

# HS2

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HS2

Annual Report & Accounts 2017 – 2018

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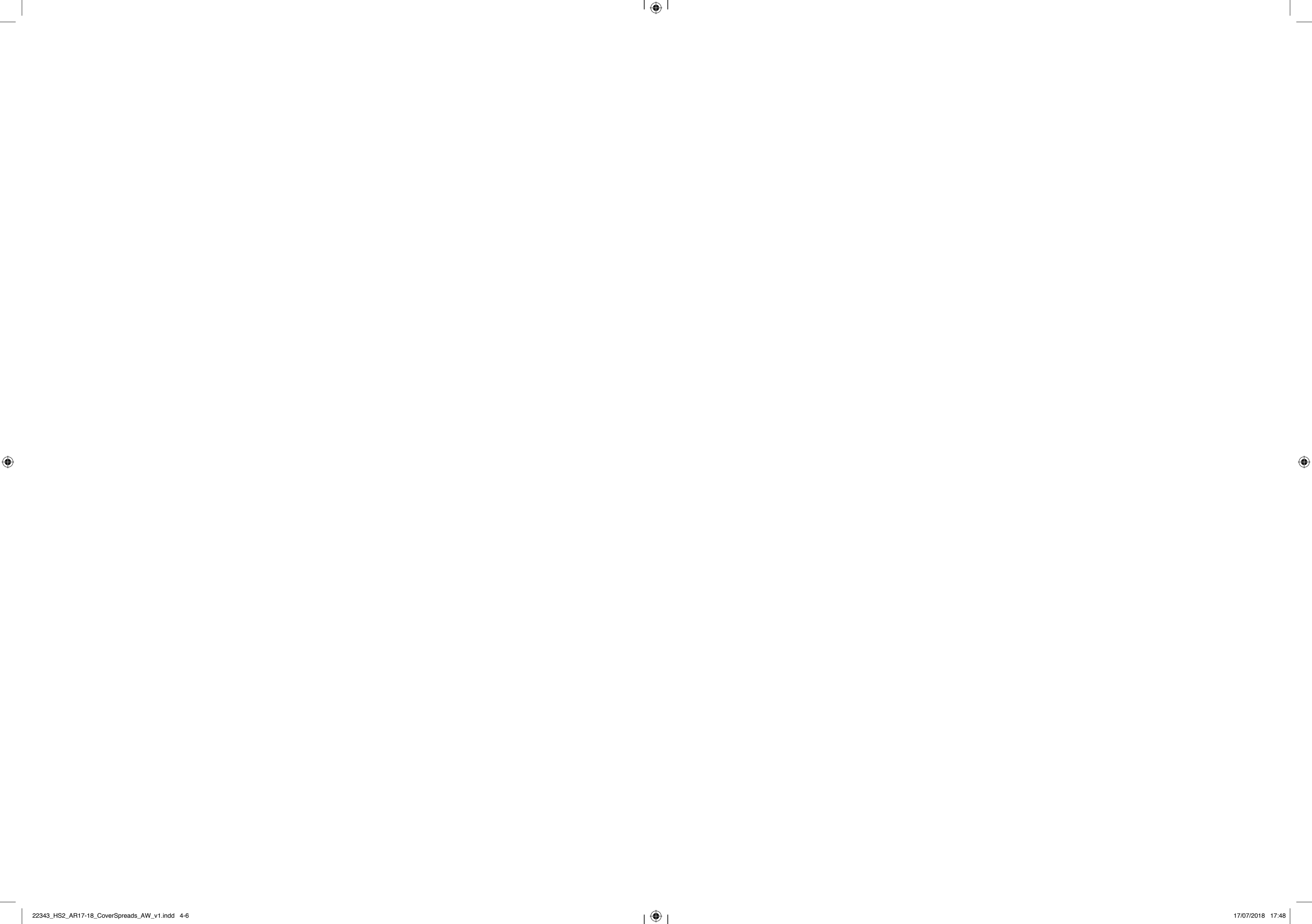
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# HS2

