



High Speed Two
(HS2) Ltd
Annual Report and
Accounts 2013/14

High Speed Two (HS2) Limited

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High Speed Two (HS2) Limited

Annual Report and Accounts 2013/14

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High Speed Two (HS2) Limited

Company information

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Chairman's foreword

When the Victorians laid the first track of what was to become the West Coast Mainline, they had no idea they were building a railway which would become one of the arteries of the nation - a line that would not just make it possible to travel in a day from Glasgow to London, but would transform Britain. They only planned to construct a series of local lines between individual towns and cities, and it was almost by accident that those lines were connected into the national network we know today. Hence the twists and turns that make the West Coast Mainline such a challenging line to maintain, and the need for tilting Pendolino trains.

HS2 starts from a different place. The aim is to connect cities up and down the country, but also to act as a catalyst for change, for the transport system and for the economy as a whole. HS2 can relieve congestion on the commuter services north of London, and make it possible to re-balance our economy - and, in doing so, spark the regeneration of cities in the Midlands and the North.

Britain's economy is almost uniquely capital-centric, with power, wealth and influence concentrated in and around London. Of the FTSE 100 top companies, 66 are based in the South East, with only six in England north of Birmingham - and none in Manchester or Leeds. A further six are in Scotland. This distribution reflects the importance that such companies place on being connected to the national centre of power, but also to the global market. Our current transport system makes that easier in and around London.

Historically, that confluence of skills and creativity has been to the benefit of London and the country, but it is now in danger of becoming counter-productive. The focus on London is turning up the pressure across a number of fronts: rising house prices, some of the highest commercial property rates in the world, and a congested transport system. Living and working in London is increasingly difficult and expensive. In contrast, much of the rest of the country is under-developed and needs the infrastructure to support its true potential.

Like many other major world economies, we need to spread our economic activity more evenly across different cities, not at the expense of London, but to the benefit of all. The first step in that journey is to create the connections that will allow companies to base themselves further north, where domestic and commercial property prices are lower and the transport system is less congested. The key is to improve links not only from North to South, but also East to West. HS2 is the answer.

Such a project is highly ambitious and faces a high degree of scrutiny and oversight. This is as it should be. HS2 is a complicated project, with a direct impact on people's lives along the proposed route. It requires a massive commitment of money and political will. And it will take a long time to build, even if we can speed up construction.

When taking on the role of chairman, I decided to start a baseline review of the whole project. The first part of that review, HS2 Plus, set out five key principles. For HS2 to meet its objectives, it must:

- stand the test of time;
- be the right strategic answer;
- be integrated with existing and future transport services;
- maximise the value added to local and national economies; and

- be a catalyst for change, both nationally and locally.

In line with those principles, I recommended that:

- the line should be extended further north, sooner, by completing the link to Crewe by 2027;
- a more ambitious and comprehensive redevelopment of Euston should be considered; and
- the proposed HS1/HS2 link should be dropped at this stage because of its impact on existing passenger and freight services.

I also reached two other conclusions: that the proposed budget for Phase One is adequate; and that there should be no cutback on the planned mitigation measures, whether for noise or broader environmental reasons. I also pointed out that, although Parliamentary scrutiny is both useful and necessary, there is a direct connection between the length of the Parliamentary process and the need to draw on the large contingency in HS2's budget.

These principles led me to one further conclusion of particular importance to Phase Two. If HS2 is to maximise its impact as a catalyst for change, and truly stand the test of time, it must be considered as an integral part of the overall national transport system, rather than just an end in itself. That means synchronising its development - above all, with the plans Network Rail has for the rest of the network, but also with plans that local towns and cities have for themselves as their communities develop. Urban centres in the Midlands and the North now see HS2's potential to transform their relatively poor connections to London, and to bring their east-west destinations closer too. Less than 0.5% of commuters arriving into Manchester each morning come from Leeds, and vice versa - and yet these two major cities are only 40 miles apart. Common sense suggests an untapped potential that needs to be supported by fast, reliable connections.

In the meantime, the Bill for Phase One has begun its passage through Parliament. Given the complexity and sheer scale of the task, to have successfully reached this stage is a major achievement. I pay tribute both to my predecessor Doug Oakervee, and to Alison Munro as Chief Executive. I am delighted that Alison will be helping us through the legislative process and overseeing the development of Phase Two. Simon Kirby has joined the organisation focussing initially on the implementation of Phase One before taking up the role of Chief Executive in September. It is an exciting time for the project, but we are all the more conscious of our responsibilities. HS2 isn't just a line on a map. It has an impact on people's lives - and the way we recognise that through our openness, clarity and assistance to residents and local communities will continue to be vital to everything we do. As we move into the next phase of our development, we will constantly try to remind ourselves of our responsibility, as well as the opportunity that goes with building the first national railway line north of London for over a hundred years.



Sir David Higgins

Chairman

Chief Executive's review

In recent months we have welcomed the publication of two reports which will inform our strategic direction. In March 2014, our incoming Chairman, Sir David Higgins, called for ambition and confidence in the choices we make to create a project that will stand the test of time. In the Growth Taskforce Report, Lord Deighton emphasised that preparation is the key to seizing the advantages of HS2, not just for Britain's transport network, but also for its cities, businesses and people. These reports have the next stages of the HS2 journey clearly in view. But we can also apply important lessons from the past year's achievements.

Detailing our plans to Parliament and the public

In November 2013, we delivered on our promise to submit a Bill to Parliament in 2013 seeking the powers to construct, maintain and operate Phase One of the scheme, between London and the West Midlands.

The delivery of the Bill is the culmination of four years of sustained hard work from the entire HS2 organisation and its partners. Starting in 2009, we drew together a highly professional and talented team to produce a Bill that addresses not only the design, engineering and cost challenges, but also the needs and concerns of the many stakeholder groups on matters such as the environment and property. The Bill, accompanied by nearly 50,000 pages of analysis in the Environmental Statement (ES), including over 5,000 maps and a Book of Reference detailing almost 11,000 land interests, is necessarily one of the most comprehensive Bills in UK history and the Parliamentary process that now follows will be of equal significance in scrutinising our proposals.

We recognise that depositing the Bill was the first step in our journey towards creating an iconic infrastructure project for the country, along with the connectivity, capacity and economic opportunities that it will bring.

Also in November 2013, the High Speed Rail (Preparation) Bill received Royal Assent after MPs had given it cross-party support. This allows us to work with the private sector to commence ground investigations, utilities diversions and other pre-construction activities. Perhaps even more importantly, it provides a basis for spending to compensate homeowners.

We have continued to progress our plans to build the high speed network in the Midlands and the North. Following the Government's announcement of its initial preferred routes in January 2013 for Phase 2, we received thousands of responses to the subsequent consultation, and we will continue to evaluate them in the months to come.

A budget to secure the project

The transition from planning to delivery was similarly reflected in the Summer 2013 Spending Review. HS2's total budget for infrastructure was confirmed at £42.6 billion in 2011 prices, including £14.4 billion of contingency. We remain committed to securing maximum value for this investment. It is a constant reminder of our responsibility to get HS2 right, but also a further endorsement from the Government of the scale of benefits that it is projected to deliver.

Scrutiny and challenge

The planning and decision-making process for HS2 received validation in July 2013, when the Court of Appeal rejected a number of legal challenges. It found that the government's approach to consulting on the principle of HS2 and the Phase One route, as well as on the approach to environmental and equalities assessment, had been lawful and fair. Subsequently, the Supreme Court unanimously dismissed two appeals, finding firmly in the government's favour.

I welcome the decision of the courts. However, it is right that such a high-profile project should be scrutinised, especially by Parliament. We remain open in providing relevant information to the public and to public bodies. The debate around HS2 must now focus on pursuing the most suitable mitigation for its effects, and the greatest return for the country as a whole.

Property

Government and HS2 Ltd were recently able to announce updated assistance to residents near the proposed route of Phase One. In offering a number of options, we want to help people to make decisions that suit their circumstances.

Our new residents' charter, overseen by an independent commissioner, will guide the assistance we offer to anyone who is affected by the development of HS2 near their home. These measures build on our commitment to a professional, understanding, respectful approach to people affected by HS2. The commissioner has not yet been appointed.

Environment

Our environmental responsibilities remain at the fore as the project develops. The Environmental Statement, published in November 2013, details the likely effects of Phase One and the mitigation we will put in place.

It is important to acknowledge the impact of the project, but we must also be clear about what, through good planning, we are aiming to achieve on Phase One: no net loss of biodiversity; a net increase in habitats of principal importance; and over 90% of construction waste to be diverted from landfill through re-use, recycling and recovery. We are also proud to have published our draft Code of Construction Practice to reduce the impact on neighbouring communities and the natural environment.

Working together

This phase of the project will call for ever-greater collaboration and sharing of expertise and we will continue to strengthen our collaboration with Network Rail and other key partners to ensure that HS2 is integrated with existing and future transport services. We have always aimed to learn from other projects, and East Japan Railways has an approach to continuous innovation that complements our own. Our new contractual relationship will allow us to draw on their world-class technical knowledge.

While some expertise will be leveraged from high speed rail's early adopters, our intention is that much of the knowledge and resources will be home grown. As our first Supply Chain Conference in November 2013 showed, British industry is readying itself for the challenge. We welcomed over 600 companies from all tiers of the potential supply network.

