure' (RCA) approach, integrating risk awareness with the corporate control framework and assurance/audit activities, was successfully implemented in the year. Under RCA, a set of 'Core Risks', to which all other risks are linked, are directly correlated with our Control Framework which has seen extensive development in the year.

The Company's main strategic-level risks are listed below.

Risk Description. There is a risk that...	Mitigation Action
Cost and schedule pressures make it difficult to deliver the programme within the original timescale and budget.	HS2 Ltd faces substantial cost and time pressures, as we move towards notice to proceed for our Main Works Civils Contracts on Phase One. We have put in place a new, more integrated way of working with our supply chain to address those pressures and there are already signs this is having a positive effect.
Supply chain factors such as capacity and skills shortages may prevent HS2 from achieving its strategic goals.	HS2 Ltd is driving the industry-wide Infrastructure Client Group (ICG)'s approach in mitigating capacity issues. Our Collaborative Procurement Hub and Supply Chain Team are undertaking capacity analyses to anticipate market capacity constraints. Our Skills, Employment and Education Strategy (SEES) focuses on securing the skills and labour to build the railway and leave a legacy of a highly-skilled and diverse workforce.
The scale and complexity of HS2's programme increases the likelihood of a significant health, safety or security management incident occurring, resulting in a loss of confidence in HS2's ability to deliver the programme safely.	Our Safe at heart strategy, launched in October 2018, is embedding the requisite culture and leadership to manage safety effectively in a programme as large and complex as HS2. Safe at heart's strategic goal, objectives and eight strategic principles underpin our approach to health, safety and wellbeing.
HS2 may be unable to build, develop and maintain the organisational leadership, capability and capacity required to deliver our objectives.	The HS2 Improvement Programme (HIP) launched in early 2018 is designed to ensure that HS2 has the appropriate capability required for the Government to grant 'Notice to Proceed', i.e. the Company is ready for the delivery of Phase One construction. The Company is reviewing its organisational structure ahead of Phase One construction. Under HIP, we have established specific work-streams to develop and embed the capability of our people and leadership, project controls, and the realisation of business-led enhancements across 24 specific capabilities. In addition our Skills, Employment and Education Strategy (SEES), mentioned in risk 3 above, aims to attract and retain the skills and labour to build HS2 and leave a legacy of a highly-skilled and diverse workforce.
Underlying political uncertainty and its potential economic, legislative and statutory framework impacts could hinder achieving the programme's objectives.	HS2 Ltd, like the rest of the construction sector, continues to monitor the implications of EU Exit and will act on any impacts once these are fully known and understood.

Corporate Governance Report

Governance Statement continued

Each strategic risk has an Executive owner. We track the profile and appetite of each risk, to gauge the effectiveness of its controls, and to identify where management responses need to be strengthened via a strategic risk review cycle involving senior leadership committees, panels and the HS2 Board. As part of our overall governance we will be reviewing our strategic risks in 2019. We expect our risk exposure profile to be broadly in line with previous years.

Internal control

HS2 Ltd's internal controls are designed to assure delivery of our Strategic Goals and Objectives in a compliant, effective and efficient manner, while safeguarding the funds and assets of the organisation in accordance with HM Treasury's Managing Public Money. Our internal controls are risk-based and proportionate to our risk appetite and risk tolerance.

The HS2 Ltd Integrated Management System (IMS) defines our key control frameworks; each one sets out how we operate to deliver or achieve our overall objective. HS2 Ltd's policies, strategies, plans, processes, procedures, forms, work instructions and guidance documents are maintained in line with our 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 DfT's requirements under the Development Agreement, other requirements arising from the Parliamentary process, and legal and regulatory requirements. The Company maintains risk registers at corporate, programme, individual projects and directorate levels.

Three Lines of Defence

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

Governance

The Company's governance regime includes the HS2 Board, Board sub-committees, the Executive Committee, Executive sub-committees and a regime of individual delegations (executed on a '2 – key' basis where there is a financial commitment) 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.

Integrated Assurance & Approvals Plan

The HS2 Ltd Integrated Assurance and Approvals Plan (IAAP) provides a consolidated view of risk-based assurance activity associated with key milestones and decision points identified within the forward plan for the next 12 months, and in outline for the following 12 months. The HS2 Ltd IAAP covers both the HS2 Programme (Phases One, 2a and 2b) and the enterprise-wide capabilities required to manage the organisation. The IAAP includes the yearly programme of compliance and quality audits, which are reported to the executive level Audit Risk and Assurance Panel (ARAP) and ARAC.

HS2 Ltd's Three Lines of Defence Model

Level	Operational Assurance	Business Assurance	Strategic Assurance
Outcomes of Assurance activity	Right first time (RFT) delivery through routine controls and monitoring activities	Oversight of operational assurance and line management activities	Independent assessment of the operating environment including governance, risk management, assurance and internal controls
Who commissions the Assurance activity?	Delivery functions – line management	Central functions and/or specialist Assurance functions	HS2 Ltd Board or Audit & Risk Assurance Committee
Who delivers the Assurance activity?	Delivery teams and line management as part of business as usual (BAU) controls and management monitoring	Assurance practitioners, peer reviewers and/or external experts independent of the line management delivering the activity being assured	Internal audit and external independent assurance providers
Where are the outcomes of the Assurance activity reported?	Management and Leadership Team meetings	Management and Governance Panels	HS2 Ltd Board and/or sub-committees including the Audit & Risk Assurance Committee
Examples of Assurance activities	Management assessments, surveillance and monitoring, compliance statements, management information and performance data, process evaluations	Compliance audits, Operational Assurance effectiveness reviews, Contract Management reviews, IMS assurance reviews, management information and performance data, policy and standard reviews	Internal Audits, Head of Internal Audit annual opinion, Independent Assurance Panels, ISO Certification, NAO Financial Audits

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 prudent assessment of transport demand. A register of business critical models is maintained. Assurance of these models is undertaken in line with the DfT's Strength in Numbers analytical assurance framework.

For example, the outcomes of the independent assurance that was undertaken for Phase Two benefits and revenues can be found here:

www.gov.uk/government/publications/hs2-phase-two-economic-case-advice-for-the-department-for-transport

Management Assurance

HS2 Ltd completes an annual Management Assurance (MA) review, resulting in the production of a Management Assurance Statement (MAS) which is signed by the Accounting Officer and is submitted to the DfT. The purpose of the review is to provide a self-assessment of the effectiveness of our systems of internal control; to identify areas where controls may not be operating effectively; and to identify and instigate future actions for improvement.

Evidence is gathered from internal stakeholders across the organisation and the MAS is endorsed by ARAP and ARAC before being submitted to the DfT. Actions arising from the review are captured on the 'Actions Tracker' and reported to ARAP and ARAC on a regular basis.

Corporate Governance Report

Governance Statement continued

Head of Internal Audit opinion

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 structured and forward looking work being undertaken as part of maturing capabilities in readiness for a significant increase in construction activities. Based on his findings, it is his view that a 'moderate' assurance rating was appropriate, meaning that there were 'some improvements required to enhance the adequacy and effectiveness of the framework of governance, risk management and control'. He noted that HS2 Ltd now has a plan to address the continually changing governance and control requirements over the next 12 months as the progress of the project continues.

