



High Speed Two (HS2) Ltd Annual Report and Accounts 2015/16

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High Speed Two (HS2) Limited

Annual Report and Accounts 2015/16

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Company information

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Steve Allen
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Sir David Higgins (Chair)
Simon Kirby (Chief Executive)
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Secretary

Nicole Geogheghan

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E14 5AB

From 1st October 2016, the registered office of the Company (also its Headquarters) will become:

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Registered number

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Auditor

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SW1W 9SP

Chairman's foreword

For HS2, the last year has been about becoming less of a concept, and more of a reality. I have been pleased to see that confidence in HS2 is growing across the country, as more people begin to see the positive effects the project will bring with it. In March, I published *Changing Britain*, in which I described how much HS2 is already transforming the country for the better. The question is no longer around whether HS2 should go forward, but how it can bring the most benefits.

In Parliament, the Phase 1 hybrid Bill has continued its steady progress through its various stages. In February 2016, the Select Committee published its final findings, having heard 1,578 petitions during some 160 sittings in a process which was described even by our critics as "tough, but fair". I understand how difficult many petitioners will have found the experience, but I would also like to acknowledge the courtesy, commitment and endurance shown by the Committee. On 23 March 2016, the Bill reached another landmark: its Third Reading, at the end of which MPs voted by a majority of 357 to support the project. As with previous votes on the Bill, support was cross-party, and I cannot emphasise enough the significance of that for a project of this size, duration and complexity, as well as cost. At a personal level I would like to acknowledge the continued support of the Secretary of State and other ministers, as well as that of the Opposition. We do not take it for granted.

That support places even more responsibility on us as an organisation to get it right – and the rest of this report sets out how we are doing that under the leadership of Simon Kirby and his Executive. Starting up a new organisation to build the first railway north of London for 150 years is no easy task and, inevitably, involves many processes and decisions that are second nature in countries with a much longer track record of building high speed rail. As we progress through Phase 1 to Phases 2a and 2b, I have no doubt that we will become equally adept at smoothing the process, but in this start-up phase, it is only right to acknowledge the challenges faced not just by us as a company, but also within government and the wider construction industry. HS2 is a unique opportunity to develop a new, and better way, to build infrastructure in this country, and I would like to thank Simon and his team, as well as my fellow Board members, for their focus, skill and drive as we make our way through this process.

But HS2 isn't just a railway. It is an infrastructure project of national importance – probably the most significant of this generation as I set out in *'Changing Britain'*. HS2 is a means to re-balance our national economy to help give the rest of the country the same opportunities as London to compete in the modern knowledge economy and we have announced proposals to accelerate the route to Crewe. I have spent much of the last year criss-crossing the country talking to City Regions and local authorities, Local Economic Partnerships and private investors, MPs and the House of Lords about how they can use HS2 to help realise their region's full economic potential. What has impressed me is how, in area after area, they have worked to integrate HS2 fully into not just their transport plans, but their overall investment strategies.

Those conversations will continue during the coming year and so too will our efforts to engage with those who, inevitably, will be affected by the construction and operation of HS2. Given the sheer scale and diverse nature of the areas through which the railway runs, this presents a unique challenge, but it is a challenge we must meet in the coming year as we move towards Royal Assent for Phase 1 and the start of construction. That, plus the final designation of Phase 2, will mean the process of moving from concept to reality will be that much nearer completion.



Sir David Higgins
Chairman

Chief Executive's review

2015/16 was a crucial year in the development of HS2 as we progressed through the House of Commons and began to prepare for construction of the railway. From next year, HS2 will change. Subject to the mandate of Parliament and Royal Assent, construction of Phase 1 – the focus of many years' effort for colleagues in our company, the Department for Transport and our partners – will begin.

For all of us involved in HS2, the approval for Phase 1 will bring us closer to the vision of the railway and what it can do for Britain. It was a year of achievement for us – in the Parliamentary process; in building our team; in starting the process of making Birmingham our head office; and in developing our proposals for Phase 2, including accelerating the opening of the route to Crewe by six years.

Work will continue across the project, with the usual patience and expertise and in areas often far from the headlines. We are changing how and where we work and how we focus our resources. We are also increasing our external engagement with our stakeholders, with the aim that, in each of those relationships, HS2 can stand for something positive. The common factor is how we live our defining values and make them real. From next year, more than ever, they are not just *our* values, but a way of working we share with the contractors, suppliers and workers who help us deliver our strategic goals.

Making progress through Parliament

After the Third Reading in the House of Commons, the hybrid Bill has advanced to the House of Lords. There it will go through similar scrutiny as in the Commons before, if successful, receiving Royal Assent.

As part of the Commons process, 2,586 petitions were received, including 668 relating to the amendments to the original Bill. 1,578 petitions were heard through the Parliamentary Select Committee, which sat for 160 days in total – twice as many days as the Committee that considered the Crossrail Bill. As a result of the thorough and careful consideration of the proposals, some 400 amendments were made to the Bill and more than 1,600 commitments given. I am proud of the hard work put in by the hybrid Bill team to support this important step towards making HS2 a reality.

As the Company entrusted with carrying out a truly transformative public project, it is right that our work remains under scrutiny. We aim to be consistent in learning the lessons from that scrutiny, using the results to achieve HS2's mission. To take just one example, we have improved the way we engage with communities and fulfil our responsibilities to them – which is increasingly important as we move towards Royal Assent and construction.

Engaging with people

One piece of feedback we heard from Parliament was to revisit our community engagement. As we move closer to construction, we have taken a fresh look at our engagement approach and materials including those on our website, to ensure that it provides a clear source of advice and support.

Recognising that face-to-face events are how people prefer to hear from us, most of our new community engagement plans have focused on being present in affected areas. Those attending engagement events have been keen to understand details of the project and how it will affect them.

In February we launched a pop-up shop in Euston, where members of the community can talk to us about what HS2 in Euston will be like. We have also stepped up recruitment in our local community

engagement teams, so people can talk to advisors from their own area, who are best placed to understand the issues. As well as recruitment in local areas, we also have new Senior Engagement Managers in Greater London, the West Midlands, the Thames Valley and Northamptonshire.

We are committed to relating to communities responsibly, and welcome independent scrutiny as it helps us build continuous improvement into our organisation. We accept the conclusions of the Parliamentary and Health Services Ombudsman's Report in November 2015, and note that many of the changes the report recommends are ones we have already made.

We've been working closely with Deborah Fazan, our Residents' Commissioner, to ensure that our relationship with affected residents is on the best possible terms. Her reports are helping us improve how we can continue to be a good neighbour. To that end, our recruitment of a Construction Commissioner also signals our commitment to responsible engagement and independent oversight of our relationship with people along the line of route. I also welcome the appointment of Cathy Elliott in January as chair of our £30 million Community and Business Funds programme, which will offer extra help to communities and local economies affected by HS2.

Moving towards construction

One of the most exciting parts of this year has been seeing the tangible steps towards construction.

In September, the Chancellor of the Exchequer opened the bidding process for the main works civil engineering contracts for Phase 1. The start of the procurement process for these contracts is a major milestone towards construction, which would begin after Royal Assent. For Phase 2a, professional services have been procured covering: Railway Systems Design and Site Access, Land Referencing, Landowner Engagement Services, Civil Design and Environmental Services. Looking ahead to Phase 2b, in March 2016, we started pre-qualification activity for contracts to support the development of Phase 2b, including a Development Partner and Professional Service Contractors covering a similar range of services. Contracts will be awarded between Q4 2016 and Q1 2017.

We also held national supply chain events in Wales, Scotland and Northern Ireland, and launched a regional roadshow programme in March. These are not only important steps towards construction, but a sign of how we need the skills and expertise of businesses across the country: HS2 provide the platform for a broad basis for investment in jobs and skills across many sectors.

Upskilling Britain

The work to build HS2 will go on from 2017 to 2033, so we will need the help of not only today's businesses, but tomorrow's workforce.

We are strongly supporting the establishment of the National College for High Speed Rail, which will help address Britain's engineering skills shortage and build a more diverse workforce. Work is progressing well on both campus sites in Doncaster and Birmingham, with a business plan and Chief Executive in place, and high-level industry support, including secured funding of £40 million.

And even before young people begin professional training, we are working with them to improve skills and drive interest in science, technology, engineering and maths careers. We have engaged more than 15,000 young people at the 'Skills Show' in November and the 'Big Bang' in March, as well as in events at school. I am particularly proud of the hard work of our more than 100 schools ambassadors, especially after hearing from teachers how our visits have sparked students' creativity and interest.

We are also committed to improving diversity within the industry, setting clear goals and commitments in hiring and training practices, supply chain requirements and other diversity initiatives. HS2 will be one of the biggest drivers of infrastructure jobs in the UK, and it is important to me that the benefits of these jobs are equally accessible to everyone.

As part of our work to help improve the infrastructure sector as a whole, we are also collaborating with experts across the industry. Our Technical Director, Andrew McNaughton, has been appointed Chair of the UIC Intercity and High Speed Committee and Forum, while our Design Chair, Sadie Morgan, is working with the National Infrastructure Commission to advise on government-funded projects.

Company developments

I was pleased to welcome the Secretary of State to Birmingham in February, to open our Two Snowhill office which will, from 1st October 2016, become the Company's Registered Office and national headquarters. While this signals a time of change for the organisation, it is also an important part of fulfilling our commitment to truly be a catalyst for change for the whole country.

As HS2 goes from concept to reality, and we prepare to take on greater responsibilities and award major construction contracts, we are reviewing our structure to ensure that we have the necessary skills and experience to manage the scale and complexity of work ahead of us. We have created a Business Services directorate, to ensure delivery is supported by integrated support functions, and a separate Land and Property directorate, which reflects that the acquisition of land and property is a significant programme of work in its own right, requiring professional and responsive management.

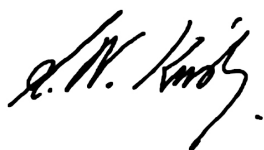
Health and safety is at the heart of everything we do. The new '*Safe at Heart*' programme – and the Health and Safety Standard for our future supply chain – will help us set a new standard, not only for those directly employed by or working with HS2, but for the whole industry.

Looking ahead

The next year is a big one for HS2. Our valuable experience in taking the Bill through the House of Commons will inform our progress through the House of Lords and towards Royal Assent, and the preparation work on the ground will be paying off in a big way as we begin construction.

In November, the Secretary of State announced the acceleration of the West Midlands to Crewe route as Phase 2a, which will bring the benefits of HS2 to the region sooner; this will mean a new hybrid Bill and accompanying Environmental Statement.

Best of all, subject to Royal Assent, by this time next year we will be seeing the tangible results of all our hard work and taking the next steps on the journey to making HS2 a reality. I look forward to continuing the journey.



Simon Kirby
Chief Executive

Strategic report

The Directors present the Strategic report together with the Directors' report and the Financial statements of the Company for the year ended 31 March 2016.

Remit and scope

HS2 Ltd is a company limited by guarantee, wholly owned and controlled by the Department for Transport (DfT), and began operations in January 2009. The Company has a single member: the Secretary of State for Transport. It is classified as a Non-Departmental Public Body (NDPB) by the Cabinet Office and is treated as part of the central government sector by the Office for National Statistics, and is fully funded by the DfT.

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

The network is to be delivered in two main phases: Phase 1 between London and the West Midlands by 2026 and Phase 2 between the West Midlands and Manchester and Leeds by 2033.

- The Phase 1 hybrid Bill has completed its House of Commons scrutiny and is currently following Parliamentary process through the House of Lords before returning to the House of Commons. Subject to the House of Lords' views, Royal Assent is currently expected at the end of 2016, with preparations on track to begin construction in 2017.
- Phase 2 is now to be delivered in two phases. The West Midlands - Crewe section, known as Phase 2a, is proposed for opening in 2027, and the remainder of Phase 2, now known as Phase 2b, is due to open in 2033. There will be separate hybrid Bills for each phase. The Government announced the route for the West Midlands - Crewe section in autumn 2015, and the hybrid bill for this section is now in preparation. Phase 2b is in pre-bill preparation stage, with an announcement on the route expected in autumn 2016.

HS2 Ltd and the DfT have formulated a Development Agreement, which sets out their respective roles and responsibilities as the delivery organisation and project sponsor respectively. The Development Agreement defines the scope of work and sets strategic targets; it also sets out how HS2 Ltd will be run and, with the Delivery Strategy for Phase 1, describes how the Company is to deliver the HS2 programme. The Development Agreement also establishes the principles for HS2 Ltd's budget envelope and cash funding.

Under the terms of the agreement, the DfT agrees to:

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

- decide how the railway will be operated, including future franchise arrangements.

HS2 Ltd agrees to:

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

The Development Agreement can be found here:

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

Strategic goals and objectives

The updated strategic goals and objectives for the Company are set out in the table below and have been endorsed by the HS2 Ltd Board in January 2016.

Strategic Goals	Strategic Objectives		
Being a catalyst for sustained and balanced economic growth across the UK	To enhance the productivity of the UK by connecting cities and supporting local, regional and rural growth strategies	To maximise the business growth opportunities in the UK for our suppliers, including in the sharing of international best practice, and make bidding for appropriate contracts as accessible as possible for local businesses and SMEs	To develop all stations and depots in ways that facilitate regional and local regeneration and development
Adding capacity and connectivity as part of a 21st century integrated transport system	To deliver the required capacity, journey time, reliability and availability	To integrate seamlessly with complementary transport modes	To maximise benefits for the whole UK transport network
Delivering value to the UK taxpayer and passenger	To deliver the programme on time and on cost while achieving the expected benefits	To deliver and operate a quality railway efficiently and to ensure commercial viability	To actively seek innovative opportunities to achieve new standards and practices in order to increase whole-life value
Setting new passenger experience standards	To be the mode of first choice and to deliver passenger experience and customer service that is recognised worldwide as leading the way in high speed travel	To place people at the heart of our design, setting new standards for travel and ensuring HS2 is accessible to all passengers	
Creating opportunities for skills and employment	To create sustainable job opportunities for young people, local people and those from diverse groups	To foster and develop talent and to create an engaged and highly skilled workforce for the delivery of HS2	To be an exemplar of EDI practice
Creating a railway designed, built and operated with world-class health, safety and security standards	To prevent injury and proactively manage risk	To manage the health and wellbeing of all our workers to create a new better standard in occupational health	To protect HS2 assets and those of its suppliers
Creating an environmentally sustainable solution and being a good neighbour to local communities	To design every part of HS2 and its service to be sympathetic to the people and places we affect and to stand the test of time	To actively communicate with neighbours and interest groups to minimise the impact of HS2 construction and operation on people and the environment	To design, construct and operate HS2 to reduce carbon and promote sustainably sourced resources

Company strategy

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

It will integrate with Britain's transport networks to provide the capacity and connectivity we need to drive national and regional competitiveness. It will unlock the potential of our cities by connecting them with fast, frequent and reliable train services.