Skills

Home-grown skills are also at the heart of plans for a High Speed Rail College. Due to open in 2017, it will provide technology training to support careers in engineering, design, construction and management. But we do not have to wait until then to inspire the next generation of industry leaders. HS2 Ltd attended The Skills Show in Birmingham in November 2013 and gave thousands of young people a first insight into working on the UK's largest transport infrastructure project.

Looking to the future

For me and for many colleagues, one of the most encouraging trends is that the regions which will be served by HS2 are becoming more aware of the enormous potential that it represents as a catalyst for growth. Already, Birmingham City Council has announced the Curzon HS2 Masterplan, an ambitious but achievable vision for over 140 hectares of the city. This engagement is also reflected in a changing organisational outlook for the company. Over this year, my fellow Board members and I have held meetings in Sheffield, Leeds, Nottingham and Liverpool, and have heard at first hand what business and civic leaders want HS2 to do for their city. HS2 Ltd has also started to develop its presence in Birmingham, which will ultimately be the operational hub of the new network.

We must continue to be open about the work we are doing, and to take pride in it. In the past year, HS2 staff spoke at over 100 events around the country, informing the debate about Britain's economic and transport future, alongside experts from business, academia and government. Our Enquiries Team were on hand to answer over 16,000 letters, emails and phone calls to help the public. Our consultation teams organised over 100 events in local communities this year and I am delighted that HS2 Ltd staff have already volunteered over 1,600 hours of careers information, guidance and learning activities. I would like to thank everyone for their commitment, enthusiasm and professionalism in driving the project forward and making the vision a reality.

This kind of openness is crucial to the relationships we need to sustain. Even as our organisation evolves, the aim should remain clear to everyone: to connect Britain's great cities and to create opportunities for lasting benefits up and down the country.



Alison Munro

Chief Executive

Strategic report

The directors present their first Strategic Report together with the Directors Report and Financial Statements of the company for the year ended 31 March 2014.

Background

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

HS2 Ltd is fully funded by the DfT, which defines the scope of the work undertaken by HS2 Ltd, defines the corporate delivery targets and sets the budget allocations for each financial year. Aspects of the overall HS2 programme, such as property acquisition and management, continue to be the financial responsibility of the DfT but are managed on its behalf by HS2 Ltd.

Remit and scope

HS2 Ltd is responsible for developing proposals and for promoting the UK's new high speed rail network. HS2 Ltd carries out activities in line with the remit set by the Secretary of State for Transport, which has been clarified in June and November 2013.

In January 2012, the Secretary of State charged HS2 Ltd to undertake further work and to provide advice to enable the DfT to deposit a hybrid Bill with Parliament in respect of the line between London and the West Midlands and, subject to Parliamentary approval, secure powers for the scheme. This represented a significant change in the nature of HS2 Ltd as it moved from an advisory body to one promoting a specific railway project. Activities included:

- the delivery of a safe and affordable route design;
- a comprehensive assessment of the environmental impacts of the design;
- consultation with all relevant bodies on aspects of the proposals; and
- the continued development of routes from the West Midlands to Leeds and Manchester.

In June 2013, after the second reading of the High Speed Rail (Preparation) Bill, the Secretary of State clarified that HS2 Ltd should continue to act both in a delivery and advisory role for the development of the high speed rail network. In its delivery role, HS2 Ltd is to:

- help make HS2 an 'Engine for Growth';
- provide advice to enable the DfT to deposit a hybrid Bill in Parliament for Phase One between London and the West Midlands; and
- develop the design of Phase Two between Birmingham and Leeds and Manchester.

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In its advisory role, HS2 Ltd is to:

- undertake strategic work on longer term options for serving Scotland and the North East;
- advise the Department on costs, benefits and commercial issues for Phase One; and
- take forward initial work on the train and systems operations for the railway and work with the Department to develop options for the future delivery and operational model.

The High Speed Rail (Preparation) Act 2013 received Royal Assent in November 2013 and authorises HS2 Ltd to incur expenditure in preparation for a high speed railway network. Under its authority, HS2 Ltd will undertake further detailed design work, let contracts for designing the construction of the line, design the realignment of existing railway, plan the movement of utilities, carry out ground investigation and ecological surveys, and, through the DfT, purchase property and make compensation payments to homeowners.

The DfT has formally confirmed its policy intention that HS2 Ltd will manage the new HS2 railway infrastructure for an initial period of operation post-delivery of the operating railway, and will derive an income from train operators for access to the HS2 railway. HS2 Ltd will do this as infrastructure licence holder (as Network Rail does for the classic network), and the access charging regime will be subject to regulation by the Office of the Rail Regulator.

Engine for growth

HS2 Ltd has a wider role than simply building and operating the HS2 high speed railway network and has an obligation to work with other parties such as the HS2 Growth Taskforce, led by Lord Deighton, to support regeneration and growth. HS2 Ltd is tasked by the DfT to:

- identify and deliver options for development of land at and around proposed station sites;
- engage with local partners on how station design and operation can best support regional development and master planning objectives;
- deliver a comprehensive communications and promotional strategy; and
- project plan and provide assurance on all activities for which it has lead responsibility and work in partnership with the DfT for the planning and assurance of the overall programme.

Company strategy

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

Our vision is that HS2 will be an engine for growth; it will enlarge Britain's rail network to provide the capacity and connectivity we need to drive national and regional competitiveness.

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

- engaging with all our stakeholders fairly and meaningfully;

- delivering value through the effective management of the design and build programme; and
- building and operating a safe, sustainable and reliable system to provide exceptional levels of service to passengers

In 2013/14, in addition to our key aims of delivering the programme on time and to budget, we have identified six strategic themes that represent the challenges that we face to deliver this programme successfully.

- **Health, safety and security:** we will design, build and operate the railway to the highest safety standards
- **Environment:** we will be an exemplar project that is built and operates sustainably, responsibly and respectfully of the communities, wildlife and places affected by HS2
- **Benchmark for delivery and operational excellence:** we will seize the opportunity to transform how we design and build major projects and operate railways
- **Vibrant city regions:** working in partnership with Britain's city regions, we will be an effective catalyst to create great places to live and work throughout the country
- **Designed for the passenger:** we will deliver a modern transport solution that is reliable, seamless and easy to use for all passengers and well integrated with existing transport systems
- **Skills and employment:** working with our suppliers, we will build a skilled workforce that fuels further economic growth across the UK

These themes will enable HS2 Ltd to have a clear direction, to set challenging targets and to check how we are progressing towards keeping our promises. They are designed to empower the organisation, giving us a solid foundation on which to build our governance and decision-making processes. As we continue to grow and mature as an organisation, it is important that we have a clear framework in place which will allow us to make the best possible decisions.

In 2013/14, we have started to develop targets within each theme to help us quantify whether we have achieved our high-level goals, and to give a clear indication of the ambition of this programme. For each target, we will continue to develop our strategies on how best to deploy our resources and talent. We will be working to turn these into measurable statements in 2014/15.

Business model

HS2 Ltd is a programme-focused company, organised around the key deliverables of the HS2 Programme and in accordance with the remit set by the Secretary of State. Accordingly, it has the delivery and support functions appropriate to a programme-based organisation, headed by members of the Executive team, as set out in the Governance Statement.

HS2 Ltd will continue to keep its organisation structure under periodic review as it progresses from the planning and design phase into pre-construction and construction phases and onto the commissioning and operation of the railway network.

Review of the company's business and position at 31 March 2014

HS2 Ltd has made significant progress on both Phases One and Two in 2013/14. At the end of the financial year, HS2 Ltd is ready to move forward with the work authorised by the High Speed Rail (Preparation) Act, to support the hybrid Bill in its passage through Parliament, to progress the planning for Phase Two and to continue to provide advice to the DfT.

Phase One between London and the West Midlands

In 2013/14, HS2 Ltd has undertaken design and environmental impact assessment work in line with its remit which has enabled the Secretary of State for Transport to deposit the hybrid Bill with Parliament in November 2013.

At nearly 50,000 pages including the Environmental Statement (ES), this is one of the most comprehensive and complex bills considered by Parliament, commensurate with the national importance of the programme. The Bill is now passing through the Parliamentary process and much of HS2 Ltd's work over the next two years will be providing support to the process and responding to the Select Committee.

The hybrid Bill, when enacted, will confer the powers required to construct the first phase of the high speed rail route between London and the West Midlands. The Bill received its second reading in the House of Commons on 28 April 2014.

Between May and July 2013, HS2 Ltd conducted a public consultation on proposed refinements to the preferred line of route for Phase One and on its draft ES in a series of events along the Phase One route, attended by over 5,000 people. Consultation on the draft ES was an important way of ensuring widespread engagement on the scheme and feedback was used to inform the ES, a key part of the hybrid Bill.

In July 2013, the Secretary of State announced that safeguarding directions have been issued for Phase One. Safeguarding is an established part of the planning system, designed to protect land which has been earmarked for major infrastructure from conflicting developments. The DfT has created an Exceptional Hardship Scheme for property owners with an urgent need to sell but where the market value has been adversely affected by the announcement of the preferred route.

A Judicial Review brought against the Secretary of State in respect of the project was successfully defended. All but one of the grounds of challenge were dismissed by the High Court in March 2013. The Court of Appeal in July 2013 dismissed seven appeals against the decision of the High Court and the Supreme Court dismissed two further appeals in January 2014. There are currently no outstanding challenges or appeals against HS2 Ltd. There are two Judicial Reviews currently in progress against the Secretary of State.

HS2 Ltd conducted a new consultation to seek views on proposed property compensation schemes for Phase One in response to the one challenge upheld by the High Court. The consultation closed in December 2013 and, in April 2014, the Government unveiled a new package of property help and compensation measures for home owner-occupiers affected by the HS2 route.