External Certifications and Reviews

The Company is certified to ISO 9001 (Quality Management), ISO 14001 (Environmental Management) and BS OHSAS 18001 (Occupational Health and Safety) standards and is accredited for the Chartered Institute of Purchasing and Supply (CIPS) and the Association for Project Management (APM). The Company is also subject to regular external reviews including, but not limited to, those of the Infrastructure and Projects Authority (IPA), Major Projects Review Group (MPRG) and the National Audit Office (NAO).

HS2 Ltd works with a number of professional bodies, such as APM and the Institution of Civil Engineers, as well as a number of capital project delivery organisations, such as Heathrow Airports Ltd and Her Majesty's Revenue and Customs. The work undertaken with these organisations enables HS2 Ltd to learn lessons from other major projects, collaborate and share good practice. Our vision is to improve our performance through lessons learned and innovation, within HS2 Ltd and its supply chain, as well as from wider industry.

Conclusion

HS2 Ltd continues to mature as a client construction organisation. Following on from the developments made in 2017/18 to improve the internal control environment, further work has taken place to ensure the organisation is fit for purpose, as the scale and complexity of the programme increases. This work will continue in 2019/20 in advance of the commencement of civils construction for Phase One.

In arriving at my conclusion, I have taken into account the annual audit opinion of 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 2018/19 and, in relation to significant balance sheet events, to the date of signing.

Approved by the Board on 12 July 2019 and signed on its behalf by:



Mark Thurston

Chief Executive and Accounting Officer

Remuneration and Staff Report

The Remuneration and Staff Report for HS2 Ltd includes the salaries of the Chair and other members of the Board. Changes in the composition of the Board and a summary of its members' attendance at scheduled meetings in 2018/19 are shown in the Governance Statement on page 39-50.

Remuneration policy

As a NDPB, HS2 Ltd is required to apply the Government's approach to public sector pay policy, to ensure that pay awards are fair to public sector workers and to the taxpayer. 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 30 September 2018 on the Cabinet Office website at:

assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766814/_150k-2018-Master.csv

Total Remuneration – Directors (Audited)

The Chair, Allan Cook, is contracted to work for an average time commitment of three days per week on a per annum fee. Non-Executive Board members are contracted to work an average of two days per calendar month as a minimum. They are engaged on service contracts and are paid a fixed fee per day worked (or pro rata). This fee is set by DfT. 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.

There are currently three Executive Directors on the HS2 Board. These Directors are salaried and have a bonus element as part of their remuneration package, which was approved by the Secretary of State (under which a maximum payment of

10% or 20% of salary, as applicable, may be paid subject to performance). The HS2 Remuneration Committee (which comprises two Non-Executive Directors) has the role of approving for the three Executive Directors:

- their performance objectives for the Financial Year;
- how each Director has performed against such objectives (and hence the bonus that such Director is entitled to); and
- any salary adjustment for each Director. If the proposed adjustment is >9%, it must also be approved by the Secretary of State. This was not the case in 2018/19.

Executive Directors are permanent employees of HS2 Ltd. They have no fixed end date but have termination provisions which may be exercised (in certain circumstances on specified notice) by the Director or HS2 Ltd respectively. Non-Executive Directors are engaged under service contracts for three or four years. Certain significant events entitle the Secretary of State to terminate the relevant service contract immediately (e.g. the Director becoming bankrupt). Otherwise, the Secretary of State is required to give three months' notice of termination of such service contract. Contract end dates for Non-Executive Directors on the HS2 Board as at 31 March 2019 are as follows:

Allan Cook – 4 December 2021
 Mel Ewell – 31 August 2019
 Roger Mountford – 18 May 2022
 Richard Brown – 30 June 2019
 Ed Smith – 31 July 2022

The Executive Directors are senior managers. It is HS2 Ltd's policy for six-month notice provisions to apply in such circumstances. If any redundancies have to be made, HS2 Ltd may pay statutory redundancy terms only. Where it represents value for the taxpayer, HS2 Ltd is also entitled to pay salary in lieu of the notice period.

Remuneration and Staff Report continued

The fees or salaries of the Directors during the year are shown below (figures in brackets relate to full year equivalent fees or salaries):

Full name	Fees and salary (£)		Bonus Payment (£)		Taxable Benefit (£)		Pension Benefit (£)		Total (£)		Board Role
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	
Richard Brown	22,800	22,800	-	-	313	215	-	-	23,113	23,015	NED – Non-Executive Director
Roger Mountford	35,387	39,188	-	-	3,683	3,197	-	-	39,070	42,385	NED – Non-Executive Director
Mel Ewell	22,800	23,038	-	-	172	261	-	-	22,972	23,298	NED – Non-Executive Director
Andrew Wolstenholme From 1/6/2018*	£15,200 (£22,800)	-	-	-	240	-	-	-	15,440	-	NED – Non-Executive Director
Ed Smith From 1/8/2018	£17,100 (£22,800)	-	-	-	676	-	-	-	17,776	-	NED – Non-Executive Director
Allan Cook From 5/12/2018	75,487 (£230,000)	-	-	-	6,147	-	-	-	81,634	-	Chairman
Mark John Thurston*	605,350	600,000	46,000	-	138	1,087	**	892	651,488	601,979	Chief Executive
Michael Bradley CB From 5/11/2018	£110,769 (£270,000)	-	-	-	33	-	12,046 ***	-	122,848	-	Chief Financial Officer
Richard Robinson From 24/9/2018	£183,288 (£353,000)	-	-	-	6,073	-	19,415	-	208,776	-	Chief Operating Officer

Directors who left the Board during 2018/19

Full name	Fees and salary (£)		Bonus Payment (£)		Taxable Benefit (£)		Pension Benefit (£)		Total (£)		Board Role
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	
Duncan Sutherland Left on 29/6/2018	£5,700 (£22,800)	27,075	-	-	5,720	2,725	-	-	11,420	29,800	NED – Non-Executive Director
Sir David Higgins Left on 31/7/2018	£80,000 (£240,000)	240,000	-	-	-	-	-	-	80,000	240,000	NED – Non-Executive Director
Sir Terry Morgan From 1/8/2018 Left on 4/12/2018	£68,205 (£200,000)	-	-	-	-	-	-	-	68,205	-	Chairman
Christine Emmett Left on 14/9/2018	£16,150 (£22,800)	34,200	-	-	1,032	4,306	-	-	17,182	38,506	NED – Non-Executive Director
Neil Masom, OBE Left on 14/9/2018	£24,418 (£28,693)	22,800	-	-	4,396	12,622	-	-	28,814	35,422	NED – Non-Executive Director
Baroness Jo Clare Valentine Left on 14/9/2018	£10,450 (£22,800)	22,800	-	-	1,206	1,885	-	-	11,656	24,685	NED – Non-Executive Director
Lord Andrew Adonis Left 21/4/2017	-	£1,900 (£22,800)	-	-	-	-	-	-	-	1,900 (£22,800)	NED – Non-Executive Director
Alison Munro, CBE*	-	68,835	-	23,333	-	22	-	6,761	-	98,951	Phase 2 Managing Director
Steven Allen Left 30/3/2018	-	422,389	-	-	-	54	-	-	-	422,442	Chief Financial Officer

* Alison Munro is no longer on the Board, remains with HS2 as an Advisory Consultant.