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

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

As a high-performing, innovative organisation, we will deliver value for money by applying the best in worldwide design and construction techniques. We will achieve new standards in infrastructure delivery, operational resilience and passenger experience. We will do this by:

- adding capacity and connectivity that is integrated with other forms of transport;
- maximising opportunities for regeneration and growth;
- leading an agile, inclusive and safe operation with a diverse workforce;
- forging partnerships based on fairness and openness with all;
- being an exemplar project in our approach to engagement with communities, sustainability and respecting the environment; and
- making Britain proud of HS2 by being proud of what HS2 does for Britain.

In July 2015, HS2 Ltd published its Delivery Strategy for Phase 1, which was developed with input and guidance from internal and external stakeholders (including the DfT, HM Treasury and the Infrastructure and Projects Authority), our Phase 1 Development Partner (DP) and Professional Services Contractors (PSCs). It defines how the organisation intends to deliver the railway programme effectively for Phase 1.

Business model and organisational development

HS2 Ltd operates as a 'functional matrix' organisation, with three main delivery units responsible for delivery of the future operational network, supported by a number of enabling functions.

- 'Phase 1 Infrastructure (Construction)' will be responsible for the design and build of the physical infrastructure and railway system.
- 'Development' will secure the powers necessary, through the hybrid Bill, to allow us to build the railway and will promote Phase 2.

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

The enabling functions help HS2 Ltd to act as one organisation and operate across all delivery units to:

- set cross-organisational standards for delivery;
- provide methods, processes and tools that will be used by delivery units in order to discharge their responsibilities;
- develop our people and capability, much of which will be co-located with the delivery units themselves; and
- provide assurance of the work undertaken by the delivery units with the standards, methods, policies and processes agreed across the business.

In 2015/16, HS2 Ltd appointed a Chief Financial Officer and restructured some enabling functions into a single Business Services function to ensure that programme delivery is supported by integrated and consistent support functions. The Business Services directorate is responsible for the day-to-day management of the organisation, developing appropriate policies and targets for each support service, and delivering effective support services to the delivery units' teams.

We have also progressed in developing our Organisational Effectiveness and Change function with the development of a Business Transformation Programme. This will ensure we have a fully built and high-performing organisation embedded by 2018. In this financial year, we have implemented our Governance Framework, which sets the framework for how the organisation will operate; this is discussed in further detail in the Governance Statement.

The completion of our Birmingham offices in 2015/16 reflects HS2 Ltd's commitment to establish a corporate headquarters outside London, reflecting its importance as a national project. Over the next 18 months, HS2 Ltd will relocate many of its teams from London to Birmingham. We will continue to build our organisation and develop a target operating model that is clear and fit for purpose, so that we are in the best shape to meet the challenges ahead.

The Development Agreement with DfT provides for HS2 Ltd to become more autonomous and to be granted progressive delegations by the DfT to take the Programme forward and operate efficiently within government controls. This will happen through a series of three Review Points (RPs), whereby DfT will confer greater delegated authority to HS2 Ltd when we can demonstrate that we have in place the necessary capabilities, plans and controls to manage the Programme effectively. At each Review Point, we need to demonstrate the organisational maturity that is required to move to the next phase of the Programme and operate with greater autonomy.

Company's business position at 31 March 2016

This year has seen significant progress on both Phase 1 and Phase 2, with the hybrid Bill's progress through the House of Commons, the announcement of the route and timescale for Phase 2a and progress towards a route announcement for Phase 2b. We will continue to provide advice to the DfT regarding progress of the Phase 1 bill through the House of Lords and for the development of the rest of the Phase 2a and 2b routes. Royal Assent for the hybrid Bill for Phase 1 is currently expected to be granted in December 2016 subject to House of Lords approval.

Financial performance

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

Combined capital and resource expenditure in 2015/16 amounted to £352.9m against an annual budget of £404.1m (2014/15 - £189.6m spent against a budget of £230.0m) representing an underspend of £51.2m or 12.7%.

Capital expenditure comprises the cost of Phase 1, which is being capitalised in accordance with HS2 Ltd's accounting policy, after the second reading of the Phase 1 hybrid Bill in April 2014, and the cost of the development and/or acquisition of HS2 Ltd's office premises and IT assets.

This year's financial statements for the year ended 31 March 2016 show the following results:

- Operating expenditure of £34.4m (2014/15: £33.1m) compared with the budget of £38.2m (2014/15: £35.3m), an underspend of £3.8m or 10.0%.
- Capital expenditure of £318.5m (2014/15: £156.5m) against its capital budget of £365.9m (2014/15: £194.7m), an underspend of £47.4m or 13.0%.

HS2 Ltd substantially delivered its key Programme targets for 2015/16 and the variance from the approved budget can be explained mainly by the following factors:

- Delays in progressing design and preparatory works for the relocation of facilities and equipment owned by railway companies as part of Old Oak Common relocation works.
- Delays in securing voluntary access to third-party land restricted progress on the ground investigation and environmental survey programmes.
- Limited progress was achieved in the year on the appraisal of options, with Network Rail, for the development of the stations at Old Oak Common and Euston.
- The deferral of the preferred route announcement for Phase 2 has meant that planned work on the design of the route has been lower than anticipated and the start of planned inter-disciplinary reviews has been delayed pending confirmation of the route.

A detailed account of HS2 Ltd's finances is provided in the Financial Statements from page 54 to 74.

Funding and the Spending Review 2015

The future development of HS2 is dependent on Government commitment to funding over the life of the programme. The budget expenditure of £51.7 billion at 2011 prices was updated by the Government's Spending Review 2015 to a revised budget of £55.7 billion at 2015 prices.

The confirmation of an unchanged budget, other than for effects of inflation, demonstrates the Government's continuing support for the programme. The decision to update the cost base was taken in conjunction with HM Treasury and the DfT, and follows standard practice used by other infrastructure projects, including the London 2012 Olympics and Crossrail.

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

- Phase 1 London – West Midlands £24.3 billion
- Phase 2a West Midlands – Crewe £3.7 billion
- Phase 2b West Midlands – Manchester/Leeds £20.6 billion
- Railway operations and rolling stock £7.1 billion

Delivery performance

HS2 Ltd monitors performance through detailed project plans and by performance against key project milestones and milestone completion dates. In 2015/16, we undertook a comprehensive business planning exercise across the organisation to define our delivery and performance targets for the next three years and we have issued to the DfT an updated baseline delivery schedule, known as Baseline 6, to provide a basis for reporting progress and performance.

We produce monthly Programme reports for the HS2 Ltd Board and our sponsor, the DfT, to monitor the overall performance of the programme and the organisation. In 2015/16, we achieved 89% of our planned baseline milestones on time; major accomplishments are set out below.

We are encouraged by continuing cross-party support as the Phase 1 Bill progresses through Parliament and the positive outcome of the November 2015 Spending Review.

Phase 1

Significant progress has been made in moving the hybrid Bill through Parliament, in building the workforce ready for the construction phase, in carrying out preparatory works such as ground investigation and environmental surveys under the High Speed Rail (Preparation) Act 2013, and in commencing the procurement process for the main contract awards necessary to commence civil engineering works following Royal Assent. Work is also proceeding with DfT to develop the land and property acquisition programme to support the construction programme. Overall, the Phase 1 programme remains on schedule.

Phase 1 Hybrid Bill progress

During the year, the Phase 1 hybrid Bill completed its progress through the House of Commons, and the Select Committee published its report in February 2016. 1,918 petitions were received on the Bill in its original form.

Four Additional Provisions (APs) to the Bill were deposited in 2015/16 after the first AP deposited in 2014/15. The APs themselves received a further 668 petitions, bringing the total petitions received to 2,586. Of those, 1,008 were subsequently either withdrawn or the petitioner chose not to appear in the Select Committee hearings.

The Select Committee heard 1,578 petitions, resulting in 406 amendments to the original Bill, with many emerging as a direct result of negotiations with petitioners.

The commitments made to petitioners have been recorded and published in a formal Register of Undertakings and Assurances. The Register, published on 26 February, covers all commitments made up to the close of the Select Committee process on 4 February, and is available at <https://www.gov.uk/government/publications/high-speed-rail-london-west-midlands-bill-register-of-undertakings-and-assurances>. After the Select Committee process, the consolidated Bill was scrutinised by the Public Bill Committee, through which it passed without amendment.

The 2015/16 financial year ended successfully with a significant majority in the House of Commons following Third Reading of the Bill, and a First Reading in the House of Lords. The Second Reading in the House of Lords took place in April 2016. This year, the House of Lords Select Committee process begins and is expected to conclude in the autumn of 2016.

Accomplishments:

- supported and enabled the House of Commons Select Committee to complete the hearings for petitioners in the planned timescale;
- worked with the DfT to ensure the deposit of the four Additional Provisions to the Bill and provided responses to petitioners through the Select Committee process;
- published the Register of Undertakings and Assurances; and
- helped to secure a Third Reading majority of 357 in favour of the Bill in the House of Commons in March 2016.

Preparing for construction

The Construction team continues to be built and a strong focus has been placed on recruiting an organisation that has the resources and capabilities needed to deliver Phase 1 of the project. The teams are located in both Birmingham and London for operational reasons. The directorate has worked to strengthen its delivery capability by engaging an Engineering Delivery Partner (EDP); the contract was awarded in March 2016.

HS2 Ltd is at a pivotal stage in its development, as the organisation moves from a planning and advisory role, into one that will design, construct, deliver and ultimately operate the railway. As the hybrid Bill progresses to the House of Lords, the focus is now on preparing for design and construction after Royal Assent, which is expected December 2016.

We set out our revised plan for Euston station in the autumn of 2015, developed following extensive consultation with our partners, including those in the rail industry, and this now takes account of the aspirations for wider redevelopment of the Euston area.

Accomplishments:

- ground investigations (GI) began onsite at Euston, Birmingham Spur, Bromford Tunnel and the Northolt Tunnel as land access has been secured;
- design work continues on the utility diversions needed for Phase 1; design agreements are now in place for most of the major utility diversions;
- we are working closely with Network Rail to plan for works on the existing rail network, with design and survey works underway;
- we are collaborating with Network Rail to appraise development options for Birmingham Curzon Street, Old Oak Common and Euston stations;
- key senior staff appointments were made in the year, supplemented by development partner resources; and
- the HS2 Design Panel was established to demonstrate how we will use good design to support the achievement of our ambitious social, economic and environmental goals.

Major contracts

In the autumn of 2015, the Chancellor of the Exchequer announced the start of the civil engineering procurement process for a major part of the Phase 1 construction works. This is the first of three tranches of main Phase 1 works, and will be one of the largest infrastructure procurement packages in Europe. The second tranche will include four contracts for stations, and the third will include the anticipated release of pre-qualification questionnaires (PQQ) in March 2017 for four contracts for railway systems.

Three Early Works Contracts (EWC) will be awarded in 2016, at a value of around £900m. These contracts will include preparatory ground works, such as utility diversions, highway works, archaeological investigations and environmental surveys. Other preparatory work already under way will continue to progress. The Procurement directorate works closely with key stakeholders, such as Network Rail, to minimise and plan a number of intensive railway possessions required to enable construction as well as furthering ground investigations to de-risk the design.

Accomplishments:

- progressed the Employer's Requirements Design to translate the Parliamentary design into clear requirements for the development of the Main Works Civil Contracts (MWCC);
- processed and evaluated PQQs for companies hoping to be successful in delivering MWCCs totalling £6.4bn; and prepared for the next phase of Invitations to Tender (ITT);
- processed and evaluated bids for the EWCs to enable critical preparatory works to be undertaken prior to commencing main civil engineering works; and
- managed the procurement of the contract for the Engineering Delivery Partner (EDP) for Phase 1 leading to its award and mobilisation in April 2016.

Railway operations and rolling stock

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

Development of the Rolling Stock design strategy and commercial strategy has been progressed by the Technical and Commercial teams in 2015/16. The Railway Operations team is now growing and will take responsibility for delivery in 2016/17 for infrastructure management, rolling stock design concept and proxy operator planning with support from the other teams.

Phase 2

Phase 2 will provide the necessary investment to improve capacity and connectivity across the Midlands and the North, while improving services to the North West, North East and Scotland.

In February 2016, the report '*Changing Britain*' was published by our Chairman, Sir David Higgins, which considers how HS2 is changing the way private investors and local and central government plan for the future in Britain. It outlines the potential for transformation and explores how HS2 is already changing the perceptions and ambitions of the next generation.

In November 2015, the Secretary of State for Transport announced the Government's commitment, subject to Parliamentary approval of the route, to completing the full HS2 network in two phases from Birmingham to Manchester on the Western leg, and to Leeds on the Eastern leg. A Command Paper, '*High Speed Two: East and West: The next steps to Crewe and beyond*', setting out the Government's intentions for Phase 2 of the Programme, was published in November 2015. The Paper provided an update on the development of the route and station locations and confirmed the acceleration of the route from the West Midlands to Crewe, which will be built by 2027, six years earlier than initially planned.