Phase Two between the West Midlands and Leeds and Manchester

In January 2013, the Government announced its initial preferred routes for Phase Two from Birmingham to Manchester and from Birmingham to Leeds respectively. The announcement was followed by a period of informal engagement. The formal consultation on the preferred route ran from July 2013 to January 2014. HS2 Ltd also ran a series of 37 events between October and January as part of the consultation, which were attended by nearly 8,000 people. An independent report will be produced for the Secretary of State who will make an announcement in response to the consultation towards the end of 2014.

Financial performance

Actual operating expenditure for the year ended 31 March 2014 was £208.4m (2012/13: £176.4m) compared to the operating budget of £243.7m (2012/13: £179.3m). HS2 Ltd also incurred capital expenditure of £2.1m (2012/13: £8.1m) against its capital budget of £4.0m (2012/13: £8.8m). HS2 Ltd was not registered for VAT in 2013/14 and all figures are shown inclusive of irrecoverable VAT.

HS2 Ltd's expenditure has been financed by grant in aid from the DfT and budgets have included provision for VAT on the basis that it is not recoverable by HS2 Ltd up to 31 March 2014. HS2 Ltd has registered for VAT on 1 April 2014 to enable it to recover VAT, where appropriate, in 2014/15 and beyond and its future budgets have been agreed on that basis.

Delivery performance

HS2 Ltd monitored its performance in 2013/14 through the delivery of key milestones in the HS2 Programme as set out in its remit from the Secretary of State for Transport. In 2013/14, HS2 Ltd:

- enabled the DfT to deposit the hybrid Bill in Parliament in 2013 as planned;
- secured Royal Assent for the High Speed Rail (Preparation) Bill ('Paving Bill') in November 2013 to enable preparatory work to proceed while the hybrid Bill progresses through Parliament;
- secured the timeline of the HS2 project by withstanding the legal challenges and subsequent appeals brought forward in the Judicial Review;
- delivered the Environmental Statement to support the hybrid Bill after completing an extensive public consultation exercise;
- finalised property compensation proposals for Phase One after a new consultation exercise;
- commenced engagement with the supply chain to develop its Outline Procurement Strategy;
- delivered a formal consultation on the initial preferred route for Phase Two; and
- operated in line with its remit and maintained expenditure within its agreed budget.

Factors affecting future development

HS2 Ltd will continue to work closely with the DfT to support the progress of the hybrid Bill through Parliament, and Royal Assent is now expected to be granted after the 2015 General Election. The

company is encouraged by declarations of support by all three major political parties and the strong support shown in the voting for the Paving Bill in November 2013 and the hybrid Bill in April 2014.

The future development of the high speed rail network is dependent on Government commitment to funding over the life of the project. Following the Government's Spending Review in 2013, the indicative budget agreed by the Chancellor for the Phase One construction programme of £21.4bn (in 2011 prices) includes an HM Treasury contingency of £4.2bn to reflect a 95% probability of delivery within budget. This settlement gives both the DfT and HS2 Ltd assurance about the availability of funds to move forward with the project.

At the request of the Prime Minister, Sir David Higgins produced a report, HS2 Plus, which was published in March 2014. After "an exhaustive review of the costs outlined in Phase One", he reported that he was "satisfied that the £21.4 billion (including contingency) allocated to the Phase One infrastructure project, plus the £3 billion (including contingency) allocated for Phase One trains, is enough to deliver Phase One". HS2 Ltd is working to follow through on the recommendations with the DfT and Ministers. The published report can be found at <http://www.hs2.org.uk/david-higgins-launches-his-vision-for-hs2>

The Minister's response to the report can be found at <https://www.gov.uk/government/speeches/higgins-review>

Principal risks and uncertainties

The HS2 Ltd Executive and Board regularly review the risks facing the company throughout the year.

The principal risk facing the company is the uncertainty that will persist until the hybrid Bill receives Royal Assent and authorises HS2 Ltd to proceed with the construction and operation of the railway. In 2013/14, HS2 Ltd has committed resources to prepare the hybrid Bill and support the Secretary of State in delivering the Bill, and will continue to support the passage of the Bill through Parliament in 2014/15. Until the Parliamentary process is complete and Royal Assent is granted, there is a risk that HS2 may either not proceed or will proceed on a different basis from that currently proposed.

At the year end the major risks identified were those associated with the initial stages of development for a major infrastructure project, including the management of key professional service contracts, stakeholder relations, land access, governance arrangements and recruitment. Details are set out in the Governance Statement on page 28.

Sustainability and environmental matters

HS2 Ltd is committed to minimising the environmental impact of the proposed high speed rail infrastructure in the UK in order to achieve world-class standards. A key focus of the work during and after public consultation was an appraisal of sustainability related to the proposed route and HS2 Ltd has completed a programme of environmental surveys in the year, which formed the basis of the Environmental Statement submitted to Parliament as part of the hybrid Bill.

In terms of its own practices, HS2 Ltd aims to minimise its impact on the environment - including energy use, recycling and procurement procedures - and has developed a sustainability policy and

gathered data on its emissions and consumption for the first time in 2013/14. This year, HS2 Ltd has produced a separate Sustainability Report (see page 20).

Health and safety

HS2 Ltd aims to set a new benchmark for safety performance and workplace health in the delivery of a major project. To help achieve this, HS2 Ltd has introduced an overall health and safety programme - Safe And Fit Every time & Everywhere (S.A.F.E.), which sets out our commitment and approach to keep safe everyone who works on the project. It is a core part of the delivery of our strategic theme to design, build and operate the railway to the highest safety standards.

S.A.F.E. provides the framework that ensures that everyone working on the project is aligned to the same targets and standards. It seeks to achieve this through collaborative working, sharing good practice across the entire supply chain, and ensuring that everyone meets the same standards of excellence.

Equality, diversity and inclusion

The HS2 Ltd equality, diversity and inclusion policy addresses the need for inclusion in our workforce and the planning, design, construction and operation of the HS2 project.

Our project will be a catalyst for the delivery of inclusive transport systems and infrastructure by: engaging with all stakeholders fairly; delivering value through effective management of the design and building; and operating a safe, sustainable and reliable system to provide exceptional levels of service to passengers.

To this end, we will embed equality, diversity and inclusion in all project activities. Our plan involves working with other transport providers and with affected parties, including tenants, landowners and occupiers. Communities, staff, contractors, industry, and local and national government will also be key stakeholders.

We will be proactive in creating opportunities to advance the cause of equality, diversity and inclusion. With this aim in mind, we will continue to look for ways to:

- minimise the potential for discrimination, harassment and bullying;
- promote inclusive development; and
- seek the views of stakeholders.

Our plan is to create opportunities for local, disadvantaged and underrepresented people and companies to benefit from the investment in HS2. As a company, we will look for measurable indications that we have not only increased equal opportunity, skills and employment, but also ensured equal outcomes in the services that the HS2 project will provide. This will involve developing targets to measure progress, so that we can monitor how our aims are implemented.

Employees

HS2 Ltd believes that a diverse and inclusive workforce creates a dynamic environment that enables us to communicate and deliver our objectives in an effective way. Employees are updated on the

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progress of the HS2 project and significant milestones through regular briefings and team meetings, as well as through numerous publications and briefing events.

The HS2 Ltd core workforce is made up of employees; secondees from Government departments, private companies and Network Rail; and contractors and agency staff, all working in an integrated organisation structure. Performance is measured through the achievement of the organisation's strategic objectives and core values.

Employee engagement is encouraged through annual staff surveys, a workplace forum, recognition awards and frequent line management briefings. A range of development support is provided for employees including induction, management, technical, safety and professional training, career coaching, team building and graduate and apprentice programmes.

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

The following table shows the breakdown of directors, senior managers and employees by gender in March 2014:

	Male	Female
Directors	6	2
Senior managers	59	24
Employees	271	200

On behalf of the Board



Alison Munro – Chief Executive and Accounting Officer

Signed on 12 June 2014

Directors report

The directors present their report together with the Strategic Report and the Financial Statements of the company for the year ended 31 March 2014.

Directors

Directors who have held office between 1 April 2013 and 31 March 2014 are as follows:

Douglas Oakervee	Chairman until 31 December 2013
Sir David Higgins	Chairman from 1 January 2014
Alison Munro	Chief Executive
Sir Brian Briscoe	until 31 March 2014
Mike Welton	
Richard Brown	
Duncan Sutherland	
Beth West	
Andrew McNaughton	

Business interests

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

Remuneration report and Governance statement

The Remuneration Report (page 24) and Governance Statement (page 28) are required under the FReM and form part of these financial statements. The Governance Statement addresses the company's risk and control framework.

Going-concern basis

HS2 Ltd undertakes work as remitted by the Secretary of State for Transport and is funded entirely by grant in aid as provided by Section 6 of the Railways Act 2005.

In 2012/13, the Government undertook a review of spending through the 'Spending Round 2013' and in June 2013 confirmed the level of resources available for HS2 Ltd in the period up to 2016 to fund its planned expenditure, together with an indicative funding allocation to the DfT for HS2 for the period to 2021.