** Chief Executive has reached threshold and is therefore exempt from pension deductions. As compensation receives additional £65,000 per annum as a payment in lieu of pension.

*** CFO and COO are eligible for pension contributions. Both jobholders currently contribute 6% to their pension schemes, and HS2 contributes 12% to both.

* Payments for bonuses in respect of the 2018/19 are paid in July 2019. Specific success criteria were defined per role around overall objectives of Health, safety & assurance, finance, schedule, organisation and leadership.

The bonus amount for the Chief Executive is the 2017/18 bonus which was approved and paid during 2018/19.

^ Andrew Wolstenholme resigned in April 2019 and was only paid fees until November 2018.

Remuneration and Staff Report continued

Pension entitlements

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% which means the maximum employer contribution is 12%. The HS2 Ltd pension scheme is managed on the Company's behalf by Legal & General Ltd. For the year ended 31 March 2019, employers' contributions were £8.7 million (2017/18: £7.1 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 HS2 Ltd.

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.

Payments under compensation schemes (Audited)

In 2016, HS2 Ltd announced that it would relocate its Head Office to Birmingham as part of our commitment to ensure we are working with our communities along the route and meeting our benefits realisation. In the process of concluding this relocation, HS2 Ltd incurred certain costs in 2018/19 financial year in relation to relocation and redundancy. Relocation and redundancy costs are disclosed in full in the year of relocation or departure respectively.

Relocation and enhanced redundancy payment schemes are coming to a close. In 2018/19, there were only two relocation payments made and one payment under enhanced redundancy.

Relocation Payments

Band	2018/19 Number/Cost	2017/18 Number/Cost
<£10,000	4	9
>£10,000 – £25,000	1	5
>£25,000 – £50,000	0	0
>£50,000	0	1
Total number of payments	5	15
Total cost	£36,468	£116,584

Enhanced Redundancy Payments

Band	2018/19		2017/18		2016/17	
	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
<£10,000	-	-	9	-	16	1
£10,000 – £25,000	1	-	19	5	9	3
£25,000 – £50,000	-	-	4	6	3	-
£50,000 – £95,000	-	-	-	3	-	-
>£95,000	-	-	-	3	-	5
Total number of payments	1	-	32	17	28	9
Total cost	£22,186	£0	£478,881	£806,565	£322,722	£890,501

The one enhanced redundancy payment made during 2018/19 was agreed during 2017/18. The enhanced redundancy payment formed part of the qualified audit opinion given by the NAO on the Annual Report and Accounts 2016/17. Agreement of DfT was given for this payment in July 2017.

Enhanced Redundancy Scheme

Year	Compulsory redundancies	Number	Other departures agreed	Number	Total	Number
2016/17	£322,772	28	£890,501	9	£1,213,273	37
2017/18	£478,881	32	£806,565	17	£1,285,446	49
2018/19	£22,186	1	0	0	£22,186	1

Remuneration and Staff Report continued

Statutory Redundancy Payments 2018/19

Band	
<£10,000	22
>£10,000	0
Total number of payments	20
Total cost	£45,632

Payments were made as a result of restructuring activities within the delegations granted to HS2 Ltd with no external approval required for redundancies made on statutory terms. Two of the 22 redundancies were not eligible for a statutory payment, so therefore received no redundancy payment.

Fair pay disclosures (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in the organisation and the median remuneration of the Company's workforce. The total annualised remuneration of the highest paid Director of HS2 Ltd at 31 March 2019 was £651,488 (2017/18: £601,000), which was 9.7 times the median salary of the workforce. The median is determined as the mid-point of all salaries comprising employees, secondees and temporary staff.

Financial year	CEO	Median	CEO Ratio
2018/19	£651,488	£67,062	9.7
2017/18	£601,000	£66,400	9.1
2016/17	£600,000	£67,900	8.8

Total remuneration includes 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 (2017/18: none). Actual staff remuneration (on an annualised basis) for full-time work at 31 March 2019 (excluding the highest paid Director) ranges from £15,000 to £406,000 per annum.

Staff numbers and costs

Audited staff numbers and costs are in Note 5 of the Financial Statements on page 77.

Staff composition

The overall proportion of female employees at 31 March 2019 is 37% compared to 34% reported in 2017/18.

2018/19 staff composition

Charts removed

2017/18 staff composition

Charts removed

Sickness absence data

Recorded staff absence due to sickness equated to an average of 4.4 days per employee during the year (2017/18: 2.4 days) for direct employees of HS2 Ltd.

Staff policies for disabled persons

HS2 has been awarded Disability Confident Leader status for exemplar disability related policies and practices, which ensures the full and fair consideration to applications for employment by the Company made by disabled persons.

As a member of the Business Disability Forum, HS2 line managers have access to excellent resources and advice on managing disability in the workplace. HS2 Ltd's Clear Talents tool enables staff to request specific adjustments to support their employment. All HS2 Ltd staff have access to appropriate training for their role and digital training meeting the Government's Web content Accessibility Guidelines level AA accessibility requirements.

Note:

- Directors – are any Executive or Non-Executive Directors who are a member of HS2 Ltd's Board.
- Senior Managers – are any SCS4 to SCS1 (Senior Civil Servant) as per Transparency reporting (HS2 Grades 20-26) who are not HS2 Ltd Board members.
- Employees – are anyone below SCS4 to SCS1 bandings (HS2 Grades 19 or below).
- Staff composition only includes HS2 Ltd payrolled staff, agency, secondees and Non-Executive Directors.

Remuneration and Staff Report continued

Other employee matters

HS2 Ltd is committed to equality, diversity and inclusion in all aspects of recruitment and employment. We achieve this in the following ways:

- develop and implement recruitment and selection processes that are open and fair and that enable the selection of the best talent (such as the use of blind auditions, where candidate CVs are anonymised);
- aim to build a workforce that reflects the communities it serves;
- promote an environment free from discrimination, harassment, bullying and victimisation and tackle any behaviour that breaches this;
- provide training, support and encouragement to employees and workers so that they can develop their careers and enhance their contribution to the organisation; and
- make all employees and workers aware of their responsibility for promoting equality, diversity and inclusion in their work; and involve employees and workers and their representatives in the development of implementation monitoring and review of human resources policies, procedures and flexible working arrangements.

Employee consultation

HS2 Ltd believes that the interests of the business and those employed in it are best served by there being a shared understanding of the objectives, strategy and performance of the business, of its operating environment and of other matters of genuine and mutual interest. One of the ways the Company achieves this is through the operation of its companywide Workplace Forum (WPF).