Local stakeholders are developing their plans for regeneration and improved connectivity, individually and with Transport for the North, while we undertake the technical and economic analysis to support the Government's route decision on the rest of Phase 2 in autumn 2016.

Also in autumn 2015, David Higgins released an interim '*Yorkshire Hub (Leeds Station)*' report on the redevelopment of Leeds station, which can be accessed via the HS2 gov.uk site.

Corporate and Business Plans

Each financial year HS2 Ltd produces a Corporate Plan. The Corporate Plan covers a three-year planning period. The most recent Corporate Plan covered the period from 2015/16 to 2017/18. The plan reviewed performance in 2014/2015 and set out our key objectives and a high-level delivery plan for the next three years.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437718/HS2_Ltd_Corporate_Plan_2015_to_2018.pdf

The update of the Corporate Plan for the period 2016-19 is currently under development and is subject to further review and sign-off by the HS2 Ltd Board.

Factors affecting future development

The future development of HS2 is dependent on the Government's continuing commitment to funding over the life of the programme. The budget (updated from a 2011 to a 2015 price base) of £55.7bn demonstrates the Government's continuing support for the programme; the cost has not increased, but has been updated to reflect 2015 prices and take account of inflation. The decision to update the price base was taken in conjunction with HM Treasury and the DfT, and follows practice used by the London 2012 Olympics and Crossrail.

HS2 Ltd will continue to work closely with the DfT to support the progress of the Phase 1 hybrid Bill through Parliament and the House of Commons and House of Lords committee processes. The Bill progressed to the House of Lords in March 2016 and remains on schedule for Royal Assent in December 2016.

The hybrid Bills for the West Midlands to Crewe route and for the rest of Phase 2 (Leeds and Manchester) are expected to be deposited in 2017 and 2019 respectively. Approval of these Bills will be subject to the Select Committee process and the timing of this may affect the future development of the second phase of the route.

Principal risks

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

Sustainability

Our commitment to sustainability underpins HS2 Ltd's entire programme of work and sustainability is integral to all seven of our strategic goals, as set out earlier in the Strategic Report.

A Sustainability Panel for HS2 was formed in 2015, chaired by Chief Executive, Simon Kirby. The Panel includes our technical specialists alongside external experts who, in the role of critical friends, review and challenge our sustainability approach.

This Panel and the independent Design Panel work together to integrate sustainability into all areas of the HS2 project. The Design Panel uses our Design Vision framework to advise and hold HS2 Ltd's leadership, project teams and partners to account, helping them to make the right design choices. Details can be found at <https://www.gov.uk/government/publications/hs2-design-vision>.

Our sustainability policy, available at <https://www.gov.uk/government/publications/hs2-sustainability-policy>, sets out how we will proceed as an exemplar of best sustainability practice through robust processes, procurement, innovation, engagement and reporting.

We have identified sustainability as a way of working to be embedded alongside innovation and collaboration across the organisation. As part of this programme, in 2015/16 we began updating our competency framework to ensure that sustainable behaviours get covered in, for instance, our new starters' induction; and to engage with the Board, Executive Committee and senior leadership team to drive culture around sustainability.

2015/16 has been a year of readying our organisation as we approach the construction phase. A key output of this preparation has been to create the documentation that sets out for HS2 Ltd, our stakeholders and our supply chain how we intend to implement our sustainability requirements. A related outcome has been to begin embedding sustainability into our supply chain through our procurement process.

This Strategic Report includes relevant reports on each of the following subjects: environment; resource management; resilience; health and safety; community engagement; equality, diversity and inclusion; the supply chain; and skills, employment and education.

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

Environment

One of our strategic goals is to create an environmentally sustainable solution. We recognise that a project of this magnitude inevitably has impacts on the environment as well as on communities and we are committed to minimising these impacts wherever they occur and to deliver enhancements as far as practicable to attain no net loss to the natural environment.

Scrutiny of Phase 1 route before Parliament

Over the last 20 months, Parliament has scrutinised the Phase 1 route, and our response to the railway's environmental effects has been tested by the Select Committee on the Bill in light of the concerns of all 2,586 petitioners, including those who appeared before the Committee.

Undertakings and assurances have been given to individuals and bodies during the passage of the Bill to date with many of them relating to the environment. Specific changes to reduce environmental impacts include:

- lowering the route in the Lichfield area to be less obtrusive in the landscape;
- providing additional tunnelling in the Chilterns area of natural beauty; and
- adding a comprehensive range of noise barriers, landscaped earthworks and planting to help integrate the new railway into the various landscapes it passes through.

Following this scrutiny, the Government is satisfied that we are properly taking into account HS2's environmental impacts. We continue to be committed to reducing the overall adverse impacts.

Progressing Phase 2

In November 2015, the Government announced that it was bringing forward construction of the first part of the western leg of Phase 2 to 2027 (Phase 2a) and HS2 Ltd has begun an environmental impact assessment (EIA) of the preferred route; this will form a key part of the Phase 2a hybrid Bill expected to be deposited in Parliament in 2017. We have consulted on the scope and methodology for this EIA proactively incorporating requirements of the revised EIA Directive 2014/52/EU, due to be transposed into UK legislation in 2017.

Work continues on Phase 2b (the route north of Crewe to Manchester and the route from the West Midlands to Leeds), with a Government announcement of the route expected in autumn 2016. Meanwhile, we have set out further plans for Phase 2b, developing an option for the work on Leeds station that has stakeholder consensus.

We have also carried out work on Northern Powerhouse Rail Sequence One and delivered a report to the Government on serving the North of England and Scotland.

Environmental minimum requirements

In consultation with local authorities and other key stakeholders, we have drafted environmental minimum requirements (EMRs), to be finalised by the time the Phase 1 hybrid Bill gains Royal Assent. The EMRs will consist of general principles, code of construction practice, and memoranda for planning, heritage and environment. The Secretary of State has undertaken to ensure that the impacts assessed in the Environmental Statement (ES) are not exceeded.

EU Water Framework Directive assessment

In 2016, the EU Water Framework Directive assessment for HS2 was reviewed and updated. It found that we continue to meet requirements to protect and enhance water quality, and also to consider the interactions between surface water, groundwater and water-dependent ecosystems.

Industry standards, benchmarking, targets and reporting

We require the design of all HS2 stations, depots and other railway buildings to achieve a minimum 'Excellent' rating under BREEAM (Building Research Establishment Environmental Assessment Method). We are also supporting BREEAM in piloting its new infrastructure scheme to assess our infrastructure and, in 2016, we set an aspirational target of achieving 'Excellent'. We have signed the Supply Chain Sustainability School's code of ethics and we promote the school as a consistent approach for developing sustainability skills in the supply chain to the built environment.

Our 2015/16 project reporting is mainly qualitative, owing to the project's office-based nature at the design stages. We are developing a suite of key sustainability metrics which we will report on as we move towards construction.

Resource management

HS2 is a major opportunity to deliver a low-carbon transport system, providing reliable travel in a changing climate and supporting sustainable growth in the UK. Our sustainability policy commitments are to:

- minimise the carbon footprint of HS2 as far as practicable and deliver low-carbon, long-distance journeys that are supported by low-carbon energy;
- maximise the proportion of material diverted from landfill and reduce waste; and
- source and make efficient use of sustainable materials.

Minimising carbon

In 2015/16, implementing our commitments to leadership, innovation and procurement under the [Infrastructure Carbon Review Statement of Endorsement](#) resulted in:

- embedding our carbon minimisation requirements into our procurement activities;
- updating the Code of Construction Practice (fourth draft) to require contractors to develop a carbon management plan;
- contributing, as members of the PAS 2080 steering group and technical advisory panel, to a new publicly available specification (PAS) for carbon management in infrastructure;
- providing input to the development of a [Rail Carbon Tool](#) as members of the Rail Safety and Standard Board's carbon working group; and
- adopting our innovation strategy and working with industry to develop low-carbon solutions.

Diverting from landfill and reducing waste

In 2015/16 we developed a construction, demolition and excavation waste strategy and an operational waste management strategy. These set out our targets for diverting waste from landfill, along with reducing waste creation and using the waste we generate as a resource where possible.

Sourcing sustainable materials

A project on the scale of HS2 inevitably uses a significant amount of materials, which we are committed to sourcing ethically and ensuring that they meet the highest sustainability standards.

In 2015/16, we continued to engage with industry to understand sustainable material use and opportunities for material efficiency. We undertook a high-level risk mapping of our supply chain, which helped us to identify our high-risk areas. We have also been working with the Construction Industry Research and Information Association (CIRIA) and other organisations to develop a handbook for minimising risk through responsible sourcing.

Resilience

The new railway will be built to stand the test of time. Our sustainability commitments are to:

- build a network that is resilient for the long term; and
- minimise the effects of the project on the environment when the additional impacts of climate change are considered.

Adapting to the potential increase in flood risk, we plan to set the top of rail level one metre above the estimated 1 in 1,000 year (0.1%) annual probability of flooding. We are incorporating the 2016 update to the National Planning Policy Framework flood risk guidance for climate change into the design of HS2's network where appropriate.

As HS2 will exist as part of a wider UK infrastructure system, we are carrying out an assessment of how climate change impacts on HS2's interdependent infrastructure.

In 2015/16 we signed a memorandum of understanding with the Natural Environment Research Council to work with various stakeholders on the Environmental Risks to Infrastructure Innovation Programme. Our first project is *'Multi-hazard resilience estimation and planning for interdependent national infrastructure networks'*, led by Oxford University's Environmental Change Institute.

We have also engaged with the Rail Safety and Standards Board research project: *Tomorrow's Railway and Climate Change Adaptation*.

Health and safety

One of our strategic goals is to create a railway designed, built and operated with world-class health, safety and security standards. Excellent health and safety performance is crucial and we are committed to driving improvements in the engineering sector by ensuring that the right workforce is available at the right time with the right skills and behaviour.

In 2015/16, as we approach the construction of Phase 1, we have worked towards delivering these commitments in conjunction with our contractors, by implementing a new health and safety strategy, a new brand *'Safe at Heart'*, and a new health and safety standard.

- We identify what safety means to us at HS2 Ltd as "caring for our workforce, our passengers and the public by creating an environment where no one gets hurt." Planning for HS2's future safe operation, we have implemented the revised Construction (Design Management) Regulations 2015 (CDM), updating our corporate processes and design arrangements for CDM 2015. Throughout 2016, we are giving training on leading on safety and our duties under CDM, and will require compliance with CDM 2015 from our Delivery Partner and Professional Services Companies - once appointed - for Phase 2.
- Our new health and safety strategic principles, approved by the Executive Committee, define how we will set the health and safety standard across our organisation, the programme and our supply chain. In 2015, we identified 21 strategic health and safety commitments that are measurable, publishable and tangible, which were approved by the HS2 Ltd Board. We developed the supply chain health and safety standard to support the delivery of our 21 commitments, setting clear expectations and outcomes for our supply chain, and launched this standard with key members of our potential supply chain and industry bodies in 2016.
- *'Safe at Heart'*, our new health and safety brand, pulls all these initiatives together. It puts more emphasis on health and wellbeing, in line with the six Public Health Responsibility Deal commitments we signed up to as part of a Department of Health programme encouraging organisations to contribute to improved public health. In 2015, we promoted monthly health and wellbeing activities through our intranet, and *'Safe at Heart'* will now be included on all protective equipment, site signage and other key materials.

In 2015/16, there were no reportable health and safety incidents for HS2 Ltd or our supply chain.

Community engagement

As outlined in our strategic goals, we are committed to being a good neighbour to the individuals and communities that HS2 affects. In terms of our sustainability policy, our commitment is to promote high speed rail and to help balance community, environmental and economy issues, by focusing on:

- growth and regeneration – supporting local enterprise partnerships (LEPs) and sustainable economic development to progress local agendas for regeneration; and
- environmental change – protecting the environment by seeking to avoid adverse effects on communities, businesses and the natural, historic and built environment, including the prevention of pollution.

We are extremely aware of the issues that building a new railway presents to those who live nearby, and we take our responsibilities to these individuals and the communities in which they live very seriously. The scale, complexity and duration of the HS2 project, as well as its long-term benefits to the UK, mean that we have a responsibility to engage with communities along the line of route, and with individuals affected by the route, whose concerns and needs can be complex and varied.

Our community engagement milestones in 2015/16

Alongside working on our community engagement strategy, which we expect to publish later in 2016, we established a working group to ensure that there is a consistent plan across the business, and have created a community engagement toolkit on how to conduct best-in-class community engagement, enabling the team to structure its activities. We also:

- carried out 29 community engagement events, attended by over 5,600 people, for Phase 1 between June 2015 and the end of April 2016;
- undertook market research to ensure that our approach, and the look, feel and content of the materials was fit for purpose, with 12 focus groups in six locations along the line of route, among three different demographic groups;
- supported the Secretary of State's decision to bring forward the West Midlands to Crewe section of the route (Phase 2a) with further community engagement activity in late 2015. 1,442 people attended events that provided information on the property compensation consultation plus details about the proposed scheme from experts;
- continued to engage with local authorities, residents, parish councils and community groups about progress on the Phase 2 line of route, attending over 30 community activities between the Secretary of State's autumn announcement and March 2016; and
- updated our 2013 Equality Impact Assessment (EqIA) report. The two update EqIA reports, consultation summary reports and HS2's response to the EqIA were submitted for the Bill's Third Reading in March 2016. We have published our updated EqIA in alternative formats, including Easy Read and braille.

Equality, diversity and inclusion

HS2 has a once-in-a-generation opportunity to further equality, diversity and inclusion (EDI) in the infrastructure, transport and construction sectors. Our commitment is to promote EDI in line with our policy, available at <https://www.gov.uk/government/publications/hs2-equality-diversity-and-inclusion-policy>, and to integrate EDI into all our business processes. We approach this through our organisation, our supply chain, the communities we engage with, and in HS2's design and operations. Information on HS2 Ltd's relevant staff policies is set out under 'Our people' below.