**Annual Report  
& Accounts**  
**2017 – 2018**



HC1390





# High Speed Two (HS2 Limited) Annual Report & Accounts 2017 – 2018

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## Introduction





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## Chair's introduction



**When the history of High Speed Two comes to be written a number of things will, I think, stand out. The first will be the sheer scale of the project: 553 km (343 miles) running down the spine of the country – the first major railway to be built north of London for 150 years. The second will be the different topographies and geographies it runs through: from urban London, Birmingham and Manchester, to rural, less densely populated areas. This is truly a national project.**



But while the physical attributes are, and will remain, awesome, I hope and think High Speed Two (HS2) Ltd will be seen to have delivered more than a railway.

Because HS2 is not an end in itself, but rather a means to an end – and that end is, in part, a more balanced, and therefore more prosperous national economy in which productivity in the Midlands and the North more closely matches that of London. But an economy, also, in which skill levels and innovation have been permanently raised by the process of constructing HS2.

It has been that vision which has created, and sustained, bi-partisan support for HS2 at both a national and regional level against an uncertain economic and political backdrop.

But HS2 has to be about more than economics. It also has to fit into the national landscape and into the lives of the communities it goes through by helping create a 'Green Corridor' linking wildlife and amenity spaces running alongside the railway. How well it does that will also be part of its legacy and the subsequent judgement of history.

This report outlines in detail the progress that has been made during the past year in working towards the start of construction for Phase One; in introducing legislation to Parliament, the part for Phase 2a that runs from Birmingham to Crewe; and preparing legislation for Phase 2b, the rest of the line to Manchester and Leeds.

But it has been a year which has also seen a step change in our approach to engaging communities and the support we give to those we impact, as well as our efforts to develop concepts such as the Green Corridor for both wildlife and amenity spaces to run alongside the railway.

That progress would not have been possible without the expertise, commitment and imagination shown by staff throughout HS2 Ltd under the leadership of the Chief Executive, Mark Thurston, and his colleagues on the Executive.

It would also, however, not have been possible without the support and understanding of those working in central and local Government, as well as the many stakeholders we engage with, whether they represent communities, other stakeholders or business.

Delivering a project on the scale, complexity and multi-dimensionality of HS2 will never be without its challenges and tensions. Sometimes we will get it right. Sometimes we may not get it right. But what is vital is that we continue to listen and learn as we progress, and that we keep our eye on the outcomes we are trying to achieve and on which history will judge us.

And, finally, since is my last annual report before stepping down as Chair, I would like to thank my fellow Board members for their hard work, dedication and insight. They have brought both an individual expertise and collective perspective that has proved invaluable to the project in general and to me personally.

At heart, I think, we have had one thing in common: that we all believe that HS2 is not just a massive undertaking, but one that is of huge significance for the future of the country. It has been a privilege both to work on the project and to work with my fellow Board members and HS2 Ltd personnel. I thank them wholeheartedly and wish both them, and the project, well for the future.

**Sir David Higgins**  
Chair

## CEO's review



**In the 12 months since April 2017, we have successfully transitioned from development into delivery on Phase One and have seen unprecedented progress across all Phases of the programme.**

At the same time we have continued to mature HS2 Ltd as an organisation, completing the consolidation of our organisation in our new headquarters in Birmingham, where we now have over 900 of our people based, and we are increasingly drawing our contractors to the West Midlands, which is at the heart of our network.

We have also continued to support key stakeholders like the National College for High Speed Rail to open their two campuses in Doncaster and Birmingham to their first intake of apprentices and students.

In our Corporate Plan 2017-2020 we set ourselves 13 key performance indicators (KPIs) that we have used to measure our performance. A review of our performance against these KPIs is set out in the Strategic Report (page 20-25).