The WPF is comprised of a minimum of one elected/ appointed employee representative for each business directorate located in Birmingham and London. The objectives of the WPF are:

- develop and maintain a progressive, constructive approach to employee relations;
- ensure collective engagement via regular dialogue with staff representatives;
- provide for the timely exchange of relevant and appropriate information;
- facilitate regular, planned, meaningful and timely two-way communication; and
- foster and sustain an inclusive approach to the management of change.

The WPF is also a Health & Safety forum, in line with our duties under the Health and Safety (Consultation with Employees) Regulations 1996. As such, Health & Safety is a standing agenda item at all bi-monthly meetings of the WPF.

Health and safety at work

Three RIDDOR reportable incidents occurred during 2018/19. Whilst this is an increase on 2017/18, the reporting rate for RIDDORs per 100,000 hours worked is 0.02, which is well below other industry benchmarked companies.

2018/19 saw a 80% increase in hours worked compared to 2017/18 (which reflects the increasing engagement of the supply chain in the design and construction of HS2). The increase in lost time injuries and total injuries is broadly in line with 2017/18 based on the additional hours worked. Although the level of near misses has not significantly increased, the level of observations has seen a significant increase. This demonstrates a continued improvement in engagement and reporting culture.

The following table sets out the comparative statistics relating to health and safety.

	2018/19	2017/18
Total RIDDOR injuries	3	0
Total lost time injuries	13	5
Total injuries	106	52
Total near misses	279	231
Total observations	8,105	784
Total hours worked	16,276,561	8,961,530

RIDDOR data and total hours worked include HS2 Ltd's supply chain.

Trade union relationships

In 2016, HS2 Ltd and the Trades Union Congress (TUC) signed an Initial Framework Agreement (IFA). The IFA describes the parties' shared purpose, and their values, for effective joint working; and recognises the positive role that trade unions can play in supporting the delivery of HS2.

Purpose and principles

The following principles reflect a commitment by the parties to shared values and common purpose:

- potential of partnership at work;
- commitment to equality, diversity and inclusion;
- commitment to exemplary health, safety and wellbeing;
- commitment to legacy, maximising economic and social regeneration; and
- commitment to environmental and social responsibility.

Managing our people

Our People Strategy, Skilled for Success, was launched in May 2018. Skilled for Success considers the needs of HS2 Ltd at different stages of its lifecycle, as well as the support that our staff and stakeholders need and expect, and sets wide-ranging priorities that directly support the aims of HS2 Ltd.

The four key priority themes are developing an effective organisation with the right skills and capabilities; realising the HS2 skills legacy; developing a high-performing and diverse workforce with an inclusive culture; and delivering proactive, professional, innovative HR support. Each strategic theme is being delivered through projects and targets to ensure HS2 Ltd has the organisational capability and maturity to receive Notice to Proceed.

HS2 has identified a number of transition states, where the organisation and operating model will need to evolve to be ready for the next stage of the programme. In February 2019, HS2 commenced Project Evolve, which will ensure that we have the most optimal structure for the efficient and economic delivery of a project of the scale and complexity of HS2.

Remuneration and Staff Report continued

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 23 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. The report does not include independent panel members. This data is shown in the following tables.

For all off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months

No. of existing engagements as of 31 March 2019	46
Of which:	
Number that have existed for less than one year at time of reporting	18
Number that have existed for between one and two years at time of reporting	10
Number that have existed for between two and three years at time of reporting	9
Number that have existed for between three and four years at time of reporting	4
Number that have existed for four or more years at time of reporting	5

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 December 2018	136
Of which:	
Number assessed as caught by IR35	116
Number assessed as not caught by IR35	20
Number engaged directly (via PSC contracted to department) and are on the departmental payroll	0
Number of engagements reassessed for consistency/assurance purposes during the year	34
Number of engagements that saw a change to IR35 status following a consistency review	0

For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019

Number of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year	0
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	8

Approved by the Board on 12 July 2019 and signed on its behalf by:



Mark Thurston

Chief Executive and Accounting Officer

The Certificate and Report of the Comptroller and Auditor General to the Sole Member of High Speed Two (HS2) Limited

Opinion on financial statements

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2019 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 Taxpayer's Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the 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 and Staff Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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 of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of High Speed Two (HS2) Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on High Speed Two (HS2) Limited's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

The Certificate and Report of the Comptroller and Auditor General to the Sole Member of High Speed Two (HS2) Limited continued

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors and Accounting Officer's responsibilities, the Directors and Accounting Officer are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing High Speed Two (HS2) Limited's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of High Speed Two (HS2) Limited's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Remuneration and Staff Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with the Government Financial Reporting Manual;
- in 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 the Directors' Report; and
- the information given in the Strategic and Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where 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 parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies

15 July 2019

Comptroller and Auditor General

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

Image removed

Financial Statements

Image removed

Construction work, Willesden Euro Terminal – London Rail Logistics

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Statement of comprehensive net expenditure

	Note	Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
Income			
Interest income	3	(105)	(102)
Total income for the year		(105)	(102)
Expenditure			
Staff costs	5	14,966	26,367
Other expenditure	6	266,479	147,406
Non-cash items	6	(24,063)	55,499
Total expenditure for the year		257,382	229,272
Net expenditure before taxation		257,277	229,170
Taxation	7	20	19
Net expenditure after taxation		257,297	229,189
Other comprehensive Income			
Items which will not be reclassified to net operating costs:			
Net gain/loss on revaluation of Asset Under Construction – Railway		-	-
Total comprehensive net expenditure for the year		257,297	229,189

The Accounting Policies and Notes on pages 70 to 89 form part of these financial statements.

Statement of financial position

	Note	Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
Non-current assets			
Intangible assets	8	9,865	10,298
Property, plant and equipment	9	3,601,856	1,779,720
Financial assets	10	2,978	2,873
Total non-current assets		3,614,699	1,792,891
Current assets			
Trade and other receivables	11	80,260	41,092
Cash and cash equivalents	12	66,505	29,668
Total current assets		146,765	70,760
Total assets		3,761,464	1,863,651
Current liabilities			
Trade and other payables	13	(909,299)	(226,371)
Provisions	14	(27,254)	(285,283)
Total current liabilities		(936,553)	(511,654)
Total net assets		2,824,911	1,351,997
Taxpayers' equity			
Revaluation reserve		-	-
General reserve		2,824,911	1,351,997
		2,824,911	1,351,997

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 70 to 89 form part of these financial statements. The financial statements on pages 64 to 89 were approved by the Board on 12 July 2019 and were signed on its behalf by:



Mark Thurston
Chief Executive and Accounting Officer

Statement of cash flows

		Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
	Note		
Cash flows from operating activities			
Net operating cost per Expenditure Statement		(257,297)	(229,189)
(Increase)/decrease in trade and other receivables	11	(4,486)	(6,905)
Increase/(decrease) in trade and other payables	13	78,218	18,436
Adjustment for non-cash transactions	6	(24,063)	55,499
Net cash outflow from operating activities		(207,628)	(162,159)
Cash flows from investing activities			
(Increase)/decrease in trade and other receivables	11	(34,682)	(23,786)
Increase/(decrease) in trade and other payables	13	604,710	63,500
Use of provisions	14	(4,512)	(438)
Purchase of property, plant and equipment	9	(1,826,254)	(921,575)
Purchase of intangible assets	8	(149)	(9,535)
(Increase)/decrease in loan receivables	10	(105)	1,208
Adjustment for other non-cash transactions	14/6	(224,754)	230,766
Net cash outflow from investing activities		(1,485,746)	(659,860)
Cash flows from financing activities			
Capital contribution from DfT		1,730,211	838,101
Net cash inflow from financing activities		1,730,211	838,101
Net increase/(decrease) in cash and cash equivalents		36,837	16,082
Cash and cash equivalents at the beginning of the year	12	29,668	13,586
Cash and cash equivalents at the end of the year	12	66,505	29,668

Movements on trade and other receivables and trade and other payables are shown above under operating and investing activities based on the percentage allocation of resource and capital expenditure.