Developing our EDI approach

Our public sector equality duty under Section 149 of the Equality Act 2010 requires us to remove and minimise discrimination, advance equality of opportunity and foster good relations. In 2015/16, we moved forward in articulating our EDI development model and defined our long-term goals: to change our organisation by becoming an exemplar of EDI practice and an employer of choice; to change the infrastructure and transport sectors by encouraging exemplar EDI practices through contract requirements; to change rail services by building an accessible and inclusive railway; and to change lives by maximising the benefits of HS2 within disadvantaged communities by generating business, training and employment opportunities. We have developed a five-year strategic development model to help us achieve these goals. Year 1 (2015/16) of the model has involved understanding the current state, engaging and taking action.

Our EDI milestones in 2015/16

- We reviewed all functions including recruitment training and EDI monitoring alongside the accessibility of our recruitment website and our intranet. We implemented a programme of Equality Impact Assessments across our organisation, our supply chain, the communities we engage with, and in HS2's design and operations. We have commissioned research on best practice EDI approaches and monitored the diversity of our supply chain via the Bravo Solutions procurement portal.
- In seeking to engage, we developed an internal communications plan for EDI and joined equality campaign groups such as Business Disability Forum, WISE (promoting women in science, technology and engineering) and Business in the Community (BiTC), to support our development as an organisation. We also engaged with Social Enterprise UK and MSDUK (promoting minority supplier development) to widen access to our procurement opportunities, supported supplier events across the UK to communicate HS2 Ltd's EDI expectations, and held Hot Start and EDI Contract Mobilisation briefings with contractors. We were also involved in the Design Panel consulting on HS2's inclusive design guidance.
- Actions we took included developing EDI action plans for our organisation, supply chain, the communities we engage with, and HS2's design and operations. We embedded EDI into our induction processes and into all corporate and contract procurement processes. We implemented measures to ensure that EDI issues are fully integrated into the hybrid Bill process so that we hear the concerns and issues raised by all our communities in relation to mitigation processes. We published our first workforce report in January 2016.

During 2015/16, HS2 Ltd continued to gather information on the composition of its workforce and will use this to meet its monitoring and performance needs. The information is published on Gov.uk.

Supply chain

Our procurement process requires contractors involved in designing and building HS2 to deliver sustainable outcomes, and work began in 2015 on major procurements, including the Enabling Works and Main Works Civil Contracts for Phase 1 and the Professional Services Contracts for Phase 2a. The Invitations to Tender set out HS2 Ltd's extensive sustainability requirements within the Works Information and included questions to test the tenderers' ability to meet these requirements.

We evaluate our tenders and manage performance during contract delivery against our strategic goals. Our contracts require these strategic goals to be cascaded through the supply chain.

In 2015/16, we continued our UK-wide supply chain engagement programme with roadshows in Wales, Northern Ireland and Scotland. We also held market soundings for input on procurement plans and other functional strategies.

As HS2 progresses through to design and construction, we are working with internal and external experts to develop scorecards to measure supplier performance based on our strategic objectives. These scorecards will embed targets for the different areas of our supply chain, so that we can incentivise and reward excellence in delivery by our suppliers and partners.

In leading the high speed rail workstream of the Rail Supply Group, we are aiming to strengthen the capability and competitiveness of the UK rail supply chain and grow business at home and abroad.

Skills, employment and education

Creating opportunities for skills and employment is one of HS2's seven strategic goals, and Skills, Employment and Education (SEE) more broadly is integral to HS2's vision to be a catalyst for sustained and balanced growth across the UK. Designing, planning, constructing, operating and maintaining our new railway will create many employment opportunities with HS2 Ltd, across the supply chain and throughout the UK.

HS2 contractors and suppliers will be required to deliver SEE outcomes of the type and volume specified by HS2 Ltd through apprenticeships, sustained employment of previously workless individuals, and education and careers (e.g. support for the National College for High Speed Rail (NCHSR), work placements and schools engagement activity).

We will report skills, employment and education outputs when these contracts are up and running.

Wider skills, employment and education initiatives

HS2 Ltd, along with the transport, engineering and infrastructure industries as a whole, is facing a significant skills challenge, with insufficient people with the type and level of skills needed. In addition to meeting our obligations through our supply chain, we are addressing this challenge through our support of and contribution to educational initiatives, which in 2015/16 have included:

- Supporting the establishment of the NCHSR, incorporated in July 2015, and scheduled to take its first intake of students in September 2017;
- HS2 World on www.plotr.co.uk/hs2. This science, technology, engineering and maths (STEM) careers information platform for 11- to 24-year-olds has attracted over 250,000

users a month, including teachers seeking curriculum resources and parents aiming to facilitate their children's options and career choices;

- a cross-curricular engineering project for students aged 14-18, with Transport for London;
- networking events, careers fairs, enterprise days, mock interviews and Careers Lab workshops to highlight the diverse jobs and skills we will need to plan, build and run HS2 with 140 HS2 volunteer Education Ambassadors from across the business;
- 59 STEM inspiration days with The Smallpeice Trust and HS2 Ambassadors, attended by 3,152 students aged 11-14, over half of whom were female; and
- 89 days of placements, through the Social Mobility Foundation's Aspiring Professionals Programme for undergraduate and school students from disadvantaged backgrounds, in business areas from engineering, procurement and supply chain, to finance and hybrid Bill.

Our people

HS2 Ltd believes that a diverse and inclusive workforce creates a dynamic environment that enables us to deliver our objectives in an effective way.

We have reviewed our People Strategy to reflect the changing focus of our organisation. Our approach to people development is focused on a number of strategic areas: resource planning; recruit, induct and equip; leadership, vision and values; equality, diversity and inclusion; health, safety and wellbeing; reward; learning and development; managing for high performance; and sustaining the organisation.

Our core workforce is a rich mix of employees, secondees from Government, private companies and Network Rail, as well as contractors and agency staff. Our aim in 2015/16 was to increase the employed workforce to 70% direct employed permanent HS2 Ltd staff and reduce reliance on contractors and temporary staff. The Company made good progress in increasing the percentage of its workforce who are permanent employees from 45% to 70%, as teams were resourced to deliver preparatory design and works ahead of construction.

Employees are kept up-to-date on the project's progress and on significant milestones and events through regular briefings and team meetings, as well as regular publications and briefing events. Engagement is encouraged through an annual staff survey, workplace forum representatives, employee recognition schemes and mid-year and full-year performance reviews. Professional development opportunities include management, technical, safety and professional training as well as career coaching, team-building and graduate and apprentice programmes. In 2015/16, HS2 Ltd implemented competency frameworks across the organisation to support employee development.

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

Staff policies include provision for disabled people as follows:

- the EDI Policy includes applying fair recruitment practices in respect of disability. We have a process for requesting and implementing reasonable adjustments to recruitment processes, where necessary. HS2 Ltd monitors how disabled groups perform in our recruitment practices and holds the Two Ticks symbol in relation to being positive about recruiting disabled people;

- HS2 Ltd provides Civil Service EDI Essentials learning which covers the disability provisions of the Equality Act 2010 and provides a display screen equipment policy, e-learning and assessments to new joiners and those who become disabled during employment;
- the EDI Policy (outlined in the EDI section above) covers our approach to ensuring fair access to training, development and promotion which includes disabled persons; and
- in addition, HS2 Ltd has undertaken a comprehensive accessibility audit of its jobsite and intranet platforms in 2016 and is about to complete access audits at its Canary Wharf and Snowhill offices; HS2 Ltd became a member of the Business Disability Forum in April 2016.

Wider EDI policies and developments are described earlier in this Strategic Report.

We monitor and measure our performance against our People Strategy using a number of key performance indicators, including:

- workforce plans;
- headcount, workforce costs (actual vs planned) and the proportion of permanent to temporary labour; and
- monthly reporting and up-to-date organisation charts and data.

The table below shows directors, senior managers and employees by gender as of 31 March 2016.

	31 March 2016		31 March 2015	
	Male	Female	Male	Female
Directors	8	3	6	3
Senior managers	274	92	102	40
Employees	371	313	332	275

Freedom of information

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

HS2 Ltd's performance on responding to requests under the FOI and EIR in 2015/16 within 20 days was 81% (2014/15 – 72%) and within 40 days was 92% (2014/15 – 98%).

Land assembly

We have designed our construction programme with great care to ensure that its impact on communities and the wider environment is as low as practicably possible.

Our Residents' Charter seeks to ensure that residents affected by the railway are treated in a dignified, fair, transparent and reasonable manner and we are committed to providing fair assistance to those directly affected by HS2. The Residents' Commissioner has published three reports documenting standards in regard to both statutory and discretionary property measures and to monitor performance against the commitments in the Residents' Charter.

This year, HS2 Ltd and the DfT have developed a Land and Property Strategy that defines the approach to the acquisition, management and disposal of land and property required for construction. The strategy has been drawn from Government guidance and existing material developed by HS2 Ltd. It assumes that the majority of the property required for the railway will be acquired by compulsory purchase following Royal Assent of the hybrid Bill. In some circumstances, property will be acquired before then, either initiated by the property owner under a discretionary compensation scheme, or to protect the construction programme or to agree a solution with a petitioner against the hybrid Bill.

The past financial year has seen the HS2 Ltd Land and Property team preparing to help the DfT to acquire approximately 11,420 land parcels contained within the Book of Reference for the construction of the railway using compulsory purchase orders, following Royal Assent.

The team are also working with the DfT and other stakeholders for re-safeguarding the route for Phase 1 and preparing for the announcement by the Secretary of State on the route for Phase 2. This will ensure that land will only be taken where it is needed for the railway.

Property acquired under safeguarding directions for the Phase 1 route is purchased by the DfT, not HS2 Ltd, on behalf of the Secretary of State for Transport. It is therefore included in the DfT's financial statements, not HS2 Ltd's. HS2 Ltd provides a service to support the DfT in managing the estate.

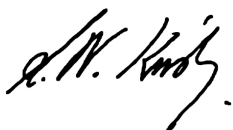
In total, in 2015/16, HS2 Ltd received 274 (2014/15 - 382) applications under property compensation schemes on behalf of the DfT and the DfT has acquired 135 (2014/15 - 131) properties.

By 31 March 2016, the cumulative value of property acquisitions was £444.2m (2014/15 - £331.0m, revised from £328.8m disclosed in 2014/15) for 389 (2014/15 - 257) residential and 7 (2014/15 - 4) business properties. In 2015/16, the DfT:

- acquired 132 residential properties for £105.1m, including compensation of £5.0m, after acquiring 129 properties in 2014/15 for £98.2m, including compensation of £5.7m; and
- entered into 3 private agreements with business owners and residential landlords to acquire commercial properties for £8.1m. It acquired 2 such properties in 2014/15 for £75.3m.

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

HS2 Ltd is responsible for the management of acquired property until it is either transferred to HS2 Ltd's construction contractor to be used for the construction of the railway or sold. All property acquired is owned by the Secretary of State with HS2 Ltd acting as his agent. HS2 Ltd now has 410 properties under management.



On behalf of the Board

Simon Kirby – Chief Executive and Accounting Officer

Signed on 15 June 2016

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 2016. The Company is registered in England and Wales and has registration number 06791686.

Directors of the HS2 Ltd Board

Directors who have held office on the HS2 Ltd Board between 1 April 2015 and 31 March 2016 are:

Steve Allen from 1 October 2015

Lord Andrew Adonis from 1 July 2015

Richard Brown

Christine Emmett

Sir David Higgins Chair

Simon Kirby Chief Executive

Neil Masom

Roger Mountford

Alison Munro

Duncan Sutherland

Baroness Jo Valentine

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 32) and Governance Statement (page 35) are required under the Government's Financial Reporting Manual (FRM) and form part of these financial statements. The Governance Statement addresses the Company's risk and control framework.

Going-concern basis

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

In 2015/16, the Government undertook a review of spending through the Spending Review 2015 (SR15). In November 2015, it confirmed the level of resources available for HS2 Ltd for 2016/17 to

fund its planned expenditure, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021.

In view of the House of Commons approval of the Phase 1 hybrid Bill in March 2016, various Government statements demonstrating its support for high speed rail and the continuing financial support from the DfT, confirmed by the Spending Review, the Directors are confident that sufficient resources will be available to meet the Company's operational and investment plans and budgeted expenditure. Consequently, it is considered appropriate to adopt a going-concern basis for the preparation of its Financial Statements.

Company policy on payment of creditors

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

Monitoring of payments made during the year ended 31 March 2016 shows that more than 90% of invoices received were paid within 30 working days (2014/15: 84%). Performance after the first quarter of 2015/16 showed a sharp improvement compared with 2014/15 to achieve near-target levels in the second quarter and performance met or exceeded the target of 95% in every month in the second half of the year as the impact of improved processes and systems took effect.

HS2 Ltd has paid two claims in 2015/16 (2014/15: 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 2016.

Political and charitable contributions

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

Sickness absence

Recorded staff absence due to sickness equated to an average of 1.9 days per employee during the year (2014/15: 2.0 days) for direct employees of HS2 Ltd.

Staff pensions

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

Personal data-related incidents

There have been no protected personal data-related incidents meeting the criteria for reporting to the Information Commissioner's Office in 2015/16 (2014/15: none). However, HS2 Ltd has recorded other protected personal data-related incidents, deemed by the Data Controller not to fall within those criteria, and these are set out in the table below.

Category	Nature of incident	2015/16	2014/15
i.	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0	0
ii.	Loss of inadequately protected electronic equipment, devices or paper documents from outside secure Government premises	1	4
iii.	Insecure disposal of inadequately protected electronic equipment, devices or paper document	0	0
iv.	Unauthorised disclosure	4	8
v.	Other	5	2

Disclosure of information to auditors

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

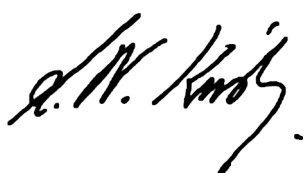
Auditor

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 2016 are available at the gov.uk website.