## During the year

- We appointed our Main Works Civils Contractors for Phase One in July 2017. £6.6 billion of contracts split over seven geographical areas were awarded to four Joint Ventures (JVs) which combine major UK contractors and European contractors with expertise of high speed railways on the continent. This approach helped us to build resilience into our contract structure and reduces risk.
- We made significant progress in the Parliamentary process for Phase 2a. The HS2 Phase 2a: High Speed Rail (West Midlands to Crewe) Bill was deposited in July 2017 and on 30 January 2018 it passed its Second Reading in the House of Commons by 295 votes to 12. This in turn allowed the Bill to progress to the petitioning period and for the Select Committee of MPs to begin their detailed scrutiny of the Bill in March 2018.
- The full route for Phase 2b from Crewe to Manchester, and from Birmingham to Leeds, was confirmed by the Secretary of State. This allowed us to launch the consultations for the initial route designs that will be included in our third hybrid Bill expected to be deposited

in 2019. To support the preparation of the initial designs we also successfully embedded our Phase 2b Development Partner, Bechtel, in our Birmingham office.

- We appointed the Euston Master Development Partner, Lendlease, who, with us is working with the Greater London Authority and London Borough of Camden to develop a masterplan for the 54 hectare station site and to take forward opportunities for sustainable mixed-use development.
- We launched major procurements across the project, including the £2.75 billion rolling stock contract to build and maintain our initial fleet of trains; and the Station Construction Partner contracts of £1.3 billion for Old Oak Common station and £1.7 billion for Euston station.
- We undertook a step change in the volumes of land and property acquisitions we carried out, handling 819 applications under the property compensation schemes and acquiring 208 properties. In total, land and property accounted for approximately 50% of our total capital investment and at year's end we are managing over 720 properties across the country.

Safety has remained at the heart of everything we do and, as one of our core values, our first consideration is always the health and wellbeing of the general public and those we work with, whether directly in HS2 Ltd or indirectly through the supply chain. In February we launched our Mental Wellbeing Policy, and we have signed up to the 'Time to Change' commitments for mental health. Over the past 12 months we have continued to improve our Health and Safety performance and as a result we have had no serious incident or injuries to anyone in our workforce. We will continue to drive a culture of proactive reporting of safety hazards and as our contractors mobilise their workforce for the start of construction on Phase One, health, safety and wellbeing will remain our first priority.



## CEO's review continued

### Our challenges

The year has not been without its challenges. As the scale and complexity of the project has grown over the last year, we have continued to mature as an organisation, and we have learned important lessons. These learnings have helped us to improve our organisation to ensure we are better equipped to deal with the challenges ahead. That has meant changes in the way we are structured, our systems and processes, the culture and behaviours of our staff, and how we measure our performance.

We have made substantial improvements to our controls systems to address weaknesses identified by the National Audit office (NAO) in last year's audit. We have also reset our Corporate Governance framework within HS2 Ltd and all our staff have undergone a re-induction process led by senior management to underline the importance of our public accountability.

Early in 2018 we worked through the change to one of our Main Works Civils Joint Ventures, CEK JV, following the liquidation of one of the partners, Carillion Construction Limited. Our Joint Venture contract structure meant our supply chain was sufficiently resilient and so there has been no impact on the progress of the project.

As the scale and complexity of the Company's activities have grown over the past year, it has become apparent that we need to improve our community engagement approach to match it, and this is something we will continue to progress in the years ahead. In response to that challenge, we published our Community Engagement Strategy in September 2017, which sets out our commitments to being a good neighbour and is an important step in further improving our engagement approach.

This has been a challenging first year in post as CEO, but one that has seen a number of notable successes across the programme and Company.

Throughout the year we have continued to form a more defined relationship between HS2 Ltd and the Department for Transport (DfT), working together to develop clearer accountabilities, and greater levels of delegations.

The relationship between the Board and the HS2 Ltd Executive has been refreshed with our new governance regime and the Board is providing greater levels of support to the project through the Board sub-committee structure.

Following the restructure of the Company we have also focused on getting the right people into post and we have made a number of senior appointments through the year. HS2 Ltd now has an effective and talented Executive Leadership Team in place to support the delivery of our shared objectives for the year ahead. Alongside this we have focused on improving communication with our employees and developing the right cultures and behaviours across the organisation which will enable success and create the resilience we need for what is in front of us.