The Accounting Policies and Notes on pages 70 to 89 form part of these financial statements.

Statement of changes in taxpayers' equity

	General Reserve £'000	Revaluation Reserve £'000	Total Reserves £'000
Balance at 31 March 2017	743,085	–	743,085
Changes in Taxpayers' equity for 2017/18			
Net operating cost for the year	(229,189)	–	(229,189)
Revaluation on Assets under Construction	–	–	–
Capital contribution from DfT	838,101	–	838,101
Balance at 31 March 2018	1,351,997	–	1,351,997
Changes in Taxpayers' equity for 2018/19			
Net operating cost for the year	(257,297)	–	(257,297)
Revaluation on Assets under Construction	–	–	–
Capital contribution from DfT	1,730,211	–	1,730,211
Balance at 31 March 2019	2,824,911	–	2,824,911

The Accounting Policies and Notes on pages 70 to 89 form part of these financial statements.

Notes to the financial statements

1. General information

HS2 Ltd (the Company) 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 31 March 2019.

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 (NDPB), the Company also adopts the interpretations of IFRS and additional disclosure requirements contained in the Government Financial Reporting Manual (FReM) for 2018/19, 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 Accounting convention

These financial statements have been prepared on a going concern basis as outlined in Note 2.5 and under the historical cost convention unless stated otherwise.

2.3 New or amended accounting standards and interpretations adopted

The Company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the period ending 31 March 2019 to determine the impact on the Company's financial statements.

- IFRS 9 Financial Instruments replaces IAS 39. This has resulted in changes in some accounting terminology, with no impact on balances and transactions.
- IFRS 15 Revenue from Contracts with Customers replaces IAS 11 and IAS 18. There is no impact on balances and transactions as HS2 has no material income.

2.4 New or amended accounting standards and interpretations not yet adopted

- IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of low value. The IFRS is effective in the private sector for accounting periods commencing on or after 1 January 2019. In line with DfT, HS2 Ltd will adopt IFRS 16 in the financial year commencing 1 April 2019.

IFRS 16 gives a narrower definition of a lease than IAS 17 and IFRIC 4 and requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments, and that the assets, to be described as right of use assets, will be presented under property, plant and equipment. Therefore, implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities.

After initial recognition, right-of-use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. The cost model will be applied to assets for leases. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.

In line with DfT, HS2 Ltd propose that IFRS 16 will be implemented using the cumulative catch-up method; as a result, comparatives will not be restated and the measurement of the asset and liability balances recognised with effect from 1 April 2019. In line with DfT, HS2 Ltd also propose to use the central internal rate of borrowing issued by HM Treasury for entities to apply, when they cannot obtain the rate implicit in the lease contract.

As IFRS 16 will be implemented using the cumulative catch-up method, comparatives for 2018/19 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2019.

For building leases signed as at 31 March 2019 that are currently reported under Note 16, the impact of adopting the new standard would increase the property, plant and equipment asset by £19.3 million and the value of lease liabilities will also increase by £19.3 million. Depreciation and Finance Costs will be charged to the Statement of Comprehensive Net Expenditure (SoCNE), which replace rental payments that will be charged to the lease liability in future.

- IFRS 17 Insurance Contracts requires a discounted cash flow approach to accounting for insurance contracts. Subject to EU adoption, it is expected to come into effect for accounting periods commencing on, or after, 1 January 2021 and should be included in the 2021/22 FReM. HS2 Ltd considers that it has no contracts which meet the definition of insurance contracts.

The Company does not consider that any other new, or revised standard, or interpretation will have a material impact.

2.5 Going concern

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 2019/20 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021. As is the case for all capital projects funded by central government, future funding allocations for the period after 2021 are expected to be confirmed in an upcoming Spending Review (currently expected in 2019).

HS2 Ltd has the commitment to deliver the programme in view of Royal Assent to the High Speed Rail (London – West Midlands) Act 2017 on 23 February 2017, various Government statements demonstrating its support for high speed rail, the continuing financial support from the DfT, confirmed by the Spending Review 2015, and that the Company expects, within the year, to receive a decision on Notice to Proceed from Government. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The Statement of Financial Position (SoFP) as at 31 March 2019 shows net assets of £2,824.9 million.

Notes to the financial statements continued

2.6 Estimation techniques used and changes in accounting estimates

HS2 Ltd applies the following significant estimation techniques.

- 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. Allocation drivers include headcount and expenditure.
- Estimates relating to classifying undertakings and assurances as either a contingent liability or a provision is based on applying IAS 37. Each undertaking and assurance is considered on a case by case basis and involves some degree of judgement and estimation of the potential liability and appropriate classification.

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 and IFRS framework.

2.8 Leases

Operating Leases

As a lessee:

Rentals paid for assets under operating leases are charged to the Statement of Comprehensive Net Expenditure (SoCNE). 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 Interest Income and Financial Assets

The Company has a loan receivable from the National College for High Speed Rail that is interest bearing at 3.6% per annum.

The loan was initially recognised at historic cost. The loan is subsequently measured at historic cost plus accrued interest in line with the underlying agreement, which is an approximation of fair value.

Interest is accrued annually and recognised in the SoCNE.

The asset is monitored throughout the year as to whether there is any indication that the asset may be impaired. At the end of each reporting period, the asset is assessed for any evidence of impairment as at that date.

2.10 Intangible assets

Recognition

Expenditure on intangible assets which are non-monetary assets without physical substance and identifiable are capitalised where the cost is £1,000 or more and this is applied on a grouped basis using the 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 SoCNE.

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 on all assets.

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 SoCNE.

Where an impairment loss is subsequently reversed, the reversal is credited in the SoCNE, up to the amount of the original loss, adjusted for amortisation 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 useful economic life (UEL). The Company reviews and updates the remaining UEL of all its intangible assets each year. This is the period for which the asset provides economic benefits that will flow to the Company from its use.

Disposals

When scrapping or disposing 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.

2.11 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 UEL (including service potential), associated with the item will flow to the Company and the cost of the item can be measured reliably.

A capitalisation threshold of £1,000 is applied to all asset classes other than the railway infrastructure asset, which has no minimum limit. Expenditure below this value is charged as an expense in the SoCNE.