On behalf of the Board



Simon Kirby – Chief Executive and Accounting Officer

Signed on 15 June 2016

Sustainability report

HS2 Ltd's aim 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 strategic vision is of a high speed railway that changes the mode of choice for inter-city journeys, strengthens the national rail network, supports the economy, creates jobs, minimises carbon emissions in the design, construction and operation of the HS2 network, and provides reliable travel in a changing climate throughout the 21st century and beyond.

Sustainability approach

HS2 Ltd's commitment to sustainability underpins our entire programme of work and recognises that our approach to sustainability has to be a balancing act between meeting the immediate needs of today while preserving the ability of future generations to meet their own needs.

Sustainability is integral to all seven of HS2's strategic goals, as set out in the Strategic Report, and is not just about the environment alone: it is about the UK economy, our national infrastructure, the passenger experience, the UK workforce, the supply chain, use of resources, and community and individual wellbeing. Accordingly, the Strategic Report provides information on these aspects of HS2's sustainability approach under the following headings:

- environment
- resource management
- resilience
- health and safety
- community engagement
- equality, diversity and inclusion (EDI)
- supply chain
- skills, employment and education (SEE)

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

Environmental Management System

We are in the early stages of developing our Environmental Management System (EMS). The EMS will provide a framework for key procedures and processes and the documentation for monitoring, reporting on and improving our environmental performance.

To this end, we have already implemented key processes and procedures in compliance with the International Standard BS EN ISO 14001 for our business and will be seeking to obtain certification in 2017 for our corporate activities.

As part of developing our corporate EMS, the 2015/16 data will form the baseline for developing and agreeing corporate targets with the DfT and reporting on our corporate performance.

Recognising that HS2 Ltd will change and grow significantly over the lifetime of the railway, the data will be 'normalised' on a Full-Time Equivalent (FTE) basis to provide meaningful figures that can be measured and monitored to demonstrate improvements.

Our environmental performance

In 2015/16, 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.

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

Greenhouse Gas (GHG) Emissions		2015-16	2014-15
Gross Emissions (tonnes CO ₂ e*)	Scope 1: Direct emissions	51	41
	Scope 2: Indirect emissions	1,065	748
	Scope 3: Business Travel emissions	513	171
	Total Emissions	1,629	960
Related Consumption Data	Estates Electricity (kWh)**	2,304,866	1,556,820
	kWh per FTE	2,054	1,984
	Private Car Usage (road miles)	51,178	44,143
	Hire Car Usage (road miles)	58,913	31,470
Financial Indicators	Total Energy Expenditure	£367k	£152k
	CRC Related Expenditure	£11k	£0k
	Expenditure on Business Travel	£1,916k	£647k

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

Waste		2015-16	2014-15
Non-Financial Indicators	Total Admin Waste (tonnes)	48	37
	Recycled Waste (tonnes)	31	23
	Admin Waste - kg per FTE	43	47
	Percentage recycled	64%	63%
Water		2015-16	2014-15
Non-Financial Indicators	Estates Water (cubic metres (m ³))	11,600	3,412
	m ³ per head	10.30	4.35
	Emissions from Water Consumption (tonnes CO ₂ e)	3.99	0

Remuneration report

The Remuneration Report for HS2 Ltd includes the Chair and other members of the HS2 Ltd Board. Changes in the composition of the Board and a summary of its members' commitments in 2015/16 are shown in the Governance Statement on page 35.

Board members (audited)

The Chair, Sir David Higgins, is contracted to work for three days per week. Non-Executive Board members are contracted to work an average contribution of two days per calendar month and additional days worked are remunerated at the same daily rate. The travel expenses of Board members are reimbursed at the rates allowed under HS2 Ltd's business expenses policy.

All Non-Executive Board members have fixed-term contracts and remuneration levels are set by the Secretary of State through the DfT. Non-Executive Board members are entitled to a month's notice period with no compensation for early termination of their contracts. Executive Board members are entitled to notice as stated in their contracts. The fees and salaries of the Board members during the year were as follows:

Single total figure of remuneration

Board member	Fees and salary (£)		Bonus payment (£)		Taxable benefits (£)		Pension benefit (£)		Total (£)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Lord Andrew Adonis* (from 1/07/15)	17,100 (22,800)	-	-	-	-	-	-	-	17,100 (22,800)	-
Steve Allen * (from 01/10/15)	207,500 (415,000)	-	-	-	-	-	-	-	207,500 (415,000)	-
Richard Brown	22,800	22,800	-	-	-	-	-	-	22,800	22,800
Christine Emmett * (from 15/09/14)	31,350	13,402 (22,800)	-	-	-	-	-	-	31,350	13,402 (22,800)
Sir David Higgins **	240,000	471,540	-	-	-	-	-	-	240,000	471,540
Simon Kirby * (from 01/09/14)	750,000	437,500 (750,000)	-	-	-	-	-	-	750,000	437,500 (750,000)
Neil Masom * (from 15/09/14)	38,000	12,452 (22,800)	-	-	-	-	-	-	38,000	12,452 (22,800)
Roger Mountford* (from 19/02/15)	26,363	3,800 (22,800)	-	-	-	-	-	-	26,363	3,800 (22,800)
Alison Munro	157,004	148,416	35,000	-	-	-	7,920	-	199,924	148,416
Duncan Sutherland	41,325	53,675	-	-	-	-	-	-	41,325	53,675
Baroness Jo Valentine * (from 15/09/14)	22,800	12,452 (22,800)	-	-	-	-	-	-	22,800	12,452 (22,800)

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

** Sir David Higgins was seconded from Network Rail for the period to 31 August 2014. He joined HS2 Ltd in a directly employed capacity from 1 September 2014.

Pension liabilities

Employees of HS2 Ltd are eligible to participate in a defined contribution pension scheme, in which the Company matches employee contributions to a maximum of 5%. In 2015/16, the Company introduced an option under which its employees can choose to reduce their annual holiday entitlement in exchange for the Company contributing twice the contribution made by the employee. The HS2 Ltd pension scheme is managed on the Company's behalf by Legal & General Ltd. For the year ended 31 March 2016, employers' contributions were £2.999 million (2014/15: £0.682 million).

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

Remuneration policy

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

In line with the Government's policy on transparency, HS2 Ltd published details of those who receive more than £150,000 per annum at 30 September 2015 on the Cabinet Office website.

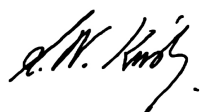
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486391/150K_senior_salaries_30_sept_2015.csv/preview.

Median staff cost (audited)

The total remuneration of the highest-paid Director for 2015/16 was £750,000 per annum (2014/15: £750,000 pa). This was 12.0 times the £62,400 pa median salary of the Company's workforce (2014/15: 13.3 times the median salary of £56,200 pa). The median is determined as the mid-point of all salaries of the workforce comprising employees, secondees and temporary staff. The rise in the median salary is caused principally by the growth of the organisation from the top down, recruiting directors and senior managers before a general growth in the workforce to deliver the Programme.

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

No employees, secondees or temporary staff have received remuneration in excess of the highest-paid Director in the year (2014/15: none). Staff remuneration (on an annualised basis) for full-time work ranges from £23k to £415k per annum.



On behalf of the Board

Simon Kirby – Chief Executive and Accounting Officer

Signed on 15 June 2016

Statement of directors' responsibilities

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

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

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

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

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

Governance statement

Accounting Officer's introduction

Accounting Officer's introduction

As Chief Executive and designated Accounting Officer of HS2 Ltd, I am personally responsible for safeguarding the public funds under my control, for ensuring propriety, regularity and value for money in the handling of those public funds, and for the day-to-day operations and management of HS2 Ltd.

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

This Governance Statement sets out how I have discharged my responsibilities during 2015/16.

Accountability

The Secretary of State for Transport is accountable to Parliament for the activities and performance of HS2 Ltd and for securing Parliamentary or Treasury approval as necessary. The Secretary of State for Transport lays HS2 Ltd's Annual Report and Accounts before Parliament, approves grant-in-aid to be paid 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 also reviews the performance of the HS2 Ltd Chair.

HS2 Ltd is accountable to the Secretary of State for Transport, for the effective, efficient and economical discharge of its functions in developing a new high speed route as part of a wider high speed network. HS2 Ltd's formal accountability is to the DfT as its Sponsoring Department. The relationship between the DfT and HS2 Ltd is set out in the Development Agreement (DA) and the Framework Agreement. Further information on these documents is available on the 'our Board' page of the HS2 Ltd website at www.gov.uk/hs2.

The HS2 Ltd Board is responsible for reviewing the performance of the business against its policy, strategy and risks and for making key decisions to ensure it meets its objectives as agreed with the DfT.

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

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

Corporate governance principles

As an NDPB, HS2 Ltd seeks to comply with the principles of 'Corporate Governance in Central Government Departments: Code of Good Practice 2011'. Full details of the code can be found at:

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

In summary:

- The Board seeks to uphold the seven key principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- The composition of the Board is balanced between Executive and Non-Executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of Board members. As the organisation grows in size and complexity, it will seek to fine-tune the skills and experience of Board members to be most appropriate to the phase of development.
- The remit of the Board and the roles and responsibilities of its members have been clearly defined in Standing Orders approved by the HS2 Ltd Board, including the role and responsibilities of the Accounting Officer.
- Procedures are in place to ensure the effectiveness of the Board, including the appointment and induction process, the organisation of Board meetings supported by suitable information and reports, a dedicated and skilled secretariat function and a formal annual evaluation process to assess and improve performance.

The HS2 Ltd Board

- The HS2 Ltd Board meets on a monthly basis. Its role is to set the Company's strategic aims and objectives in accordance with the requirements of the DfT as Sponsor of the Programme and ensure that they are achieved;
- ensure effective governance of the Company, making sure that decisions are made at the right time and properly manages risks;
- shape, challenge and direct the Company;
- hold the Executive to account for the day-to-day performance of the Company;
- oversee the commitment of funds and any other significant commitments by the Company;
- monitor performance and risk; and
- oversee the health of relations with stakeholders and commercial partners.

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

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

The Board meets 11 times a year as set out in its Standing Orders. Prior to these meetings the Executive meets to review proposed agenda items. The HS2 Ltd General Counsel is the Company Secretary and provides the secretariat to the Board. With agreement of the Chair, extraordinary meetings can be called.

The DfT has an observer on the HS2 Ltd Board.

Role of the Chair

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

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

Board decision making

Effective, structured decision making is crucial as the Company continues its preparations for construction of the railway. The Board has agreed a decision-making approach which is kept under review.

In 2015/16, the Board covered a number of regular agenda items including: updates from the Board Sub-Committees, Health and Safety, Finance, Corporate Affairs, Design Panel, Sustainability Panel, and the Residents' Commissioner.

During the year, the Board endorsed Corporate and Business Plans and reviewed progress against them as part of its oversight of operational and financial information. The Board also reviews the Annual Report and Accounts, Delegations, National Audit Office Completion Report, and the Equality, Diversity, and Inclusion Status Report during the year and the following:

- updates on Phase 1 (including Euston station), Phase 2a, and Phase 2b;
- a specific update of the Phase 1 schedule and costs baseline (Baseline 6);
- HS2 Ltd's submission to the Spending Review 2015;
- progress in achieving Review Point 1 (RP1);
- strategic approach to contracting;
- major procurements for the Engineering Delivery Partner, Main Works Civil Contracts, and Early Works Contractor;
- developing the skills strategy and our role in supporting the National College for High Speed Rail; and
- petitioners' updates.

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

Board effectiveness

The Chair oversees the work of the Board and its members to ensure they are working effectively. The Board has agreed that regular assessments of its effectiveness should take place, which include periodic, externally facilitated reviews. In 2015/16, a self-assessment of effectiveness took place and actions identified were implemented. For 2016/17, an independent Board assessment is currently being undertaken in accordance with corporate best practice.

Board commitment and attendance

Board members are appointed by the Secretary of State for Transport. Biographies of the current HS2 Ltd Board members are published on the gov.uk website. The appointment and resignation or retirement dates of Board members are set out in the Directors' Report on page 27 and details of their contractual commitments and remuneration are disclosed in the Remuneration Report on page 32

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's Board meetings. David Prout has served as Director General for HS2 Ltd for the Department for Transport throughout the period. Either he or another DfT representative has attended all Board meetings.

All Board members have been present at monthly meetings during their periods of appointment, except where indicated below (between April 2015 and March 2016):

	30/4	28/5	15/6	30/7	24/9	29/10	26/11	17/12	14/1	04/2	03/3
Lord Andrew Adonis	n/a	n/a	n/a	X	✓	✓	✓	✓	✓	✓	✓
Steve Allen	n/a	n/a	n/a	n/a	n/a	✓	✓	✓	✓	X	✓
Richard Brown	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Christine Emmett	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Sir David Higgins	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Simon Kirby	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
Neil Masom	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓
Roger Mountford	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Alison Munro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Duncan Sutherland	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Baroness Jo Valentine	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Changes to Board membership

During the year, Steve Allen was appointed as an Executive Director and Chief Financial Officer (CFO) on 1 October 2015 and Lord Andrew Adonis was appointed as a Non-Executive Director on 1 July 2015.

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 gov.uk website below. Board members are asked to confirm regularly that this is correct.

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

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 NDPBs. The Code of Practice has been agreed with the DfT, HS2 Ltd's sponsor department.

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 dedicated training sessions and have become familiar with specific issues relating to the project.

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

Board Sub-committees

There are 4 sub-committees of the Board with advisory or decision-making delegations as appropriate.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) provides independent assurance to the Board that effective arrangements are in place throughout the Company for risk management, governance, assurance and internal control. The Committee meets quarterly or as matters arise and its members are all Non-Executive Directors: Neil Masom (Chair), Baroness Jo Valentine and Roger Mountford.