In view of the Government's statement on its support for high speed rail, its promotion of the hybrid Bill through Parliament and continuing financial support from the DfT, the directors are confident that sufficient resources will be available to meet the company's operational plans and budgeted

expenditure. Consequently, it is considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

Company policy on payment of creditors

HS2 Ltd observes the principles of the Confederation of British Industry Prompt Payment Code and aims to pay all approved invoices within stated payment terms or otherwise within 30 working days of invoice date. Monitoring of payments made during the year ended 31 March 2014 shows that 94.3% of invoices received were paid within 30 working days (2012/13: 96%). HS2 Ltd has received and paid one claim (2012/13: none) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

Financial instruments

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

Dividends

No dividends will be distributed for the year ended 31 March 2014.

Political and charitable contributions

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

Sickness absence

Staff absence reported due to sickness equated to an average of 1.4 days per employee during the year (2012/13: 1 day) for direct employees of HS2 Ltd.

Staff pensions

Permanent staff may participate in a Stakeholder (defined contribution) pension scheme. Seconded staff may be members of the unfunded Principal Civil Service Pension Scheme or the scheme operated by their host organisation. As a consequence of these arrangements, pension liabilities do not rest with HS2 Ltd.

Personal data-related incidents

No protected personal data-related incidents have arisen which have required reporting to the Information Commissioner's Office.

Disclosure of information to auditors

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

Auditor

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

Website

The Annual Report and Financial Statements for the year ended 31 March 2014 is available on the HS2 Ltd website: www.hs2.org.uk

On behalf of the Board



Alison Munro – Chief Executive and Accounting Officer

Signed on 12 June 2014

Sustainability report

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

Sustainability policy

HS2 Ltd has developed a sustainability policy which sets out its commitment to be an exemplar project. The policy sets out the role of the project in delivering sustainable economic growth and its commitment to balance community, economic and environmental issues when taking the project forward. The policy builds on the work of the Phase One appraisal of sustainability and is applied throughout the organisation and included in all procurement.

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

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

The full policy is published at <http://www.hs2.org.uk/news-resources/environmental-documents>.

Sustainability plan

HS2 Ltd is developing a corporate sustainability plan that will set high-level goals and key indicators of performance for each sustainability theme and will be closely aligned to HS2's Strategic Themes, as outlined in the Strategic Report. The final plan will set out the targets for the initial and detailed design stages currently being progressed and for the construction and operations phases which will follow Royal Assent for the hybrid Bill.

Phase One between London and the West Midlands

In November 2013, HS2 Ltd provided Parliament with a comprehensive Environmental Statement (ES) assessing the likely significant effects of Phase One on the environment to accompany the hybrid Bill. The period of consultation closed in February 2014 and all comments received were published in an independent report on 9 April 2014 in advance of the Bill's second reading in the House of Commons. The report can be found on the Parliament website:

<http://services.parliament.uk/bills/2013-14/highspeedrailondonwestmidlands.html>

The Environmental Statement reiterates HS2 Ltd's commitment to minimising the carbon footprint of HS2 as far as practicable and sets out HS2 Ltd's intention to develop and apply a carbon management strategy. HS2 Ltd will use the carbon footprint presented in the Environmental Statement as a tool to assess the potential to reduce carbon across the design, construction and operation phases and will consider low-carbon options in developing the detailed design for Phase One. An Information Paper outlining the carbon footprint and greenhouse gas assessment for Phase One as well as the policy has been published at

http://assets.hs2.org.uk/sites/default/files/hb_pdf/E10-%20Carbon.pdf.

Further to this, HS2 Ltd has endorsed the Infrastructure Carbon Review which sets out actions to address the UK's aspirations, as set out in the Government's Construction Industry Strategy, to reduce greenhouse gas emissions from the built environment. By endorsing the Infrastructure Carbon Review, HS2 Ltd has agreed that the infrastructure sector should pursue lower carbon solutions that also cost less and has committed to releasing the value of lower carbon through:

1. Leadership: To create the environment and the imperative for change.
2. Innovation: To be the engine of change.
3. Procurement: To provide the mechanisms that enable the supply chain to respond.

More information can be found at

<http://www.greenconstructionboard.org/index.php/resources/infrastructure-carbon-review/statement-of-endorsement>.

Phase Two between the West Midlands and Manchester and Leeds

Environmental factors and the principles of sustainable development have been considered in the development of route options and in the decision-making process, especially when choosing between alternatives for Phase Two. A statement describing the extent to which Phase Two supports objectives for sustainable development was published in July 2013. This can be found at <http://www.hs2.org.uk/hb/hs2-phase-two-consultation-sustainability-statement>.

The Sustainability Statement has been prepared to assist with public consultation by explaining the potential sustainability benefits and adverse impacts of the proposals, as well as to explain how HS2 Ltd's sustainability policy has helped support the scheme selection and design.

Once a preferred route has been confirmed following public consultation and further appraisal, an environmental impact assessment (EIA) of that preferred route will commence. The EIA will involve a more in-depth examination of that preferred scheme, taking account of a wider range of

environmental information derived from, amongst other things, continued engagement with relevant organisations and a programme of detailed environmental field surveys.

Development of bespoke BREEAM assessment tools

The Building Research Establishment Environmental Assessment Method (BREEAM) assessment methodology sets the standard for best practice in sustainable building design, construction and operation and has become one of the most comprehensive and widely recognised measures of a building's performance. It uses recognised measures of performance, which are set against established benchmarks, to evaluate a building's specification, design, construction and use. The measures used represent a broad range of categories and criteria from energy to ecology. They include aspects related to energy and water use, the internal environment (health and well-being), pollution, transport, materials, waste, ecology and management processes.

HS2 Ltd has committed to achieving a rating of 'Excellent' at all stations and depots utilising a bespoke BREEAM assessment methodology. HS2 Ltd is currently working with the Building Research Establishment and other organisations on the creation of a new BREEAM standard and certification scheme for Infrastructure. This new methodology will be piloted on three sections of Phase One.

Biodiversity

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

Procurement

Throughout 2013, HS2 Ltd developed an initial draft of the Outline Procurement Strategy for Phase One. As a result, a high-level summary of the HS2 sustainability policy was shared with industry at the first Supply Chain Conference in November 2013, with a commitment to further engage with various supplier networks to obtain their views and opinions. HS2 Ltd aims to put sustainability at the centre of its procurement strategy.

This engagement is now under way through a series of presentations, workshops and one-to-one meetings with potential suppliers with the support of the Local Enterprise Partnership (LEP) network and various trade associations. Feedback and insights will help to supplement the Procurement Strategy, which will then be presented at a second Supply Chain Conference.

Performance 2013/14

In 2013/14, HS2 Ltd remains largely an office-based organisation responsible for the design and promotion of the high speed rail network and for planning ahead for its construction and operation. HS2 Ltd occupies premises in London and Birmingham leased from the Department for Communities and Local Government (DCLG) and does not meet the qualification criteria for the CRC Energy Efficiency scheme.

In 2013, HS2 Ltd has started to capture data on greenhouse gas emissions, waste arising and water consumption on a quarterly basis. The tables below cover the year to 31 March 2014. This data will help HS2 Ltd to provide the information on which to base key performance targets in future, albeit recognising that HS2 Ltd will change and grow significantly in the coming years.

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

* tCO₂e = tonnes of carbon dioxide equivalent emissions. ** estimated - energy costs are included in overall accommodation charges by the DCLG and not separately identified

Waste		2013-14
Non-Financial Indicators	Total Admin Waste (tonnes)	34
	Recycled Waste (tonnes)	22
	Admin Waste - Kg per FTE	56.5
	Percentage recycled	65%
Water		2013-14
Non-Financial Indicators	Estates Water (cubic metres (m ³))	3,152
	m ³ per head	5.9
	Emissions from Water Consumption (tonnes CO ₂ e)	0

Remuneration report

The Remuneration Report for HS2 Ltd includes the Chairman and other HS2 Ltd board members. The Chief Executive was an employee of the DfT until 31 March 2014 whose salary is based on the Civil Service salary structure. Charges payable by HS2 Ltd to the DfT for her services are inclusive of VAT. The Chair is contracted to work an average contribution of one day per week, which increases to five days per week from 1 March 2014 to 31 August 2014, before reducing to three days per week. Other board members are contracted to an average contribution of two days per calendar month. Additional days worked are remunerated at the same rate. Travel expenses of board members are reimbursed at the rates allowed to staff of HS2 Ltd or reasonable actual costs incurred.

Board members (audited)

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

Single total figure of remuneration										
Board member	Fees and salary £'000		Bonus payment £'000		Benefits in kind (nearest £100)		Pension benefit £'000 **		Total £'000	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Sir David Higgins* (from 01/01/14)	80-85 (575 – 580)	-	-	-	-	-	21 (182)	-	100-105 (755 – 760)	-
Douglas Oakervee * (to 31/12/13)	90-95 (120-125)	120-125	-	-	-	-	-	-	90-95 (120-125)	120-125
Alison Munro	125-130	120-125	-	-	-	-	(7)	179	115-120	300-305
Sir Brian Briscoe (to 31/03/14)	20-25	35-40	-	-	-	-	-	-	20-25	35-40
Mike Welton	20-25	20-25	-	-	-	-	-	-	20-25	20-25
Richard Brown	20-25	20-25	-	-	-	-	-	-	20-25	20-25
Duncan Sutherland	65-70	20-25	-	-	-	-	-	-	65-70	20-25
Beth West*	165-170	45-50 (165-170)	-	-	-	-	8	2	170-175	45-50 (165-170)
Andrew McNaughton *	180-185	45-50 (180-185)	-	-	-	-	-	-	180-185	45-50 (180-185)

* appointed or departed during the relevant financial year; annualised amounts are shown in brackets

** The value of pension benefit is the value of contributions made during the year for defined contribution schemes. For defined benefit schemes, such as the Principal Civil Service Pension Scheme, the value of pension benefits accrued during the year and disclosed within the single total figure of remuneration is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension benefits.