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.

The railway infrastructure asset is capitalised on an accruals basis, provided that it is probable that the UEL (including service potential), associated with the item will flow to the Company and the cost of the item can be measured reliably. The trigger 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. This is defined as the second reading of the hybrid Bill for a Phase of HS2.

Note that land and property acquisitions and compensation schemes are required to bring the railway asset into operational condition. This is an expense that the Secretary of State (DfT) incurs directly and recognises and is therefore not listed in these accounts. Please refer to Note 2.12.

Notes to the financial statements continued

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 FReM. During the construction period, such assets are valued at cost because they are not fully complete and ready for use. The hybrid Bill second readings are the recognition point when costs are classified as railway infrastructure assets. For Phase One the second reading took place in April 2014 and for Phase 2a this took place in January 2018.

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 all assets.

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 SoCNE.

Where an impairment loss is subsequently reversed, the reversal is credited in the SoCNE, 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 UEL. 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 UEL of all its assets each year. This is the period for which the asset provides economic benefits that will flow to the Company from its use.

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.

2.12 Land and Property

Properties acquired to bring the railway asset into operational condition are purchased on behalf of the Secretary of State 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. Activity undertaken on behalf of the Secretary of State include Compulsory Purchase Orders (CPOs), Compensation Schemes and Safeguarding Schemes. Cash is held by HS2 Ltd on behalf of DfT to fulfil CPO payments. These purchases belong to and are accounted for by the DfT so the cash held is offset by short-term creditors included in Trade Payables.

HS2 Ltd manages the portfolio of rental properties acquired as an agent for the DfT for the HS2 programme and recovers its external management costs from and remits net rental income to the DfT. HS2 Ltd is acting as an agent as it does not have exposure to the significant risks and rewards associated with the rendering of its services and as such does not recognise the revenue.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise bank balances held with the Government banking service and commercial bank accounts.

2.14 Taxation

The tax expense is in respect of current corporation tax incurred on a working capital loan. The current tax liability is calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date.

2.15 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.

VAT receivable is disclosed under Note 11 and the Company has recognised an accrual for VAT costs disclosed under Note 13.

2.16 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.

2.17 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 IAS 37, are stated at discounted amounts; amounts reported to Parliament are noted separately.

Notes to the financial statements continued

3. Income

	Year ended 31 Mar 2019 Capital £'000	Year ended 31 Mar 2019 Resource £'000	Year ended 31 Mar 2018 Capital £'000	Year ended 31 Mar 2018 Resource £'000
Income includes:				
Interest income	-	105	-	102
	-	105	-	102

The income receivable relates to interest chargeable from a working capital loan to the National College for High Speed Rail. The loan is interest bearing at 3.6% per annum.

4. 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 programme 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 31 Mar 2019	Capital Expenditure £'000	Resource Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	1,747,571	-	1,747,571
Phase Two: between Birmingham and Leeds and Manchester	71,638	229,876	301,514
Other Capital	7,194	-	7,194
Provision for interest on VAT	-	21,056	21,056
Depreciation and Amortisation	-	4,700	4,700
Administration (excluding Depreciation and Amortisation)	-	1,665	1,665
Total Net Expenditure	1,826,403	257,297	2,083,700
Analysed as to:	£'000	£'000	£'000
Programme Costs	1,826,403	255,162	2,081,565
Administration Costs	-	2,135	2,135
Total Net Expenditure	1,826,403	257,297	2,083,700

Year ended 31 Mar 2018	Capital Expenditure £'000	Resource Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	908,089	–	908,089
Phase Two: between Birmingham and Leeds and Manchester	6,025	221,270	227,295
Other Capital	16,996	–	16,996
Provision for interest on VAT	–	–	–
Depreciation and Amortisation	–	5,592	5,592
Administration (excluding Depreciation and Amortisation)	–	2,327	2,327
Total Net Expenditure	931,110	229,189	1,160,299
Analysed as to:	£'000	£'000	£'000
Programme Costs	931,110	226,303	1,157,413
Administration Costs	–	2,886	2,886
Total Net Expenditure	931,110	229,189	1,160,299

5. Staff numbers and costs

	Direct employees 2019	Other personnel 2019	Year ended 31 Mar 2019 Total	Year ended 31 Mar 2018 Total
Whole time equivalent persons employed – average for the year	1,252	137	1,389	1,350
Staff costs comprise:	£'000	£'000	£'000	£'000
Wages and salaries	89,898	19,577	109,475	103,912
Social security costs	9,866	–	9,866	9,021
Other pension costs	8,651	–	8,651	7,122
Chairman and Non-Executives fees	472	–	472	550
Total staff costs	108,887	19,577	128,464	120,605
Non-cash items include:			£'000	£'000
Capitalised expenses (Staff costs)			(113,498)	(94,238)
Total non-cash costs			(113,498)	(94,238)
Total staff costs in statement of net expenditure			14,966	26,367

Fees and salaries paid to the Directors are set out in the Remuneration Report (pages 51–60).

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

Notes to the financial statements continued

6. Other expenditure

	Year ended 31 Mar 2019 Capital £'000	Year ended 31 Mar 2019 Resource £'000	Year ended 31 Mar 2018 Capital £'000	Year ended 31 Mar 2018 Resource £'000
Non-staff expenditure includes:				
Professional services	1,247,822	151,461	485,233	101,440
Environmental services	4,303	5,262	3,734	17,450
Design – utilities	125,834	3,747	49,080	805
Licences and surveys	4,427	3,271	4,115	2,837
Communication and Information Technology	24,408	5,552	13,562	4,872
Accommodation costs	7,883	1,044	10,610	3,181
Property advice and valuation	25,307	9,849	12,183	13,835
Legal costs	4,466	368	6,193	561
Travel and subsistence	3,065	534	2,770	849
Auditors' remuneration and expenses	-	190	-	190
Recruitment fees	1,099	242	564	190
VAT costs	485,113	84,029	-	-
Other costs	1,252	930	1,066	1,196
	1,934,979	266,479	589,110	147,406
Non-cash items include:				
Depreciation of tangible assets	-	4,118	-	5,493
Provisions	(229,266)	(28,763)	230,766	49,908
Amortisation of intangible assets	-	582	-	98
Total non-cash costs	(229,266)	(24,063)	230,766	55,499
Total other expenditure	1,705,713	242,416	819,876	202,905

VAT costs included in Non-staff expenditure and the Provisions movement included in Non-cash items are discussed in more detail in Note 14.

7. Taxation

	Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
Current taxation		
UK corporation tax	20	19
Total UK corporation tax	20	19

Factors affecting the tax charge for the period

The effective rate of tax for the period is equal to the standard rate of corporation tax in the UK of 19%.

The differences are explained below:

Net expenditure on ordinary activities	(257,277)	(229,170)
Tax at the standard rate of corporation tax in the UK 19%	(48,883)	(43,542)
Income and expenditure not subject to corporation tax	48,903	43,561
Total taxation charge	20	19

Capital contributions receivable from DfT are not chargeable to corporation tax. The current tax charge is in respect of interest receivable.