ARAC oversees all assurance work, reviews risk and internal audit as standing items at meetings and receives regular updates from the Company's internal and external auditors. The Committee also approves internal and external audit plans, advises the Board on accounting policies and monitors the annual accounts process in order to recommend the accounts for approval by the Board.

The Chair of the Committee provides a 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 the finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year. ARAC has considered the following significant matters in 2015/16:

- HS2 Ltd's risk management strategy and approach and risk appetite;
- the overall governance framework for HS2 Ltd;
- deep-dive reviews on certain matters (including Phase 2, workforce plans and Baseline 6);
- review of readiness for Review Point 1;
- organisational resilience;
- review of the Period 9 and year-end financial statements and related audit reports;
- a range of internal audit reports under the annual programme; and
- initial findings of the National Audit Office's value for money review.

Remuneration Committee

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

Its members are all Non-Executive Directors: Christine Emmett (Chair), Richard Brown and Duncan Sutherland.

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

Commercial and Investment Committee

The Commercial and Investment Committee (CIC) was established during 2015/16 to enhance the Board's scrutiny of major investment decisions. Its function is to provide a gateway to the Board in making effective business decisions by reviewing procurement and investment proposals in more detail, and at an earlier stage than the Board, and to assess the readiness of that decision for consideration by the Board. This ensures that the Board is presented with clear and well-evidenced proposals and, where appropriate, alternative choices for decision. The CIC provides a report to the Board on all matters that it considers, and identifies the key issues for consideration by the Board when proposals for investment or procurement are presented for the Board's approval.

Its members are all Non-Executive Directors: Roger Mountford (Chair), Lord Andrew Adonis, Christine Emmett and Neil Masom.

Health, Safety and Environmental Committee

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

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

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

HS2 Ltd Executive

Role of the Accounting Officer

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

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

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

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

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

Executive Team

The Executive Team manages the day-to-day management and operations of HS2 Ltd and in 2015/16 has comprised:

Executive	Position	Start/End
Steve Allen	Chief Financial Officer	Started 1 October 2015
Nina Cope	Organisational Effectiveness and Change Director (Interim)	
Jim Crawford	Managing Director, Phase 1 Infrastructure	
Peter Gregory	HR Director	
Emma Head	Director of Corporate Health & Safety	
Simon Kirby	Chief Executive Officer	
Alistair Kirk	Programme and Strategy Director	
Janine Mantle	Corporate Affairs Director	
Andrew McNaughton	Technical Director (seconded as an expert witness supporting the Select Committee process)	
Alison Munro	Managing Director, Development	
Gerard O'Brien	Former Director of Corporate Health and Safety	
Chris Rayner	Managing Director, Railway Operations	Started 7 April 2015
Kieran Rix	Finance and Corporate Services Director	Until 30 September 2015
Giles Thomas	Technical Director (Acting)	
Beth West	Commercial Director	
Stuart Westgate	Programme Development Director, Internal Sponsor	

Steve Allen is responsible for the newly formed Business Services directorate which includes the Legal, Finance, HR, IT and Commercial functions as well as Land and Property.

The Executive meets monthly to consider strategic and operational issues related both to the Company and the Programme (and weekly to consider certain day-to-day matters). The Executive delegates the detailed scrutiny of certain issues to a range of formally constituted forums, including Programme Review Board (scrutiny for the Delivery Units), Investment Panel (investment decisions), Management Committee, Business Transformation Panel (change management) and People Panel (workforce-related issues).

Separate governance arrangements exist for Delivery Unit programme management through Phase 1 Infrastructure, Development and Railway Operations Programme Boards, which in turn report into the Executive Committee. Internal governance arrangements remain under regular review to ensure that they best meet HS2 Ltd's needs.

Executive Directors' other directorships

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

Workforce

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

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 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 employment policies are in place including those covering working conditions, pay, equality and diversity, employee relations, succession planning, conflicts of interest and whistleblowing.

Suppliers and contractors

HS2 Ltd employs specialist suppliers and contractors to perform those services and works that are needed to achieve the objectives of HS2 Ltd. Suppliers and contractors are procured and managed in accordance with Government-wide procurement guidance. HS2 Ltd has a Commercial Panel which meets on a fortnightly basis to consider procurement proposals. Larger procurement decisions are considered by the Investment Panel, with the most significant value decisions being made by the HS2 Ltd Board (upon advice from the CIC). The Board receives a regular monthly report on procurement matters.

As outlined in the Strategic Report, the Company has undertaken extensive market soundings and briefings in order to ensure that its procurement strategies are appealing to, and appropriate for, the relevant market. HS2 Ltd has been using behavioural assessments to test how closely suppliers are aligned with its values and how effective they will be in collaborating with HS2 Ltd towards the achievement of our numerous goals.

Risk management

HS2 Ltd has adopted a risk management strategy in line with HM Treasury guidance 'Management of Risk: Principles and Concepts' (also known as 'The Orange Book'). Each business area monitors the risks facing its area. 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 Company's Risk Management Strategy, with the detailed Risk Management Plan, aims to provide clarity of accountability and responsibility for risk management ownership to ensure optimum decision-making. The system of risk management is based on an ongoing process that:

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

The Project Review Board includes risk reporting as a standing item at each monthly meeting. The HS2 Ltd Board and the ARAC review risks regularly and, additionally, the ARAC reviews the Company's risk management systems and advises the HS2 Ltd Board accordingly.

The objectives in relation to the management of risk are to:

- embed risk management as a fundamental tenet for the management of all aspects of HS2 Ltd's work and ensure that uncertainty and risk are considered in decision-making;
- have a robust understanding of the HS2 Ltd risk profile that will support, guide and enable effective decision-making;
- provide a detailed understanding of the risks to HS2 and the potential effect on cost, schedule, reputation and safety and other output targets;
- support the identification and implementation of risk response actions that are prioritised, effective and timely;
- ensure clear responsibility for the management of risk between HS2 Ltd and its partners; and
- develop a unified, consistent risk management culture throughout HS2 Ltd, its partner organisations and the wider supply chain.

Risk appetite

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

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

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

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

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

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

Identified key risks to the organisation

HS2 Ltd is in a period of rapid growth and change as it moves from being a feasibility/design-based organisation to preparing to build one of the largest and most complex engineering projects in Europe. Such rapid growth and change will inevitably create challenges for the Company's systems, controls and processes. This includes developing its governance and operational models in order to minimise risks to the deliverability of the project on time and on budget. HS2 Ltd works closely with the DfT to identify opportunities to share knowledge and experience with other members of the group, including in areas of capacity, capability and affordability.

Key risks include:

1. Stakeholder management

There is a risk that appropriate relationships are not established and maintained with key stakeholders, including Government, the rail industry, people affected by the HS2 project, and the public at large through effective communications and engagement strategies and plans.

2. Governance

The governance framework within which HS2 Ltd operates must be robust, transparent and operating effectively. HS2 Ltd continues to work with the DfT, HM Treasury, the Cabinet Office and the Infrastructure and Projects Authority, to ensure that its governance is optimal.

3. Organisational readiness

HS2 Ltd is developing a strategy which sets out the approach that it will take to delivering the Programme of work. It provides the framework for achieving consistency and integration across the Programme over the next 20 years. It sets out what systems and processes will be established to deliver the project on time and on budget, and how HS2 Ltd will address such key issues as the operating model and design, procurement and commissioning.

Particular challenges exist in ensuring that core human resources, procurement and finance controls and processes develop at sufficient pace to enable HS2 Ltd's legal, regulatory, policy and reporting obligations to be met, and to enable HS2 Ltd to demonstrate best practice and value for money in its activities.

HS2 Ltd has a workforce planning process to identify the needs of the programme and ensure that capacity issues are identified and addressed and a comprehensive learning and development programme intended to support the delivery of appropriate capabilities.

4. Schedule, cost and risk

HS2 Ltd is remitted with delivery of the railway into service, on time and on budget and to manage its risks appropriately. At this early stage of the project, the Company is seeking to ensure that its systems, processes and controls for long-term cost estimating/management and schedule planning are robust and appropriately assured. Assurance is supported by the work of the Project Representative (P-Rep), who provides assurance to the DfT on all aspects of the programme.

5. Affordability

Ensuring that the HS2 Programme for each phase is delivered within the overall scope and funding envelope agreed with Government (including and contingency funding) and that in each year, its short-term activity including programme, budgets, workforce plans, risk management and procurement pipelines are aligned to the overall project programme and agreed resources.

6. Design development

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

7. Delivering the Phase 1 hybrid Bill

Responding to petitions and managing the House of Lords and petition management processes are essential to ensure the smooth passage of the final stages of the Phase 1 hybrid Bill. Adequate controls are in place to make intelligent decisions about how to address petitions.

8. Phase 1 pre-construction works

The High Speed Rail (Preparation) Act 2013 allows the Secretary of State to incur expenditure in preparation for a high speed rail network. Using these powers, HS2 Ltd has been instructed to undertake and support certain pre-construction activities to ensure adequate progress of the project prior to Royal Assent. These activities include the advanced acquisitions of property, design and survey activity, ground investigations, works relating to utilities diversions and early enabling works.

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

9. Developing Phase 2

It is an integral part of the development of Phase 2 that:

- appropriate options are being considered through a sound and accepted process;
- plans are being developed robustly;
- costs are at a reasonable level of confidence (including risk allowances) for the stage of development; and
- legal and policy risks are being identified and managed.

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

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

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

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

11. Supply chain capacity

There exist the possibility that other major infrastructure programmes, with similar delivery timescales and skills requirements, may have an impact on the supply chain's available capacity and resources available to deliver Phase 1 to time. We are putting in place provisions to mitigate this risk at an early stage, by establishing the National College for High Speed Rail (NCHSR) and through targeted engagement with the supply chain.

Internal control

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

HS2 Ltd adopts the 'three lines of defence' approach as recommended by HM Treasury's guidance on assurance frameworks. The key elements are:

1. First line – within business areas based on routine management controls, robust policies and procedures, performance data and risk registers. Assurance comes from those within the Company who best know its operations;

2. Second line – oversight of management activity but not independent of HS2 Ltd’s management chain including compliance reviews, reviews of policy and quality arrangements. Assurance is more objective than first line assurance; and
3. Third line – more independent and objective assurance designed to provide the Accounting Officer with an independent opinion on the framework of governance and control.

First Line

Corporate policies, processes, and procedures

The system contains HS2 Ltd’s policies, strategies, plans, processes, procedures, forms, work instructions and guidance documents maintained in line with the quality and document control processes and procedures. Each document has an allocated owner, must be approved and stored in HS2 Ltd’s electronic document management system and must be kept up to date..

These documents are essential elements in making sure that activities are carried out in a consistent and efficient manner. It is a framework that ensures HS2 Ltd complies with the Sponsor’s Requirements, requirements arising from the Parliamentary process, and legal and regulatory requirements. If the policies, processes or procedures are applicable across HS2 Ltd, then they will be approved by the relevant Board, Committee or Panel.

HS2 Ltd maintains risk registers at a corporate strategic, programme, individual projects and directorate level and actively drives risk mitigation measures.

Governance

HS2 Ltd operates a range of management-level committees, sub-committees, programme and project boards in order to provide guidance and monitor performance for strategic, tactical and operational activities and to authorise any corrective actions necessary to deliver the stated objectives. It operates a framework of approvals and delegation with appropriate separation of duties intended to ensure that controls are effective at the point of accountability.

Analytical modelling

Economic and business modelling remains essential to the work of HS2 Ltd to ensure that the costs and benefits of the project included in the HS2 business case are based on a rigorous assessment of transport demand. HS2 Ltd has created and maintains a full and up-to-date register of business-critical models. This includes a quality assurance framework that 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. HS2 Ltd works closely with DfT to ensure that models supporting the Business Case for HS2 and the Spending Review have appropriate quality assurance and are appropriate.

Second Line

Internal assurance

Second line assurance is provided by the HS2 Ltd Board and its associated committees intended to challenge and amend proposals to ensure alignment to the achievement of objectives. The Board conducts regular reviews of its own performance to ensure that it operates effectively.

Expert advice is provided across the Company in areas such as legal, finance, human resources and procurement as well as in specialist areas to help ensure that HS2 Ltd meets its statutory and regulatory obligations. These resources are often internal to the Company but may be external where additional short-term capacity or specialist skills are needed.

Development Agreement and Review Points

As set out by the Development Agreement, the Review Point process operates to enable HS2 Ltd to be progressively granted increasing levels of operational delegation, conditional on the satisfactory demonstration of defined levels of business capability at a series of Review Point intervals (including capabilities relating to people, systems and processes appropriate to the particular stage of the project) and on the satisfactory submission of certain key documents. The achievement of a Review Point is determined at the discretion of the Secretary of State for Transport. Prior to a Review Point being reached, HS2 Ltd operates dual governance (along with the DfT).

RP₁ is an important step for our Company as it allows the DfT to assess HS2 Ltd against agreed criteria and, if we are successful, to award delegations that will allow us to have greater authority with respect to major procurement activities. It is part of a wider programme of three Review Points that will ultimately allow HS2 Ltd to deliver the railway.

Systems of internal control

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

The purpose of the MAS is to:

- provide an assessment of the effectiveness of our systems of internal control;
- identify areas where controls may not be operating effectively; and
- identify and instigate future actions for improvement.

The MAR actions are captured on the 'Audit Actions Tracker' and reported to ARAC on a regular basis.

HS2 Ltd also undertakes a programme of compliance and quality audits which provide assurance to management and to ARAC that controls are operating effectively.

HS2 engages with its workforce through staff surveys and an elected workforce forum to feedback on policies and other proposals to ensure that they are fair and reasonable to the workforce.

Third Line

Independent assurance

Assurance on the effectiveness of HS2 Ltd's system of internal control, independent of management, is sought and obtained by ARAC 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, the Government Internal Audit Agency, to design and implement the audit programme, to provide assurance in critical business areas, to identify best practice and to develop processes and controls which follow best practice.