## Look ahead

Looking to the year ahead, 2018/19 is going to be the biggest year so far in terms of the scale of the task we will be undertaking, and this will be the first of five years of major capital investment for the Company. By the end of the financial year we expect our Main Works Civils Contractors to complete their scheme design and the associated Schedule 17 planning approvals, and afterwards to start detailed design and construction works.

We will continue to support the DfT in seeking the Parliamentary permissions we need to build Phase Two of the railway, progressing through the remaining stages for Phase 2a in the House of Commons and working toward the House of Lord's scrutiny of the Bill for a target Royal Assent date in December 2019.

For Phase 2b we expect to complete our initial preliminary designs for the route by summer 2018, bringing us a step closer to delivering the transformative benefits of HS2 in the East Midlands and South Yorkshire, as well as Northern cities.

We will launch our Skills, Employment, and Education Strategy to outline our approach to maximising the economic benefits of the HS2 Programme via a co-ordinated programme of skills, employment and education interventions.

This summer will see the launch of our Green Corridor vision, setting out how HS2 will support the natural environment through a network of linked wildlife habitats along the Phase One and Phase Two routes.

Our programme of key procurements will also continue, including for rolling stock.

Throughout the year ahead we will remain focused on ensuring we deliver value for money to the UK taxpayer, whilst continuing to focus on the health and safety of our workforce. We will continue to deliver a railway that will stand the test of time and that history will judge to have made a real and positive difference to Britain, economically, socially and environmentally.

### Mark Thurston

Chief Executive and Accounting Officer

# Highlights of the year

**£6.6bn**  
MWCC

July 2017 – completed procurement of Phase One Main Works Civil Contractors (MWCC) – four JVs, seven work packages, estimated £6.6 billion



Full route for Phase 2b confirmed by Secretary of State and launch of initial consultations on route designs which will inform the next hybrid Bill



Phase 2a hybrid Bill deposited in Parliament and passed key Second Reading with strong cross-party Parliamentary support

**8,000**  
site investigations

Enabling Works Contractors began key site clearances, archaeology surveys, and carried out the largest ever programme of ground investigations in this country – 8,000 site investigations and millions of lab tests





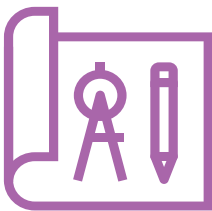
Launched our HS2 Community Engagement Strategy – setting out our commitments to being a good neighbour and respecting communities and the environment they live in

100  
new apprentices

100 new apprentices in total across the project – 25 direct HS2 Ltd apprentices, along with 75 new apprentices starting with our contractors

£695,000  
grants

£695,000 of grants awarded to local community projects through the Community Engagement Fund and Business and Local Economy Fund (CEF and BLEF)



Selected Lendlease as the Euston Master Development Partner who will lead the development of a masterplan for the 54 hectare station site



# Strategic Report





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# Business model

## Remit and scope

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

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

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

- Phase One between London and the West Midlands by 2026. The Phase One hybrid Bill received Royal Assent in February 2017, and Enabling Works have been underway throughout the year including; site clearance, ecological surveys and Ground Investigations. £6.6 billion of Main Works Civils Contracts (MWCC) split over seven packages were awarded to four JVs in July 2017. Notices to Proceed are expected to be issued to the MWCCs in 2019 to authorise main construction work to commence.

- Phase Two infrastructure is being delivered in two parts; the West Midlands to Crewe section, (Phase 2a) is proposed to open in 2027, and the remainder of Phase Two, Crewe to Manchester and the West Midlands to Leeds (Phase 2b) is due to open in 2033. There will be a separate hybrid Bill for each phase, with the Phase 2a Bill currently going through its remaining Parliamentary stages in the House of Commons following a successful Second Reading on 30 January 2018. In July 2017 the Secretary of State confirmed the full route for Phase 2b allowing us to begin preparations for a Phase 2b Bill deposit intended for 2019.