The current corporation tax rate is 19% which came into effect from 1 April 2017. The corporation tax rate will reduce to 17% effective from 1 April 2020; this change was substantively enacted in September 2016. This will reduce the Company's current tax charge in future years.

Notes to the financial statements continued

8. Intangible assets

	Website £'000	Software and development £'000	Total £'000
Cost or valuation			
At 1 April 2018	164	17,594	17,758
Additions	-	149	149
Disposals	-	-	-
Reclassification	-	-	-
At 31 March 2019	164	17,743	17,907
Depreciation			
At 1 April 2018	164	7,296	7,460
Charged in year	-	582	582
Disposals	-	-	-
Reclassification	-	-	-
At 31 March 2019	164	7,878	8,042
Net book value at 31 March 2019	-	9,865	9,865
Net book value at 31 March 2018	-	10,298	10,298

	Website £'000	Software and development £'000	Total £'000
Cost or valuation			
At 1 April 2017	164	1,091	1,255
Additions	-	9,535	9,535
Disposals	-	-	-
Reclassification	-	6,968	6,968
At 31 March 2018	164	17,594	17,758
Depreciation			
At 1 April 2017	164	1,071	1,235
Charged in year	-	98	98
Disposals	-	-	-
Reclassification	-	6,127	6,127
At 31 March 2018	164	7,296	7,460
Net book value at 31 March 2018	-	10,298	10,298
Net book value at 31 March 2017	-	20	20

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

9. Property, plant and equipment (PPE)

	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
Cost or valuation				
At 1 April 2018	1,759,713	23,096	11,880	1,794,689
Additions	1,819,209	4,305	2,740	1,826,254
Disposals	-	-	-	-
Reclassification	-	-	-	-
At 31 March 2019	3,578,922	27,401	14,620	3,620,943
Depreciation				
At 1 April 2018	-	7,473	7,496	14,969
Charged in year	-	2,083	2,035	4,118
Disposals	-	-	-	-
Reclassification	-	-	-	-
At 31 March 2019	-	9,556	9,531	19,087
Net book value at 31 March 2019	3,578,922	17,845	5,089	3,601,856
Net book value at 31 March 2018	1,759,713	15,623	4,384	1,779,720

	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
Cost or valuation				
At 1 April 2017	845,599	17,628	16,855	880,082
Additions	914,114	5,468	1,993	921,575
Disposals	-	-	-	-
Reclassification	-	-	(6,968)	(6,968)
At 31 March 2018	1,759,713	23,096	11,880	1,794,689
Depreciation				
At 1 April 2017	-	5,129	10,473	15,602
Charged in year	-	2,344	3,150	5,494
Disposals	-	-	-	-
Reclassification	-	-	(6,127)	(6,127)
At 31 March 2018	-	7,473	7,496	14,969
Net book value at 31 March 2018	1,759,713	15,623	4,384	1,779,720
Net book value at 31 March 2017	845,599	12,499	6,382	864,480

Notes to the financial statements continued

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 £15k and £3,459k respectively which are not available for use at the year end, and therefore have not yet been depreciated (2017/18: £46k and £747k). In 2018/19, HS2 Ltd reviewed and updated the UEL of all its PPE assets in accordance with its accounting policy.

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.

10. Financial Assets

	31 Mar 2019 £'000	31 Mar 2018 £'000
Amounts falling due after more than one year:		
Loan to National College for High Speed Rail	2,978	2,873
	2,978	2,873

The loan receivable relates to a working capital loan to the National College for High Speed Rail. The loan is interest bearing at 3.6% per annum. Repayment of the loan will start in the 2021/22 financial year with the loan being fully repaid by 31 March 2025. As a result there is no immediate credit, liquidity or market risk associated with the loan. In line with our accounting policy, the asset was assessed for impairment on this basis and no charge was recognised in the current period.

11. Trade receivables and other current assets

	31 Mar 2019 £'000	31 Mar 2018 £'000
Amounts falling due within one year:		
VAT receivables	56,595	19,496
Other receivables	16,491	5,269
Prepayments	7,174	16,327
	80,260	41,092

VAT receivable relates to submitted returns to the HMRC that have not yet been settled. VAT costs included in Accruals in Note 13 are inclusive of these figures.

12. Cash and cash equivalents

	31 Mar 2019 £'000	31 Mar 2018 £'000
Balance at 1 April	29,668	13,586
Net change in cash and cash equivalent balances	36,837	16,082
Balance at 31 March	66,505	29,668

	31 Mar 2019 £'000	31 Mar 2018 £'000
Analysis of cash and cash equivalents:		
Cash held with the Government Banking Services	58,801	21,461
Cash held in Commercial bank account	7,704	8,207
	66,505	29,668

Included in the cash held with Government Banking Service is land and property funding totalling £39.9 million transferred to HS2 Ltd by the Department for Transport (DfT) for compulsory purchase orders (CPOs). These purchases belong to and are accounted for by the DfT so this cash held is offset by short-term creditors included in Trade Payables, Note 13.

13. Trade payables and other current liabilities

	31 Mar 2019 £'000	31 Mar 2018 £'000
Amounts falling due within one year:		
Trade payables	62,934	63,413
Corporate tax	20	19
Accruals	846,345	162,939
	909,299	226,371

VAT costs included in the Accruals balance above account for £569.1 million of the balance. The costs are discussed in more detail in Note 14.

Notes to the financial statements continued

14. Provisions

	Petition undertakings and assurances £'000	VAT £'000	Other £'000	Total £'000
Balance at 31 March 2018	8,912	274,552	1,819	285,283
Provided in the year	6,182	315,646	16	321,844
Provisions utilised in the year	(4,512)	-	-	(4,512)
Provisions not required written back	(4,400)	-	(1,819)	(6,219)
Provisions reclassified to accruals	-	(569,142)	-	(561,142)
Balance at 31 March 2019	6,182	21,056	16	27,254
At 31 March 2019				
Analysis of expected timing of flows:				
Not later than one year	6,182	21,056	16	27,254
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	6,182	21,056	16	27,254
At 31 March 2018				
Analysis of expected timing of flows:				
Not later than one year	8,912	274,552	-	283,464
Later than one year and not later than five years	-	-	1,819	1,819
Later than five years	-	-	-	-
	8,912	274,552	1,819	285,283

Petition undertakings and assurances

As part of the legislative process for the High Speed Rail (London – West Midlands) Act 2017, individuals and organisations were able to raise their objections to the HS2 scheme as petitions.

As a result, a number of assurances were given by the Secretary of State to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, HS2 Ltd is required as 'nominated undertaker' to meet these assurances. A form of compensation must be provided 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. As set out in our Community Engagement Strategy, HS2 Ltd aspires to be a 'good neighbour' and will continually seek to reduce the impact of the railway. Some of the commitments HS2 Ltd has entered into are recognised as provisions as defined by IAS 37, since at year end there is a present obligation, with a probable outflow of resources which can be reliably estimated.