In his annual opinion, the independent Head of Internal Audit observed that HS2 Ltd has continued to undergo significant growth and change during the year and that a 'moderate' assurance rating is appropriate, meaning that arrangements have been adequate and effective for 2015/16. HS2 Ltd's risk management, governance arrangements and control systems have continued to develop and mature and are generally working effectively, except for some areas where weaknesses or opportunities to improve internal control have been identified during the year.

HS2 Ltd is certified with both the ISO 9001 (Quality) and OHSAS 18001 standards (Health & Safety) and is accredited for the Chartered Institute of Purchasing and Supply (CIPS). HS2 Ltd will actively seek further independent professional accreditations where appropriate.

HS2 Ltd is subject to regular review including, but not limited to, those of the Major Projects Authority (MPA), Major Projects Review Group (MPRG) and the National Audit Office (NAO).

In December 2015, HS2 completed a CMMI Review (Capability Maturity Model Integration). The review, conducted by an external body, sought to provide an external view of HS2 Ltd's capability maturity using a global standard as a reference point.

Areas for development identified in the 2014/15 Financial Statements and progress to date

The main areas that were identified in 2014/15 for development in 2015/16 included:

1. The rapid growth in the workforce has placed strain on the organisation's ability to maintain accurate and up-to-date workforce records, with consequential impacts on its financial reporting and third-party payment processes.
 - We introduced more robust processes for joiners and leavers and implemented technology-based HR systems to maintain our workforce records. This has resulted in improved record-keeping, but more needs to be done to ensure these records are fully up to date and accurate.
2. The construction of substantial railway assets over the next 20 years will present fixed asset accounting challenges and will require planning and coordination with owners of the asset management systems and the maintenance of an up-to-date asset register.
 - We brought our asset records up to date after completing a review of asset lives and overcoming technical issues with the computation of depreciation. We have also commenced a project to develop financial policies, procedures and data needs for our future asset management system to complete in August 2016.
3. The introduction of new accounting software has highlighted deficiencies in internal payment processes, which in turn adversely impacted on payment performance in 2014/15.

- We have improved our payment processes using the new financial systems, with the result that performance has been at or above the target level of 95% for every month since September 2015.
4. Through the Management Assurance Review (MAR) process, HS2 Ltd identified a number of areas to strengthen relating to business continuity, anti-fraud and anti-bribery training and awareness, succession planning and ensuring that its Conflicts of Interests Register is fully maintained.
- We made substantial progress during 2015/16 on areas identified by our MAR process and continue to introduce appropriate policies and procedures and provide relevant training.

During 2015/16 an incident of misuse of public funds by an individual to the value of £1,860 was detected through the Company's improved financial controls. An investigation found that whilst at the outset there was no fraudulent intention, the use of these funds was not for the purpose granted and as such, it has been recorded as a fraud. Arrangements have been made to recover this sum in full and a review of controls in this area is being undertaken to confirm their effectiveness.

Areas for development arising in 2016/17

Where weaknesses or gaps have been identified, these have either been addressed or are in the process of being addressed by HS2 Ltd, which should provide a more robust internal control environment going forward. The main areas for development in 2016/17 include:

- further development and integration of our systems to meet future requirements;
- strengthening contract management and change control processes;
- enhancing controls and training on anti-fraud and anti-bribery;
- putting in place the necessary arrangements for the successful achievement of RP2 including the maturity of authorities and delegations ;
- enhancing the three lines of defence and assurance models; and
- improvements in reporting.

ARAC 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 ARAC for review.

Regulation, Parliament and the public

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

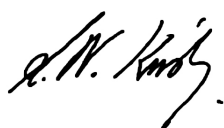
Conclusion

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 improvements have been identified, these have been or are in the process of being implemented. The improvements made in the year and the evidence of our regular reporting, both independent and internal, have together provided confirmation that the arrangements have been adequate and effective for the current stage of development of the organisation.

I recognise that we will need to prepare for the next stage of the Company's development in the coming year before the major spending on construction activities commences.

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

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



Simon Kirby

Chief Executive and Accounting Officer

Signed on 15 June 2016

Report of the independent auditor

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

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 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 2016 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Dated 28 June 2016

Statement of comprehensive net expenditure

		Year ended 31-Mar 2016 £'000	Year ended 31-Mar 2015 £'000
Expenditure	Note		
Staff costs	3	11,923	11,094
Other expenditure	4	21,913	21,072
Non-cash items	4	590	928
Net expenditure for the year		34,426	33,094
Other Comprehensive Income			
Items which will not be reclassified to net operating costs:			
Net gain/loss on revaluation of Asset Under Construction - Railway		(3,443)	-
Comprehensive net expenditure for the year		30,983	33,094

The Accounting Policies and Notes on pages 58 to 74 form part of these financial statements.

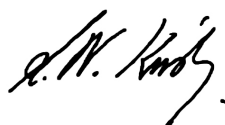
Statement of financial position

	Note	Year ended 31-Mar 2016 £'000	Year ended 31-Mar 2015 £'000
Non-current assets			
Assets under Construction - Railways	6	454,656	145,593
Property, plant and equipment	6	21,214	12,128
Intangible assets	7	247	439
Total non-current assets		476,117	158,160
Current assets			
Trade and other receivables	9	9,912	5,532
Cash and cash equivalents	10	5,009	5,282
Total current assets		14,921	10,814
Total assets		491,038	168,974
Current liabilities			
Trade and other payables	11	(86,785)	(55,738)
Total current liabilities		(86,785)	(55,738)
Total net assets		404,253	113,236
Taxpayers' equity			
Revaluation reserve		3,443	-
General reserve		400,810	113,236
		404,253	113,236

These accounts are exempt from the requirements of Part 16 of the Companies Act under section 482 of that Act (non-profit-making companies subject to public sector audit). They are subject to audit by the Comptroller and Auditor General under section 25(6) of the Government Resources and Accounts Act 2000.

The Accounting Policies and Notes on pages 58 to 74 form part of these financial statements.

The financial statements on pages 54 to 57 were approved by the Board on 15 June 2016 and were signed on its behalf on 15 June 2016 by:



Simon Kirby, Chief Executive and Accounting Officer

Statement of cash flows

		Year ended 31-Mar 2016 £'000	Year ended 31-Mar 2015 £'000
Cash flows from operating activities			
Net operating cost per Expenditure Statement		(34,426)	(33,094)
(Increase) / decrease in trade and other receivables	9	(657)	(669)
Increase / (decrease) in trade and other payables	11	4,666	3,929
Adjustment for non-cash transactions	4	590	928
Net cash outflow from operating activities		(29,827)	(28,906)
Cash flows from investing activities			
(Increase) / decrease in trade and other receivables	9	(3,723)	(3,794)
Increase / (decrease) in trade and other payables	11	26,439	22,273
Purchase of property, plant and equipment	6	(318,569)	(155,842)
Purchase of Intangible Assets	7	-	(480)
Adjustment for other non-cash transactions	4	3,407	3,499
Net cash outflow from investing activities		(292,446)	(134,344)
Cash flows from financing activities			
Capital Grant Funding		322,000	157,000
Net cash inflow from financing activities		322,000	157,000
Net increase / (decrease) in cash and cash equivalents		(273)	(6,250)
Cash and cash equivalents at the beginning of the year	10	5,282	11,532
Cash and cash equivalents at the end of the year	10	5,009	5,282

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

The accrual reversal referenced in Note 7 for Intangible assets is reported within the movement on trade and other payables under operating and investing activities.

The Accounting Policies and Notes on pages 58 to 74 form part of these financial statements.

Statement of changes in taxpayers' equity

	General Reserve £'000	Revaluation Reserve £'000	Total Reserves £'000
Balance at 31 March 2014	(10,670)	-	(10,670)
Changes in Taxpayers' equity for 2014-15			
Net operating cost for the year	(33,094)	-	(33,094)
Funding from Department for Transport	157,000	-	157,000
Balance at 31 March 2015	113,236	-	113,236
Changes in Taxpayers' equity for 2015-16			
Net operating cost for the year	(34,426)	-	(34,426)
Revaluation on Assets under Construction	-	3,443	3,443
Funding from Department for Transport	322,000	-	322,000
Balance at 31 March 2016	400,810	3,443	404,253

The Accounting Policies and Notes on pages 58 to 74 form part of these financial statements.

Notes to the financial statements

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRSs. As a Non-Departmental Public Body, the Company also adopts the interpretations of IFRS and additional disclosure requirements contained in the Government Financial Reporting Manual for 2015/16 (FRoM), where these are compatible with the requirements of the Companies Act. Where this framework permits a choice of policy, the accounting policy judged to be most appropriate to the particular circumstances of HS2 Ltd for the purpose of giving a true and fair view has been selected. The particular policies adopted by HS2 Ltd are described below and have been applied consistently in dealing with matters considered material to the accounts.

1.1. Accounting convention

These accounts have been prepared under the historical cost convention, with the exception of certain non-current assets, which are measured on a current cost basis, as described below. The accounts have been prepared on a going-concern basis for the reasons set out in the Directors' Report.

1.2. Going concern

The Financial Statements have been prepared on a going-concern basis, which the Directors believe to be appropriate for the reasons given in the Directors' Report.

1.3. Grant-in-aid

The Company is entirely funded by grant-in-aid from the DfT. The Company's policy is to treat all grant-in-aid as equity financing from its controlling party and single shareholder, the DfT, and credited to reserves in accordance with the FRoM.

1.4. Property, plant and equipment

Recognition

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

Property, plant and equipment usually comprises single assets. However, capitalisation is applied on a grouped basis using a threshold of £1,000 where the elements in substance form a single asset. Further, where an item includes material components with significantly different

useful economic lives, those components are capitalised separately and depreciated over their specific useful economic lives.

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

Measurement

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

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

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

- All property, plant and equipment, other than railway infrastructure assets, are considered to be relatively short-life or low-value assets and are valued on the basis of depreciated historic cost as an approximation of fair value.
- Railway infrastructure assets, when complete and available for their intended purpose, will be valued in accordance with IFRS and any compatible interpretations in the Government's Financial Reporting Manual. During the construction period, such assets are valued at current cost and are subject to an annual revaluation. HS2 Ltd uses relevant indices published by the Office for National Statistics (ONS) and the Investment Property Databank (IPD).

Annual revaluation increases are credited as unrealised gains to the Revaluation reserve and decreases are charged to the Revaluation reserve to the extent there is a credit balance; thereafter they are charged to the Statement of Comprehensive Net Expenditure (SoCNE). Exceptionally, revaluation increases are credited to the SoCNE where they arise from the reversal of a loss previously charged to the SoCNE.

Impairment

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

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

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

Disposals

When scrapping or disposing of a PPE asset, the carrying amount is written off to the SoCNE and a loss (or gain) is recognised and reported net of any disposal proceeds. Any revaluation gains that have accumulated for the asset in the Revaluation reserve are transferred to the General reserve.

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

1.5. Intangible assets

Recognition

Expenditure on intangible assets 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 are appended. Otherwise, expenditure on intangible assets which fall below £1,000 is charged as an expense in the Statement of Comprehensive Net Expenditure.

Measurement

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

Impairment

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

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

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

Disposals

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

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

1.6. Depreciation/amortisation

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

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

- Leasehold improvements: over the term of the lease
- Plant & equipment: 3 years
- Information technology equipment: between 3 and 20 years
- Website: 3 years
- Software: 3 years or the term of the licence

1.7. Property acquisition

Properties acquired under the safeguarding directions for the Phase 1 route are purchased by the Department for Transport (DfT) on behalf of the Secretary of State for Transport and are recognised as assets in the DfT's financial statements.

Consequently, the Company does not accrue or make provision for the acquisition of property in the name of the Secretary of State. Where the DfT has given an undertaking to property owners within the Safeguarding Area in the name of the Secretary of State which promises to purchase a property within a designated timeframe, then a provision for the value of any promissory notes not redeemed at the balance sheet date is reported in the DfT's financial statements.

HS2 Ltd manages the portfolio of properties acquired by the DfT for the HS2 programme and recovers its external management costs from and remits rental income to the DfT.

1.8. Intra-Government balances

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

1.9. Taxation

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

1.10. Value added tax

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

1.11. Provisions

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

1.12. Contingent liabilities

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

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

1.13. Estimation techniques used and changes in accounting estimates

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

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

made and then applied in a uniform manner for all costs managed by the business unit with some minor exceptions where a different treatment is justified.

1.14. Leases

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Statement of Financial Position at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of HS2 Ltd are added to the carrying amount of the asset, where appropriate. Premiums paid on entry into a lease are applied to writing down the lease liability.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to HS2 Ltd at the end of the lease period).

Operating Leases

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

1.15. Prior year adjustment

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

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

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

1.16. 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 2016 and have not been applied in these financial statements. The following standards may need to be adopted by HS2 Ltd in subsequent periods:

- IFRS 9 (Financial Instruments), which replaces parts of IAS 39, deals with classification and measurement and impairment of financial assets and financial liabilities. It aims to improve and simplify the reporting of financial instruments. Application is required for periods beginning on or after 1 January 2018. The impact of IFRS 9 is not expected to be significant for HS2 Ltd and existing measurement approaches will continue to be appropriate.

High Speed Two (HS2) Limited

- The International Accounting Standards Board (IASB) has issued IFRS 16, which replaces the previous leasing standard IAS 17. IFRS 16 aims to eliminate off-balance-sheet leasing arrangements and requires 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 depends on the type of lease. For property leases, the lessee is required to recognise the expenditure on a straight-line basis; HS2 Ltd currently has operating leases for its office premises and recognises costs on a straight-line basis as the new standard requires but does not yet include asset and liability values on its balance sheet. Application is required for periods beginning on or after 1 January 2019. 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 2015/16 and not applied, which would materially affect the Company's financial statements. Other changes coming into effect after 2015/16 are considered to have no material impact on HS2 Ltd.