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

## Relationship with the Department for Transport

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

## The Framework Document

The Framework Document sets out the requirements and expectation on us as a public body and covers issues such as the appointment of the Board, risk management protocols, expectations for HS2 Ltd financial management, and controls on expenditure. The Framework Document was revised in May 2018 and can be found through the following link:

<https://www.gov.uk/government/publications/hs2-ltd-framework-document-may-2018>

## The Development Agreement

The HS2 Development Agreement was updated and published in July 2017. The Development Agreement sets out HS2 Ltd's role in developing, building and operating the new railway and the DfT's role as sponsor and client.

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

- set the scope of the programme;
- provide the necessary funding to HS2 Ltd;
- be held accountable for both the business case and delivery of the benefits;
- be responsible for gaining the necessary Acts of Parliament;
- own the relationships with Ministers and Government bodies; and
- decide how the railway will be operated, 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
- act as the proxy operator and the infrastructure manager of the railway, working with the West Coast Partner to be appointed by the DfT.

The Development Agreement can be found through the following link:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/629173/hs2-development-agreement-july-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/629173/hs2-development-agreement-july-2017.pdf)

## Company strategy

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

We will build a new high speed railway to better connect people across Britain, linking into the existing rail network to provide a seamless passenger experience. As a high performing, innovative organisation, we will deliver value for money by applying worldwide design and construction techniques.

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



We will be a catalyst for economic growth.



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



We will be good neighbours and protect the natural environment.



We will foster skills and create new employment opportunities.



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



We will deliver value for money to the taxpayer.



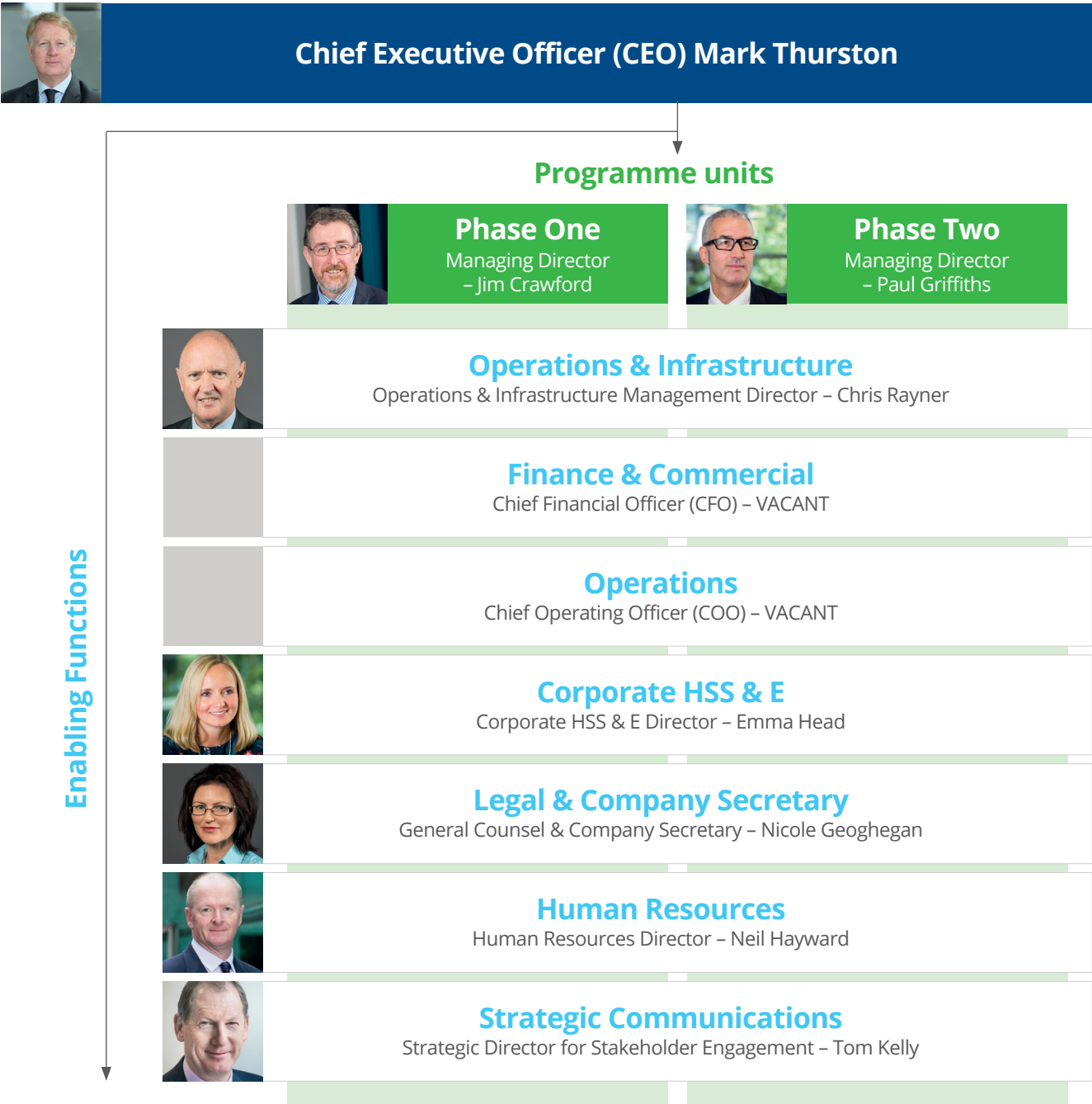
We will set new standards for customer experience.