Alison Munro was appointed CEO and a Board member of HS2 Ltd on 28 January 2009. The DfT charged £205k (2012/13: £203k) for her services for the period ended 31 March 2014. This comprised a salary of £125k (2012/13: £124k) plus National Insurance, pension scheme contributions and VAT. With effect from 1 April 2014, Alison Munro has joined HS2 Ltd in a directly employed capacity.

Pension liabilities

Seconded employees from other Government bodies are covered by the provisions of the Principal Civil Service Pension Scheme. The scheme is an unfunded defined benefit scheme and liability rests with the Scheme, and not the company. Details of the scheme can be found at www.civilservice-pensions.gov.uk.

Pension benefits (audited)

Sir David Higgins was a member of a defined contribution scheme provided by Network Rail until March 2014. In addition, he received an additional pension allowance in the form of a cash salary supplement, which is disclosed in the table above. Full details of the scheme are provided in the annual accounts of Network Rail.

Alison Munro is a member of the Principal Civil Service Pension Scheme by virtue of her employment with the Department of Transport. The figures have been supplied by 'My Civil Service Pension Scheme' after liaising with the relevant administrator for those who are secondees.

	Accrued pension at pension age as at 31/03/14 and related lump sum	Real increase in pension & related lump sum at pension age	CETV at 31/03/14	CETV at 31/03/13	Real increase (decrease) in CETV
	£'000	£'000	£'000	£'000	£'000
Alison Munro	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 0-2.5	1,333	1,259	(7)

Beth West is a member of a Stakeholder (defined contribution) pension scheme, in which the company matches employee contributions to a maximum of 5%. In 2013/14 the company's contribution to the scheme totalled £8k (2012/13: £2k).

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential

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reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Median staff cost (audited)

The total remuneration of the highest paid director for 2013/14 fell within the salary band £575k - £580k (2012/13: £180k - £185k). This was 12.4 times the median basic salary of the company's workforce, which was £46,460 (2012/13: 4.2 times the median of £43,700). The median salary is determined as the mid-point of all salaries of the workforce comprising employees, secondees and temporary staff.

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

No employees, secondees or temporary staff received remuneration in excess of the highest-paid director in the year (2012/13: one).

The median salary disclosure for 2012/13 has been restated to include seconded and contract personnel for consistency with 2013/14.

On behalf of the Board



Alison Munro – Chief Executive and Accounting Officer

Signed on 12 June 2014

Statement of directors' responsibilities

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

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

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

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

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

Governance statement

The Governance Statement records the stewardship of the organisation to supplement the accounts, providing a sense of how vulnerable the organisation's performance is or might be, and of how successfully it has coped with the challenge it faces.

Accounting Officer's introduction

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

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

Corporate governance

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

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

HS2 Ltd keeps its governance arrangements under constant review. It has collaborated with the DfT in 2013/14 to review and strengthen its governance and processes to achieve the higher levels of assurance required as its remit from the Secretary of State evolves to reflect its changing role with the development of the high speed rail project.

A revised Framework Document, signed in July 2013, sets out the broad governance arrangements for HS2 Ltd as a non-departmental public body (NDPB) and clarifies the respective roles and responsibilities within the DfT and HS2 Ltd. The HS2 Ltd Board has approved Standing Orders consolidating the Board's role, responsibilities, procedures and delegations.

In addition, HS2 Ltd contributed to the DfT's review of possible delivery structures and a detailed review of the options for delivering the high speed rail network. The Secretary of State concluded that the current arrangements are adequate and, in November 2013, informed the Chancellor of his intention to confirm HS2 Ltd as the DfT's primary delivery body for the design and construction of Phase One, while also bringing Network Rail into a more central role in the programme to ensure the rail network is fully integrated. The DfT, HS2 Ltd and Network Rail have signed up to an informal tripartite cooperation memorandum of agreement in January 2014.

Key risks to the organisation

HS2 Ltd's objectives in 2013/14 have been to complete the design and environmental assessment work leading to the submission to Parliament of the hybrid Bill for Phase One in November 2013, to provide advice to ministers and separately to provide advice on potential Phase Two routes to Leeds and Manchester. The company's performance is detailed in the Strategic Report on page 9.

Phase One work has been carried out through a combination of its workforce and 16 Professional Services Company (PSC) contracts managed by CH2M Hill as a development partner to HS2 Ltd. The contracts cover four areas of activity: civil and design works; systems design; environmental and land access/third-party works. This work has included assessment of consultation responses, analysis of design options arising from stakeholder consultation proposals and the preparation of the Environmental Statement.

In January 2013, the Government announced its initial preferred routes for Phase Two from Birmingham to Manchester and Leeds. Consultation on these routes took place from October 2013 to January 2014 and we are currently considering the responses.

The key risks in 2013/14 related to the handling of consultation responses, the challenges raised by the Judicial Review, the control of expenditure within budget and delivering the High Speed Rail (Preparation) Act 2013 and hybrid Bill to meet the challenging timetable. These risks were managed through established processes of internal reviews at key milestones, reviews by the Board of key outputs, a robust framework of management reporting and a strong programme and project framework.

Key risks which may threaten the progress of the project now and in the future have been managed by HS2 during 2013/14 and have entailed the following mitigating actions:

- Production of the hybrid Bill, including the Environmental Statement;
- Passage of the hybrid Bill to Royal Assent, and potential implications for project timescales, cost and scope;
- Obtaining the powers necessary to progress design and pre-enabling works ahead of Royal Assent (i.e. the High Speed Rail (Preparation) Act 2013);
- Making preparations for the construction stage, including advanced acquisitions of property by the DfT, groundwork investigations and pre-enabling works;
- Development of the organisation for future stages of the project;
- Managing the possible outcomes of the Judicial Review challenges and appeals;

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- Establishing an effective, long-term relationship with external stakeholders and, in particular, those directly affected by the route;
- Timely completion of land survey work;
- Establishment of business continuity arrangements; and
- Establishing both programme and project governance arrangements and ensuring an effective delegations framework between the DfT and HS2 Ltd.

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

- Agreement has been reached on informal tripartite cooperation between the DfT, HS2 Ltd and Network Rail and monthly meetings commenced in January 2014.
- Work is underway to produce, by Summer 2014, a Development Agreement between the DfT and HS2 Ltd which is intended to establish a quasi-contractual relationship between the DfT as client and HS2 Ltd as provider.
- Work is in progress to establish formal agreements on aspects on the scheme with key stakeholders, such as Network Rail and Transport for London.

Organisation and structure

Role of the Secretary of State for Transport

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

The Secretary of State for Transport lays HS2 Ltd's Annual Report and Accounts before Parliament and approves grant in aid to be paid, securing Parliamentary or Treasury approval as necessary.

The Secretary of State for Transport also reviews the performance of the Chair and approves the activities of HS2 Ltd to make arrangements for the remuneration, pensions, allowances and expenses of directors and staff.

Role of the Chair

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

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

Role of the Accounting Officer

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

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

The AO signs the accounts and, supported by the Board and Audit Committee, ensures that proper records are kept and that the accounts are properly prepared and presented in accordance with directions issued by the Secretary of State for Transport. The AO signs the Strategic Report, the Directors Report and the Remuneration Report on behalf of the Board following Board approval. The AO also ensures that HS2 Ltd has effective complaints procedures and that these are available on the HS2 website.

The HS2 Ltd Board

The role of the Board is to:

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

Board commitments

Board members are appointed by the DfT. Biographies of the current HS2 Ltd Board members are published on the HS2 Ltd website.

Board member	Commitment
Sir David Higgins	Chair; seconded from Network Rail; contractual commitment of one day per week from 1 January to 28 February 2014; five days per week from 1 March 2014
Douglas Oakervee	Former Chair; contractual commitment of two days per week until 31 December 2013 when he stepped down from the Board
Sir Brian Briscoe	Former Non-Executive Board member; contractual commitment of two days per month until 31 March 2014, when he stepped down from the Board
Mike Welton	Non-Executive Board member; contractual commitment of two days per month
Alison Munro	HS2 Ltd Chief Executive and Board member, seconded from the DfT
Richard Brown	Non-Executive Board member; contractual commitment of two days per month
Duncan Sutherland	Non-Executive Board member; contractual commitment of two days per month
Beth West	Member of the HS2 Ltd Executive and Board member
Andrew McNaughton	Member of the HS2 Ltd Executive and Board member

Attendance at Board meetings

All Board members have been present at monthly meetings during their periods of appointment, except where indicated below (between April 2013 and March 2014):

	24/4	16/5	12/6	18/7	22/8	4/9	19/9	17/10	18/11	19/12	16/1	19/2	20/3
Sir David Higgins	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓	✓
Douglas Oakervee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	n/a	n/a	n/a
Sir Brian Briscoe	✓	✓	x	✓	✓	x	x	✓	✓	✓	✓	✓	✓
Mike Welton	✓	x	✓	✓	✓	✓	✓	x	✓	✓	✓	x	✓
Alison Munro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Richard Brown	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Duncan Sutherland	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Beth West	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x
Andrew McNaughton	✓	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓

Changes to the Board

On 31 December 2013, Douglas Oakervee stepped down from the Board and Sir David Higgins was appointed Chairman on 1 January 2014. Sir David became the full-time Chairman on 1 March 2014.