2. Statement of expenditure by operating segment

The Executive Team and Board receive a monthly report which sets out expenditure against the allocated budgets for the financial year. The report covers the results of both HS2 Ltd ("the Company") and the HS2 Programme and reflects the way in which HS2 Ltd is managed. The figures below relate only to HS2 Ltd and do not include expenditure reported by DfT.

The reporting format has evolved during 2015/16 and will continue to evolve in 2016/17 to meet the Company's needs for financial information for the HS2 Programme. The Finance & Commercial Report for March 2016 shows the analysis below and includes capital expenditure on tangible and intangible assets. The data for 2014/15 is re-presented here on a comparable basis and has been modified only to include other capital compared to the disclosure in 2014/15. The report does not include a balance sheet but does report on capital expenditure against budget.

Year ended 31 Mar 2016	Resource	Capital	Total
	Expenditure	Expenditure	
	£'000	£'000	£'000
Phase One: between London and the West Midlands	-	305,620	305,620
Phase Two: between Birmingham and Leeds and Manchester	31,308	-	31,308
Other Capital	-	12,891	12,891
Administration	3,118	-	3,118
Total Net Expenditure	34,426	318,511	352,937
Analysed as to:	£'000	£'000	£'000
Programme Costs	31,308	318,511	349,819
Administration Costs	3,118	-	3,118
Total Net Expenditure	34,426	318,511	352,937
Year ended 31 Mar 2015	Resource	Capital	Total
	Expenditure	Expenditure	
	£'000	£'000	£'000
Phase One: between London and the West Midlands	9,921	145,593	155,514
Phase Two: between Birmingham and Leeds and Manchester	18,743	-	18,743
Other Capital	-	10,890	10,890
Administration	4,430	-	4,430
Total Net Expenditure	33,094	156,483	189,577
Analysed as to:	£'000	£'000	£'000
Programme Costs	28,667	156,483	185,150
Administration Costs	4,427	-	4,427
Total Net Expenditure	33,094	156,483	189,577

3. Staff numbers and costs

			Year ended 31-Mar 2016 Total	Year ended 31-Mar 2015 Total
	Direct employees 2015/16	Other personnel 2015/16		
Whole time equivalent persons employed - average for the year	601	317	918	605
Staff costs comprise:	£'000	£'000	£'000	£'000
Wages and salaries	39,939	39,565	79,504	44,477
Social security costs	4,526	183	4,709	2,693
Other pension costs	3,000	284	3,284	1,094
Chairman and Non-Executives fees	493	-	493	632
Total staff costs	47,958	40,032	87,990	48,896
Non-cash items include:				
Capitalised expenses (Staff costs)			(76,067)	(37,802)
Total non-cash costs			(76,067)	(37,802)
Total staff costs in statement of net expenditure			11,923	11,094

Fees and salaries paid to HS2 Ltd Directors are set out in the Remuneration Report (page 32).

During 2015/16, HS2 Ltd made a compensation payment of £34k for one agreed departure, which was not covered by the Civil Service Compensation Scheme. HM Treasury approval was obtained. No such payments were made in 2014/15.

Staff seconded from other Government bodies, together with contract and agency personnel, are shown under 'Other personnel'. The costs of HS2 Ltd's development partner, CH2M Hill, which is working alongside HS2 Ltd staff, are included under Professional services (Note 4).

4. Other expenditure

		Year ended 31-Mar 2016 Capital	Year ended 31-Mar 2016 Resource	Year ended 31-Mar 2015 Capital	Year ended 31-Mar 2015 Resource
	Note	£'000	£'000	£'000	£'000
Non-staff expenditure includes:					
Professional services		179,579	14,692	82,490	14,536
Licences and surveys		3,417	338	756	142
Communication and Information Technology		14,743	2,446	8,636	2,129
Operating Lease costs		4,120	700	1,878	720
Accommodation costs		6,100	1,037	4,810	1,843
Property advice and valuation		7,091	1,482	2,689	461
Legal costs		3,853	260	339	618
Travel and subsistence		2,219	327	650	225
Auditors' remuneration and expenses		-	70	-	60
Recruitment fees		1,581	249	582	122
Other costs		3,443	1,403	1,462	846
Costs related to National College for High Speed Rail			497	-	-
Costs reimbursed by the DfT	16		(1,588)	-	(629)
		<u>226,146</u>	<u>21,913</u>	<u>104,292</u>	<u>21,072</u>
Non-cash items include:					
Depreciation of tangible assets		3,232	561	3,009	813
Amortisation of intangible assets		114	20	434	108
Loss on disposal of fixed assets	6, 7	61	9	56	7
Total non-cash costs		<u>3,407</u>	<u>590</u>	<u>3,499</u>	<u>928</u>
Total other expenditure		<u>229,553</u>	<u>22,503</u>	<u>107,791</u>	<u>22,000</u>
		<u>226,146</u>	<u>21,913</u>	<u>104,292</u>	<u>21,072</u>
		<u>3,407</u>	<u>590</u>	<u>3,499</u>	<u>928</u>
		<u>229,553</u>	<u>22,503</u>	<u>107,791</u>	<u>22,000</u>

5. Taxation

No liability to pay UK Corporation Tax arose in the two years ended 31 March 2016.

6. Property, plant and equipment

All assets are owned and there are no assets under a finance lease. The leasehold improvements and IT equipment headings include assets under development amounting to £271k and £1,231k respectively which are not available for use at the yearend and therefore have not yet been depreciated. (2014/15 - £1,004k and £2,290k). In 2015/16 HS2 Ltd reviewed and updated the useful economic lives of all its PPE assets in accordance with its accounting policy. Generally, asset lives have been extended resulting in a consequent reduction in the depreciation charge for the year.

	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
Cost or valuation				
At 1 April 2015	145,593	7,296	11,982	164,871
Additions	305,620	9,197	3,752	318,569
Disposals	-	(1)	(89)	(90)
Revaluations	3,443	-	-	3,443
At 31 March 2016	454,656	16,492	15,645	486,793
Depreciation				
At 1 April 2015	-	1,004	6,146	7,150
Charged in year	-	1,758	2,035	3,793
Disposals	-	(1)	(19)	(20)
At 31 March 2016	-	2,761	8,162	10,923
Net book value at 31 March 2016	454,656	13,731	7,483	475,870
Net book value at 31 March 2015	145,593	6,292	5,836	157,721

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

7. Intangible assets

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

	Website £'000	Software £'000	Total £'000
Cost or valuation			
At 1 April 2014	250	737	987
Opening balance adjustment	-	167	167
Additions	-	313	313
Disposals	(86)	(68)	(154)
At 31 March 2015	164	1,149	1,313
Depreciation			
At 1 April 2014	52	389	441
Charged in year	83	460	543
Disposals	(61)	(49)	(110)
At 31 March 2015	74	800	874
Net book value at 31 March 2015	90	349	439
Net book value at 31 March 2014	198	348	546

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

8. Impairments

No impairments have been recognised in both 2014/15 and 2015/16.

9. Trade receivables and other current assets

	31-Mar	31-Mar
	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Other receivables	9,587	5,098
Prepayments and accrued income	325	434
	<u>9,912</u>	<u>5,532</u>
Comprising balances with:		
Department for Transport - Other reimbursements	472	221
Other Central Government Bodies	8,693	4,776
Bodies External to Government	747	535
	<u>9,912</u>	<u>5,532</u>

10. Cash and cash equivalents

	31-Mar	31-Mar
	2016	2015
	£'000	£'000
Balance at 1 April	5,282	11,532
Net change in cash and cash equivalent balances	(273)	(6,250)
Balance at 31 March	<u>5,009</u>	<u>5,282</u>

Cash is held in commercial bank accounts.

11. Trade payables and other current liabilities

	31-Mar 2016 £'000	31-Mar 2015 £'000
Amounts falling due within one year:		
Trade payables	3,437	1,554
Accruals	83,348	54,184
	<u>86,785</u>	<u>55,738</u>
Comprising balances with:		
Other Central Government bodies	33,354	13,909
Local Authorities	469	1,010
Bodies External to Government	52,962	40,819
	<u>86,785</u>	<u>55,738</u>

12. 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.

13. Commitments under leases

	31-Mar 2016 £'000	restated 31-Mar 2015 £'000
Not later than one year	7,402	7,347
Later than one year and not later than five years	22,174	25,138
Later than five years	16,797	21,235
	<u>46,373</u>	<u>53,720</u>

The Company occupies business premises in London and Birmingham and these arrangements are treated as operating lease obligations as shown above, in accordance with IAS 17. The Company has no finance leases. The commitment shown at 31 March 2015 has been re-stated to reflect only the future minimum lease payments up to the break clauses in the leases. In 2014/15, the commitment of £77,550k included the period beyond the break clauses.

14. Other commitments

Financial commitments, which were contracted but not provided for in the financial statements, comprised £25.3m at 31 March 2016 (2014/15: £23.2m). Of these, contracted capital commitments at 31 March 2016 not otherwise included in these financial statements were as follows:

	31-Mar 2016 £'000	31-Mar 2015 £'000
Financial commitments	25,343	23,158
Property, plant and equipment	195	214
Intangible assets	-	-
Contracted capital commitments at 31 March	195	214

15. Contingent liabilities

Contingent liabilities are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation has become probable or a transfer of economic benefits has become probable, a provision is made. None of these represent a current liability for HS2 Ltd at 31 March 2016, but some will result in an obligation to transfer cash in the future, depending on one or more relevant future events, including Royal Assent. As such, these are contingent liabilities within the definition of IAS37 Provisions Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- The Company has a potential aggregate contingent liability of up to £4.4m (2014/15 - £2.4m) in relation to incentive payments that may become payable to the HS2 Ltd development partner and 16 Professional Service Contract (PSC) organisations. The incentive amounts are based on performance and achievement of hybrid Bill Royal Assent. 50% of any year's incentive is payable at the end of that year with the remainder held in reserve and disclosed as a contingent liability and is dependent on review of performance at the end of the contracts, now expected to be in 2016/17. Final awards will be subject to Board approval.
- Under the Parliamentary review process for the hybrid Bill, individuals and organisations are able to raise their objections to the HS2 scheme as petitions. As a result, HS2 Ltd has given a number of assurances to petitioners, which will inform the planning, design and future construction of Phase 1. In certain cases, HS2 Ltd has undertaken to provide a form of compensation to those directly affected by the construction and operation of the railway which does not form part of the design and plans for the railway. These liabilities are contingent upon Royal Assent to the Bill and obligations will not arise until after Royal Assent is granted or later. It is not possible to quantify with certainty the value of these contingent liabilities. Further petitions will be reviewed in the new Parliament. Undertakings and assurances approved and committed at 31 March 2016 total £30.8m. It was not possible to quantify the liabilities reported at 31 March 2015.

- HS2 Ltd has concluded a Framework Asset Protection Agreement with Network Rail Infrastructure Limited ("NR") dated January 2015 which will provide the necessary framework for HS2 Ltd to complete works on or in the vicinity of the NR railway or other property, whilst ensuring the continued safe operation of NR's railway. The agreement includes an uncapped indemnity in relation to all losses suffered by NR because of HS2 Ltd's works. Work is in the planning phase and no claims have arisen under the agreement.
- In addition, HS2 Ltd has entered into agreements providing for access to land and property owned by private individuals and businesses prior to the construction phase. Such agreements provide an indemnity to the property owners for loss or damage caused by HS2 Ltd in the course of its work. It is not possible to quantify the liabilities that may arise in the future with any reliability.

As set out in Note 1.7 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 1 route. Any such contingent liability will be reported in the DfT's financial statements.

16. Related-party transactions

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

- Grant-in-aid amounting to £322m was received from the DfT in the year (2014/15: £157m) as disclosed in the Statement of changes in equity and in the Statement of cash flows.
- The DfT has charged HS2 Ltd £12.7m (2014/15: £6.2m), comprising: £8.4m (2014/15: £3.5m) for compensation paid to railway businesses affected by HS2's plans; £2.5m (2014/15: nil) for Engineering Services; £1.2m (2014/15: £1.7m) for seconded staff; £0.6m (2014/15: £0.5m) for audit services. Accruals of £15.3m (2014/15: £7.0m) for these services are included in Note 11.
- HS2 Ltd has incurred costs on behalf of the DfT of £0.2m (2014/15: £0.6m) in relation to professional fees and staff costs and has recharged these costs in full to the DfT. In addition, the DfT has reimbursed to HS2 Ltd £1.5m (2014/15: £1.1m) for net expenditure on property which HS2 Ltd manages on behalf of the DfT, £1.2m for UCL datacentre relocation costs and £0.2 in relation to Northern Powerhouse expenditure.
- Network Rail has charged HS2 Ltd £23.6m for engineering services (2014/15: £8.1m) and £1.3m (2014/15: £2.1m) for seconded staff and ancillary services. Accruals of £6.2m (2014/15: £4.4m) for these services are included in Note 11. Richard Brown, a Non-Executive Director of HS2 Ltd, appointed by the Secretary of State for Transport is also a Non-Executive Director of Network Rail.

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.

17. Losses and special payments

Managing Public Money requires HS2 Ltd to provide a statement showing losses and special payments by value and by type where they exceed £300,000 in total and those that, individually, exceed £300,000. No losses or special payments exceeded the threshold value individually. Losses and special payments in 2014/15 were below the £300,000 threshold.

Losses Statement	31-Mar 2016	31-Mar 2015
Total Number of cases	21	-
Total Amount (£000)	45	-

The losses disclosed above include the court fees and interest for two late payments, the legal costs for an Employment Tribunal, 17 laptops which are unaccounted for at the year end and the write off of a season ticket loan.

Special Payments	31-Mar 2016	31-Mar 2015
Total Number of cases	3	-
Total Amount (£000)	257	-

The special payments include a death in service payment, an exit payment and a small payment into an employee leaver's pension plan.

18. Events after the reporting period

These financial statements are laid before the Houses of Parliament. The International Accounting Standards (IAS10) require the Company to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General signs the audit certificate (page 52 to 53).

19. Ultimate controlling party

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

20. 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 2016 there was one member, the Secretary of State for Transport.