VAT

The Company registered for VAT with effect from April 2014. HMRC are currently reviewing the Company's ability to recover VAT incurred on design and construction activity. The review was launched in 2017. As at 31 March 2018, following ongoing discussions with HMRC, HS2 considered that the recognition of a provision covering the VAT reclaimed to date (£274.5 million) was appropriate. As at 31 March 2019, based on current information, HS2 has now recognised an accrual in the financial statements as the likelihood of HMRC ruling in HS2's favour has reduced. The total accrual of £569.1 million is included within Note 13 under the heading Accruals. A provision has been created for default interest of £21.1 million arising on the VAT liability as disclosed in Note 13.

Any change to the Company's VAT status would not change the net cost to the UK taxpayer of delivering HS2.

15. 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 equivalents appropriate to its short-term needs and has only one significant third-party receivable being the loan to the National College for High Speed Rail, refer to Note 10. The Company is considered to have no material credit, liquidity, interest rate or market risk.

Notes to the financial statements continued

16. Operating lease arrangements

As a lessee:

	Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
Minimum lease payments under operating leases recognised in the Statement of comprehensive net expenditure in the year	4,212	5,581

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:

	Year ended 31 Mar 2019 £'000	Year ended 31 Mar 2018 £'000
Not later than one year	7,207	6,105
Later than one year and not later than five years	25,932	17,918
Later than five years	3,316	7,923
	36,455	31,946

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.

In some cases the underlying lease with the third party is in the name of the Secretary of State for Transport rather than HS2 Ltd, but the substance of the transactions means HS2 Ltd ultimately bears the risks and rewards of these agreements.

17. Financial commitments

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

	31 Mar 2019 £'000	31 Mar 2018 £'000
Financial commitments (excluding capital commitments)	14,967	13,450
Property, plant and equipment	236,060	52,743
Intangible assets	20	3,956
Contracted capital commitments	236,080	56,699

18. Contingent liabilities

Contingent liabilities do not represent a current liability for HS2 Ltd at 31 March 2019, 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 IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- As part of the legislative process for the High Speed Rail (London – West Midlands) Act 2017, individuals and organisations were able to raise their objections to the HS2 scheme as petitions. As a result, a number of assurances were given to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, HS2 Ltd is required as 'nominated undertaker' to meet these assurances. HS2 Ltd has identified a number of undertakings and assurances which lead to contingent liabilities totalling £238.3 million on a best estimate basis (2017/18: £114.9 million). These are undertakings and assurances where there is uncertainty over whether a 'present obligation' (as defined by IAS 37) exists at year end which is likely to lead to expenditure by HS2 Ltd. The increase year-on-year is primarily driven by progress in the design led undertakings and assurances, which mature over time and have become more certain.
- 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, 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 dated 13 January 2015. The agreement includes an uncapped indemnity in relation to all losses suffered by Network Rail because of the Company's works.
 - A number of Protective Provisions Agreement's (PPA) with either special status or utility companies that include indemnities in relation to the Company's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the High Speed Rail (London – West Midlands) Act 2017 and the Phase 2A hybrid Bill that provide for protection, repair, compensation and indemnification for valid third-party claims.
- 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.
- Potential legal claims where the likelihood of HS2 Ltd making payments in the future is less than probable as at 31 March 2019.
- The Company has supplier incentive costs that are payable dependent on specific performance criteria being met. The amounts relating to the period after 31 March 2019 or where the assessment of payment is less than probable have not been provided for.

As set out in Note 2.12, 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 HS2 route. Any such contingent liability will be reported in the DfT's financial statements.

Notes to the financial statements continued

19. Related-party transactions

HS2 Ltd is an Executive Non-Departmental Public Body sponsored by the DfT Core Department. The DfT is regarded as a controlling related party. The Company's primary source of funding is through the DfT, based on approved expenditure that is voted on by Parliament. The total amount of funding received from the DfT for the year ended 31 March 2019 amounted to £1,730.21 million (2017/18: £838.10 million).

During the year, the Company had a number of transactions with the DfT Core Department with the amount paid and payable at year end totalling £54.91 million (2017/18: £75.17 million) and receivable at year end totalling £13.61 million (2017/18: £3.28 million). All of the transactions with the DfT Core Department are carried out on an arm's-length basis.

In total there were transactions with other central government bodies totalling £19.05 million (2017/18: £19.55 million) with all transactions also carried out on an arm's-length basis.

Other than their remuneration and business-related expenses, none of the Board Members or Executive staff have 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.

Neil Masom, OBE, who was a Non-Executive Director of the Company until 14 September 2018, is 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. The amounts paid and payable at year end to WYG plc was £0.28 million (2017/18: £0.83 million). However, due to a credit note outstanding at the reporting end date, the Company reported a new receivable from WYG plc of £0.09 million.

Mark Thurston, the Chief Executive Officer of the Company, is a Board Member of the National College for High Speed Rail (NCHSR). The Company has in the past, when NCHSR was started, provided funding in the form of a repayable loan for the value of £2.98 million. The amounts paid to NCHSR and loan interest receivable from NCHSR in 2018/19 was £nil and £0.11 million respectively. Other transactions paid and payable at year end to NCHSR were £0.06 million (2017/18: £0.01 million).

Richard Brown, CBE, Non-Executive Director and Deputy Chair of the Company, is a Non-executive director of Network Rail Ltd and Network Rail Infrastructure Ltd. The Company is a related party of Network Rail with the total amount paid and payable at year end totalling £235.75 million (2017/18: £121.44 million).

Richard Robinson was appointed to the role of HS2 Chief Operating Officer in September 2018 having previously worked for Aecom Ltd. Mr Robinson held shares in Aecom which he divested in November 2018. Accordingly, arrangements were in place to restrict his participation in decision making with regard to Aecom for the first six months of employment. The amounts paid and payable at year end to Aecom was £44.75 million (2017/18: £27.16 million).

20. 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.

Losses statement	31 Mar 2019	31 Mar 2018
Total number of cases	6	10
Total amount (£'000)	78	36

Special payments	31 Mar 2019	31 Mar 2018
Total number of cases	6	33
Total amount (£'000)	1,126	565

There was one special payment above £300,000 during the reporting period. This special payment of £1.1 million relates to compensation paid to third parties for legal expenses.

To be consistent with current year, the prior year figures have been adjusted to include a payment made below the £300,000 threshold.

21. 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 61 to 63).

22. Ultimate controlling party

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

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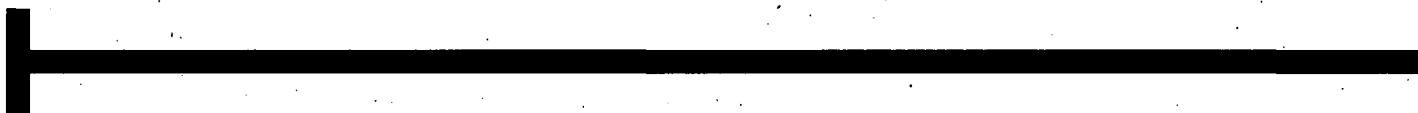


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Tower crane assembly, Euston, London

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ISBN: 978-1-5286-1523-5