Sir Brian Briscoe stepped down from the Board on 31 March 2014.

Simon Kirby has joined HS2 Ltd on 19 May 2014 and will be appointed as CEO from 1 September 2014. Alison Munro, the current CEO, will continue as Managing Director - Development.

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

Director independence

The Chair and the three continuing Non-Executive directors are independent directors. The HS2 Ltd Chief Executive and two members of the Executive Management Team are also Board members. Any conflicts of interest or business interests are declared by Board members.

Conflicts of interest

Board members update HS2 Ltd on conflicts of interest as and when they arise and make a declaration at the start of each meeting. In addition, a register of Board members' business interests is maintained and is published on the company's website. Board members are asked to confirm this is correct on a periodic basis. A similar process applies to the members of the Audit and Risk Assurance Committee.

Ethics and values

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

Board effectiveness

Board evaluation

The Chair oversees and reviews the work of the Board and its members to ensure they are working effectively. An externally facilitated Board Effectiveness Review was carried out in March and April 2014, with the findings reported to the April 2014 Board meeting. This Review confirmed the findings of the previous self-assessment exercise completed in June 2013 and confirmed that the Board is satisfied that it is operating effectively.

Information and professional development

Current members of the HS2 Ltd Board are experienced in matters of corporate governance and have received up-to-date guidance on corporate best practice. Board members have met and worked with HS2 Ltd staff, have attended background briefing sessions and site visits and have become familiar with specific issues relating to the project. An induction process is in place for new Board members, which includes one-to-one meetings with the Chairman followed by individual briefings with the Chief Executive or Commercial Director. New Board members are provided with induction materials in line with Cabinet Office Guidance and attend background briefings on the work of HS2 Ltd. Site visits are arranged as appropriate.

Board decision making

The Board Self-Assessment was satisfied that there were adequate systems in place to ensure that efficient delegated authority, reporting and approvals processes were being carried out. Future arrangements are under active review as the organisation looks towards future objectives.

The Corporate and Business Plan, updated annually, is overseen and approved by the Board. Project milestones and risks are regularly reviewed, and the Board is regularly apprised of the latest financial information. The Audit and Remuneration Committees have delegated authority to advise on matters in their respective areas, as set out in their Terms of Reference.

Effective, structured decision making is crucial as the project develops and progresses towards the preparation and construction phases. The Board has agreed a decision-making approach and a project delivery structure for the organisation which are being kept under review.

Audit and Risk Assurance Committee (“Audit Committee”)

The Audit and Risk Assurance Committee, chaired by Mike Welton, provides independent assurance to the Board that effective arrangements are in place for risk management, governance and internal control. The Committee oversees all assurance work, including that of HS2 Ltd's internal auditors. The Committee meets quarterly or as matters arise and its members during the year were Mike Welton (Chair) and Richard Brown (Non-Executive director).

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

The Chairman of the Audit Committee provides a formal report to the Board and Accounting Officer after each meeting and provides the Board and Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year. The Audit Committee has considered the following significant matters in 2013/14:

- Terms of Reference for the Audit Committee
- Development of revised risk management strategy and procedures
- Review of the Period 9 and year end financial statements
- A range of internal audit reports under the annual programme
- CIPFA Financial Management Review
- Learned lessons from Phase One

Remuneration committee

The Remuneration Committee, chaired by Richard Brown, reviews HS2 Ltd's pay policy and advises on matters concerning the remuneration of senior Executives. The Committee includes Sir Brian Briscoe (until 31 March 2014) and Duncan Sutherland (both Non-Executive directors).

Executive team

The Executive team manages the day-to-day operations of HS2 Ltd and comprises:

Alison Munro	Chief Executive
Andrew McNaughton	Technical Director
Ian Jordan	Phase Two Director
Beth West	Commercial Director
Roy Hill*	Phase One Delivery Director *
Patrick O'Connell	Interim Programme and Strategy Director (from 10 February 2014)
Clinton Leeks	External and Parliamentary Relations Director (to 31 October 2013)
Roger Hargreaves	Hybrid Bill Delivery Director (from 1 July 2013)
Kieran Rix	Finance and Corporate Services Director
Tom Kelly	Strategic Communications Director (from 1 January 2014)
Janine Mantle	Interim Communications Director (from 7 April 2014)

* Roy Hill is a Director of HS2 Ltd's development partner, CH2M Hill. He takes no part in Executive Team discussions relating to the development partner contract. He was the London-West Midlands (Phase One) Director until 31 December 2013 and became the Phase One Delivery Director from 1 January 2014.

The Executive team meets weekly throughout the year to consider programme-wide issues and monthly to consider corporate management issues. A separate Commercial Committee also meets on a weekly basis to consider procurement proposals. Separate Phase One and Phase Two Project Boards were held on a fortnightly basis where decisions relating specifically to these elements of the project are discussed. The current structure was set up in March 2013 to enhance the effectiveness of the Executive Team in directing the operations of HS2 Ltd.

The internal governance arrangements are currently under review as the organisation moves forward. The Executive team will in future meet monthly or as required to consider both programme-wide and corporate management issues and a new Phase One Board will meet monthly from April 2014.

Executive Directors' other directorships

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

HS2 workforce

The HS2 Ltd core workforce is made up of employees; secondees from Government departments, private companies and Network Rail; contractors; and agency staff, working in a fully integrated organisation structure. Performance is measured through achievement of the organisation's strategic objectives and core values.

Employee engagement is encouraged through annual staff surveys, a workplace forum, recognition awards and frequent line management briefings. A range of development support is provided for employees including induction, management, technical, safety and professional training, career coaching, team building and graduate and apprentice programmes.

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

Suppliers and contractors

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

Risk management

An assessment of the risks facing HS2 Ltd is set out on page 29. The Accounting Officer and Board acknowledge their responsibility for risk management, which is overseen through a process of risk escalation to the Executive and Board as appropriate.

In line with the approach adopted by the DfT, the company's risk appetite is 'open', which under HM Treasury guidance means that the company is 'willing to consider all options and choose the one

that is most likely to result in successful delivery while also providing an acceptable level of reward', considering each risk on its own merit. A cautious risk appetite has been adopted for the company's personal and other sensitive information.

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

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

Clear and balanced business strategy

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

Business modelling

Business modelling is essential to the work of HS2 Ltd to ensure that the costs and benefits of the project included in the HS2 business case are based on a rigorous assessment of transport demand. HS2 Ltd has created and maintains a full and up-to-date register of business critical models.

In 2013, the Macpherson Review of quality assurance of Government analytical models put forward clear recommendations for best practice by Government organisations. HS2 Ltd has a quality assurance framework in place which is used for all of its analytical modelling and it has specialist staff responsible for developing and using the models. Senior model owners have been appointed for each model. Management oversight by the Joint Analytical Group and an independent audit team from SKM Jacobs have confirmed that the business model supporting the business case for HS2 has appropriate quality assurance and delivers results consistent with its methodology.

HS2 Ltd has developed a quality policy which is supported by management plans, processes and procedures designed to set out the organisation's drive for the development of the scheme in compliance with the stated requirements and ensuring that sufficient assurance is developed to support the integrity of the scheme. HS2 Ltd is working closely with the DfT to identify opportunities to share knowledge and experience with other members of the group.

Internal control

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

The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of HS2 Ltd's policies, aims and objectives;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and
- manage the risks efficiently, effectively and economically.

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

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

The system of internal control has been in constant development and improvement during the year ended 31 March 2014 and up to the date of approval of the annual report and accounts. Financial policies and procedures have been codified during the year.

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

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

HM Treasury and the Cabinet Office have mandated that all central government bodies and their arm's-length bodies should undertake independent reviews of their Financial Management (FM). As part of the DfT programme, HS2 Ltd has completed a review of its Financial Management with CIPFA. The results reflect that HS2 Ltd is a rapidly growing but still young organisation which has made good progress to date in developing an effective financial management framework.

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

Overall, the Head of Internal Audit has concluded that there is 'reasonable' assurance that the arrangements have been adequate and effective for 2013/14. This assessment rating means that 'systems of corporate governance, risk management and internal control arrangements are generally established and effective, with some minor weaknesses or gaps identified'. Where such

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weaknesses or gaps have been identified, these have either been addressed or are in the process of being addressed by HS2 Ltd.

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

Regulation, Parliament and the public

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

Independent reviews

Two independent reports have been published which relate to the Government's high speed rail programme. The National Audit Office (NAO) report "High Speed 2: A review of early programme preparation", published in May 2013, was an early review of progress by the DfT in planning for the high speed rail network, while the second Annual Report of the Major Projects Authority (MPA), published in May 2014, looks more widely at the risks of Government infrastructure projects.

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

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

Conclusion

As reflected in the information presented in this statement, it is my view that HS2 Ltd's internal control and governance mechanisms are fit for purpose and appropriate to our current stage of development and maturity. Where possible improvements have been identified, these have been or are in the process of being implemented.

The improvements made in the year and the evidence of our regular reporting, both independent and internal, have together provided confirmation that the arrangements have been adequate and effective for the current stage of development of the organisation, although I recognise that we will need to prepare for the next stage of the company's development in the coming year before the major spending on construction activities commences.

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



Alison Munro – Chief Executive and Accounting Officer
Signed on 12 June 2014

Report of the independent auditor

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

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Dated 16 June 2014

Statement of comprehensive income

		Year ended 31 March 2014	Restated Year ended 31 March 2013
	Note	£'000	£'000
Expenditure			
Staff costs	3	29,896	15,054
Other expenditure	4	175,996	159,692
Non-cash items	4	2,536	1,644
	2	208,428	176,390
Income			
Income from activities	5	(208,428)	(176,390)
Net Income/ Expenditure before taxation		-	-
Taxation	6	-	-
Net income/ Expenditure after taxation		-	-

A Statement of Other Comprehensive Income has not been prepared as there are no other income items in the year.

The Accounting Policies and Notes on pages 45 to 58 form part of these financial statements.

Statement of financial position

		Year ended 31 March 2014	Year ended 31 March 2013
	Note	£'000	£'000
Non-current assets			
Property, plant and equipment	7	5,719	5,804
Intangible assets	8	546	935
Total non-current assets		6,265	6,739
Current assets			
Trade and other receivables	10	11,739	24,643
Cash and cash equivalents	11	11,532	1,485
Total current assets		23,271	26,128
Total assets		29,536	32,867
Current liabilities			
Trade and other payables	12	(29,536)	(32,867)
Total current liabilities		(29,536)	(32,867)
Total net assets		-	-
Taxpayers equity			
Revaluation reserve		-	-
General reserve		-	-
		-	-

The financial statements on pages 41 to 44 were approved by the Board on 12 June 2014 and were signed on its behalf on 12 June 2014 by:



Alison Munro, Chief Executive and Accounting Officer

The Accounting Policies and Notes on pages 45 to 58 form part of these financial statements

Statement of cash flows

		Year ended 31 March 2014	Restated Year ended 31 March 2013
	Note	£'000	£'000
Cash flows from operating activities			
Net income per Income Statement		-	-
(Increase) / decrease in trade and other receivables	10	12,904	(23,067)
Increase / (decrease) in trade and other payables	12	(2,761)	26,942
Add : Non-cash costs	4	2,536	1,644
Net cash inflow/(outflow) from operating activities		12,679	5,519
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(2,127)	(6,165)
Purchase of intangible assets	8	(505)	(668)
Net cash inflow/(outflow) from investing activities		(2,632)	(6,833)
Net increase/(decrease) in cash and cash equivalents		10,047	(1,314)
Cash and cash equivalents at the beginning of the year	11	1,485	2,799
Cash and cash equivalents at the end of the year	11	11,532	1,485

The comparative cash flows for 2012/13 have been adjusted to reflect the cash flow rather than accruals based impact of the purchase of property, plant and equipment and intangible assets.

The Accounting Policies and Notes on pages 45 to 58 form part of these financial statements.

Statement of changes in equity

	Year ended 31 March 2014	Year ended 31 March 2013
	£'000	£'000
Shareholder equity at 1 April	-	-
Net expenditure after interest and grant in aid	-	-
Shareholder equity at 31 March	-	-

The Accounting Policies and Notes on pages 45 to 58 form part of these financial statements.

Notes to the financial statements

1. Statement of Accounting Policies

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The 2013/14 Government Financial Reporting Manual ('FRoM') has been adopted, applying IFRSs as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy judged to be most appropriate to the particular circumstances of HS2 Ltd for the purpose of giving a true and fair view has been selected. The particular policies adopted by HS2 Ltd are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1. Accounting convention

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

1.2. Grant in aid

The company is entirely funded by grant in aid from the DfT. Any element of grant in aid received in excess of expenditure is shown in payables as deferred income. Grant in aid is recognised as a receivable where expenditure exceeds grant in aid received. Transfers are made from these accounts to ensure that, at all times, grant income equals total expenditure incurred.

1.3. Property, plant and equipment

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

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

1.4. Intangible assets

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

1.5. Depreciation/amortisation

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

- Leasehold improvements: 3 years
- Plant & equipment: 3 years
- IT equipment: 3 years
- Website: 3 years
- Software: 3 years

1.6. Capitalisation of programme costs

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

Expenditure on Phases One and Two has not been capitalised in 2013/14, as there is not yet sufficient probability that the future economic benefits will flow to HS2 Ltd. HS2 Ltd considers that there will be sufficient probability for Phase One costs to be capitalised once the hybrid Bill receives its second reading in the House of Commons. This took place after the year end on 28 April 2014.

1.7. Property acquisition

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

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

1.8. Intra-Government balances

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

1.9. Taxation

The company operates on a not-for-profit basis and does not currently trade. Any grant in aid not spent will be returned and any grant shortfall will be reimbursed by the DfT. On this basis, the directors do not consider that the company is liable to Corporation Tax.

1.10. Value added tax (VAT)

The company's activities are considered to fall outside the scope of VAT in the period to 31 March 2014. Any input VAT incurred is included within the expenditure to which it relates.

With confirmation from the DfT in March 2014 that HS2 Ltd will be the initial operator of the network and will generate income from train operators for access to the HS2 railway, HS2 Ltd has registered for VAT from April 2014 and will recover VAT on its expenditure, where appropriate.

1.11. Provisions

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

The company does not make provision in respect of property to be acquired in the name of the Secretary of State for the reasons explained in Note 1.7 above. Where the DfT has given an undertaking to property owners within the Safeguarding Area in the name of the Secretary of State which promises to purchase a property within a designated time frame, then a provision for the value of any promissory notes which remain unredeemed at balance sheet date will appear in the DfT's financial statements.

1.12. Contingent liabilities

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

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

As explained in Note 1.11 above, the company does not have any contingent liability in respect of the potential cost of property that may be acquired in the name of the Secretary of State along the Phase One route. Any such contingent liability will be referred to in the DfT's financial statements.

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

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament is noted

separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.13. Estimation techniques used and changes in accounting estimates

HS2 Ltd applies the following significant estimation techniques in the calculation of some accruals.

The recognition and valuation of accrued liabilities for the work done by its main professional service contractors is based on the best estimates of HS2 Ltd's development partner, which controls the work and manages the certification process on behalf of HS2 Ltd. The work done is certified, invoiced and paid only when all issues have been resolved. HS2 Ltd monitors the certification and invoicing process after the year end and adjusts its accruals if the impact is considered material.

1.14. Segmental reporting

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

The company's operating segments have been identified on the basis of internal reports regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and assess its performance. The company has three reportable segments:

- Phase One: between London and the West Midlands;
- Phase Two: between Birmingham and Leeds and Manchester; and
- System-wide

1.15. Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2014, and have not been applied in preparing these financial statements. The following may need to be adopted in subsequent periods:

- IFRS 9 (Financial Instruments) and IFRS 7 (Financial Instruments: Disclosure) – Adoption will not be mandatory until periods after 1 January 2015.
- IFRS 9 (Financial Instruments), which replaces parts of IAS 39, deals with classification and measurement of financial assets and financial liabilities and aims to improve and simplify the reporting of financial instruments. Application is required for reporting periods beginning on or after 1 January 2015. The impact of IFRS 9 is not expected to be significant for HS2 Ltd and existing measurement approaches will continue to be appropriate.
- IFRS 13 provides guidance on establishing fair values of assets and liabilities and sets out the disclosure requirements, where other standards require the fair value to be used or disclosed. HM Treasury has issued an exposure draft, to take effect from 1 April 2014. HS2 Ltd does not currently have financial assets and liabilities held at fair value and so IFRS 13 will not have a material effect on HS2 Ltd's accounts
- The International Accounting Standards Board (IASB) has recently issued an exposure draft of a replacement to the existing leasing standard (IAS 17), which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right-of-use asset, measured at the present value of lease payments, with a matching liability. The

pattern for recognition of the expenditure will depend on the type of lease and for property leases, the lessee is required to recognise the expenditure on a straight line basis. HS2 Ltd currently occupies office premises under operating leases and recognises costs on a straight line basis. This change is not expected to have a material impact on the statement of financial position and on the recognition of expenditure.

There were no new standards issued for 2013/14 and not applied, which would materially affect the company's financial statements. Other changes coming into effect after 2013/14 are considered to have no impact on HS2 Ltd.

2. Statement of expenditure by operating segment

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Phase One: between London and the West Midlands	173,783	158,130
Phase Two: between Birmingham and Leeds and Manchester	19,506	10,733
System-wide	15,139	7,527
Total Net Expenditure	208,428	176,390

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Analysed as to:		
Programme Costs	202,515	170,665
Administration Costs	5,913	5,725
Total Net Expenditure	208,428	176,390

The segments used reflect how management information is provided to the HS2 Ltd Board and Executive Team. An analysis of assets and liabilities by segment is not regularly provided to the Chief Executive or the HS2 Ltd Board. At this stage, the information has not been significant but it will become significant once HS2 Ltd starts to capitalise Phase One costs in 2014/15.

3. Staff numbers and costs

			Year ended	Restated
			31 March	Year ended
			2014	31 March
	Direct employees	Other personnel	Total	Total
	2013/14	2013/14		2013
Whole time equivalent persons employed - average for the year	270	125	395	194
Staff costs comprise:	£'000	£'000	£'000	£'000
Wages and salaries	12,925	13,767	26,692	13,189
Social security costs	1,478	332	1,810	952
Other pension costs	425	596	1,021	688
Chairman and Non-Executives fees	-	373	373	225
Total staff costs	14,828	15,068	29,896	15,054

The DfT charged £205k (including VAT) to HS2 Ltd for the services of the Chief Executive (2012/13: £203k). This cost is included in Wages and salaries above. The fees and salaries payable to HS2 Ltd directors are set out in the Remuneration Report (page 24).

Direct employees of HS2 Ltd are eligible to participate in a Stakeholder (defined contribution) pension scheme, in which the company matches employee contributions to a maximum of 5%. Staff of HS2 Ltd, with the exception of those employed by the DfT and on secondment from Government entities, are not eligible for Civil Service pensions. The pension scheme came into effect in February 2011 and is managed on the company's behalf by Legal & General Ltd. For the year ended 31 March 2014, employers' contributions were £425k (2012/13: £178k).

During 2013/14, HS2 Ltd made a compensation payment of £35k for one agreed departure, which was not covered by the Civil Service Compensation Scheme. HM Treasury approval was obtained. A contractual payment of £48k was also made.

'Other personnel' costs include the cost of staff seconded from other Government bodies, together with sub-contracted and agency personnel, and include VAT. The costs of HS2 Ltd's development partner, CH2M Hill, which is working alongside HS2 Ltd staff, is included under Professional services (Note 4).

The comparative total for Wages and salaries in 2012/13 has been restated to reflect the reporting of staff recruitment fees to non-staff costs in Note 4 in 2013/14. The impact is a reduction of £172k.

4. Other expenditure

	Year ended 31 March 2014 £'000	Restated Year ended 31 March 2013 £'000
Non-staff expenditure includes:		
Professional services	153,437	144,571
Licences and surveys	4,328	6,171
Communication and Information Technology	7,523	4,202
Accommodation	4,678	2,441
Property advice and valuation	3,399	861
Legal costs	633	314
Travel and subsistence	848	340
Auditors' remuneration and expenses	45	35
Recruitment fees	989	485
Other costs	754	516
Costs reimbursed by the DfT (Note 1.7)	(638)	(244)
	175,996	159,692
Non-cash items include:		
Depreciation of tangible assets	2,251	1,212
Amortisation of intangible assets	285	131
Impairment of tangible assets (Notes 7 and 9)	-	301
Total non-cash costs	2,536	1,644
Total other expenditure	178,532	161,336

The comparative totals for 2012/13 have been restated to accommodate additional expenditure headings in 2013/14 including a reallocation from Staff costs (see Note 3), and the transfer of the cost of internal audit services from Auditors' remuneration to Professional services.

5. Income

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Grant in aid from Department for Transport	208,428	176,390
	<u>208,428</u>	<u>176,390</u>

6. Taxation

No liability to pay UK Corporation Tax arose on ordinary activities for the years ended 31 March 2014 and 31 March 2013.

7. Property, plant and equipment

All assets are owned and there are no finance leases.

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

	Leasehold improvements, plant and equipment £'000	IT equipment £'000	Total £'000
Cost or valuation			
At 1 April 2012	399	48	447
Additions	296	6,727	7,023
Impairments	(282)	(64)	(346)
At 31 March 2013	413	6,711	7,124
Depreciation			
At 1 April 2012	131	22	153
Charged in year	177	1,035	1,212
Impairments	(42)	(3)	(45)
At 31 March 2013	266	1,054	1,320
Net book value at 31 March 2013	147	5,657	5,804
Net book value at 31 March 2012	268	26	294

8. Intangible assets

HS2 Ltd does not have any intangible assets under a finance lease.

	Website £'000	Software £'000	Total £'000
Cost or valuation			
At 1 April 2013	81	1,010	1,091
Additions	169	(183)*	(14)
Reclassified to IT equipment	-	(90)	(90)
At 31 March 2014	250	737	987
Depreciation			
At 1 April 2013	7	149	156
Charged in year	45	240	285
At 31 March 2014	52	389	441
Net book value at 31 March 2014	198	348	546
Net book value at 31 March 2013	74	861	935

* The negative addition of £183k results from the recognition of an accrual overestimated by £227k at 31 March 2013, together with current year additions in 2013/14 of £44k.

	Website £'000	Software £'000	Total £'000
Cost or valuation			
At 1 April 2012	-	56	56
Additions	81	954	1,035
At 31 March 2013	81	1,010	1,091
Depreciation			
At 1 April 2012	-	25	25
Charged in year	7	124	131
At 31 March 2013	7	149	156
Net book value at 31 March 2013	74	861	935
Net book value at 31 March 2012	-	31	31

9. Impairments

HS2 Ltd will vacate its accommodation at Eland House in July 2014 as a result of the sub-lessor surrendering its head lease. Office refurbishment costs and IT assets which cannot be transported have been impaired, resulting in an impairment charge of £301k in 2012/13. See Note 7. There is no impairment charge in 2013/14 as asset lives have been adjusted accordingly where appropriate.

10. Trade receivables and other current assets

	31 March 2014 £'000	31 March 2013 £'000
Amounts falling due within one year:		
Other receivables	11,416	24,291
Prepayments and accrued income	323	352
	11,739	24,643
Comprising balances with:		
Department for Transport - Grant in aid receivable	10,694	24,241
Department for Transport - Other reimbursements	638	-
Bodies External to Government	407	402
	11,739	24,643

11. Cash and cash equivalents

	31 March 2014 £'000	31 March 2013 £'000
Balance at 1 April	1,485	2,799
Net change in cash and cash equivalent balances	10,047	(1,314)
Balance at 31 March	11,532	1,485

Cash is held in a commercial bank account.

12. Trade payables and other current liabilities

	31 March 2014 £'000	31 March 2013 £'000
Amounts falling due within one year:		
Trade payables	813	1,263
Accruals	28,723	31,604
	29,536	32,867
Comprising balances with:		
Other Central Government bodies	3,236	1,906
Local Authorities	222	533
Bodies External to Government	26,078	30,428
	29,536	32,867

13. Financial instruments

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

14. Commitments under leases

As at 31 March 2014, the company occupied premises in London and Birmingham under arrangements with the DCLG. A Memorandum of Terms of Occupation (MOTO) is in operation and these arrangements are treated as operating lease obligations. The company has no finance leases in the period. HS2 Ltd's obligations under these operating leases relate to buildings and comprise:

	31 March 2014 £'000	31 March 2013 £'000
Not later than one year	1,240	3,204
Later than one year and not later than five years	36	877
Later than five years	-	-
	1,276	4,081

In 2014/15, HS2 Ltd will re-locate to new premises and negotiations were in progress at 31 March 2014.

15. Other commitments

Financial commitments, which were contracted but not provided in the financial statements, comprised £28.3m at 31 March 2014 (2012/13: £70.8m). Of these, contracted capital commitments at 31 March 2014 not otherwise included in these financial statements were as follows:

	31 March 2014 £'000	31 March 2013 £'000
Property, plant and equipment	-	-
Intangible assets	436	400
Contracted capital commitments at 31 March	436	400

The company has not entered into any non-cancellable contracts or entered into any quantifiable guarantees, indemnities or provided any letters of comfort.

16. Contingent liabilities

The company has a potential aggregate contingent liability of up to £2.0m in relation to incentive payments that may become payable to the HS2 Ltd development partner, CH2M Hill UK, and 16 Professional Service Contract (PSC) organisations. The incentive amounts have been fixed based on performance in delivering the hybrid Bill. The first payment became due in 2013/14 but the second payment is dependent on continued satisfactory performance in 2014/15 and final awards will be subject to Board approval.

17. Related-party transactions

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

Grant in aid of £208.4m was received from the DfT for 2013/14 and has been applied to the operating costs for the year (2012/13: £176.4m). As explained in the accounting policy in Note 1.2, accrued expenditure has exceeded grant in aid funding received in 2013/14, and £10.7m (2012/13: £24.2m) is shown as receivable from the DfT in Note 10.

In 2013/14, the DfT has provided seconded staff at a cost of £2.5m (2012/13: £2.0m), ICT and printing services costing £1.4m (2012/13: £0.7m) and internal audit services, provided by PWC, for £0.4m (2012/13: £0.1m). Accruals of £2.4m (2012/13: £0.4m) for these services are included in Note 12.

HS2 Ltd has incurred costs of £0.6m (2012/13: £0.2m) on behalf of the DfT and has recharged these costs in full to the DfT. See Notes 4 and 10. HS2 Ltd has not yet received any income from the property it manages on behalf of the DfT under the arrangement which commenced in October 2013.

HS2 Ltd has incurred costs of £4.2m (2012/13: £1.2m) from the DCLG for its office accommodation in London and Birmingham in the year ended 31 March 2014. HS2 Ltd also employed staff seconded from the DCLG at a cost of £0.1m in 2013/14 (2012/13: £0.1m).

The company has also undertaken transactions with other Government Departments, Central Government Bodies and other public sector organisations during the year.

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

18. Losses and special payments

HS2 Ltd is required to report on losses and special payments above a threshold of £300k. There was a single case under £1k in 2013/14. Consequently, total losses and special payments in 2013/14 were neither individually nor in aggregate above the threshold of £300k (2012/13 – none).

19. Events after the reporting period

These financial statements are laid before the Houses of Parliament. The International Accounting Standards (IAS10) require the company to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General signs the audit certificate (pages 39-40).

The hybrid Bill which will authorise HS2 Ltd to proceed with the development, construction and operation of Phase One received its second reading in the House of Commons on 28 April 2014. HS2 Ltd will begin to capitalise expenditure on Phase One from this date, as outlined in the accounting policy in Note 1.6. This does not have any retrospective impact on the 2013/14 accounts.

20. Ultimate controlling party

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

21. Company structure

The company is limited by guarantee without having a share capital. Every member of the Company undertakes to contribute up to £1 towards the company's debts in the event that it is wound up. At 31 March 2014 there was one member, the Secretary of State for Transport.