## Corporate and business plans

As required in the Framework Document, HS2 Ltd produces an annual Corporate Plan providing a rolling three-year forward look and a review of the previous year against the plan. The 2018–2021 Corporate Plan is a key document allowing us to be measured against our KPIs.

# Business model continued

## Business model and organisational development





During the past 12 months HS2 Ltd has made real progress in preparing the way for all phases of the project. We have transitioned into delivery and taken on the role as ‘responsible client’ for our growing supply chain, acting as the top level integrator for HS2 and working with our supply chain collaboratively and sustainably to ensure the right outcome. The scale of the project has meant we are continually looking for innovation from our supply chain in the way we manage our contracts and approach our procurements.

At the start of the 2017/18 Financial Year, we concluded the relocation of our headquarters from Canary Wharf in London to Snowhill in Birmingham. We also completed a companywide restructure as part of our ‘Developing our Company’ project, enabling us to roll out a new fit-for-purpose governance regime and increased delegations and accountabilities.

HS2 Ltd now operates as a matrix organisation, so our Executive structure consists of Programme Units and Enterprise Units. The authority is shared between the Programme Unit teams and Enterprise Unit teams.

## Workforce

The HS2 Ltd workforce has to be flexible, to ensure we have the right skills in place at each stage of the project. It is made up of: permanent employees; secondees; apprentices; contractors; and agency staff, working in a fully integrated organisational structure. A workforce plan is in place setting out current resourcing and we have started to build a longer term Capability RoadMap with identified transition states for future requirements. During 2017/2018 all HS2 staff completed a re-induction programme. This programme covered ways of working as an arm’s length body, an overview of our governance framework, and the rules that we needed to operate within.

## Suppliers and contractors

HS2 Ltd employs specialist suppliers and contractors to perform the services and works that are needed to achieve the objectives of the Company. Suppliers and contractors are procured and managed in accordance with Governmentwide procedures and EU procurement legislation.

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

During the year we worked with one of our contracting JV partnerships for Main Works Civils to manage the liquidation of one of their joint venture partners, Carillion. Two of the Main Works Civils contracts were let to a JV of which Carillion was a one-third member. The other parties to the JV (Kier Infrastructure and Overseas Limited and Eiffage Genie Civil SA) are jointly and severally liable for the contract following the default by Carillion.

The two contracts will be taken forward by Kier Infrastructure and Overseas Limited and Eiffage Genie Civil SA, as a re-constituted JV. The Boards of both companies have given assurance and confirmed that they underwrite the performance of each other and have the capacity to deliver the HS2 contracts under the same terms, including cost and schedule. The collapse of Carillion has had no impact on the progress of the HS2 project.

# Risk management

HS2 Ltd continues to mature its enterprise risk management (ERM) framework in accordance with HM Treasury guidance Management of Risk: Principles and Concepts, the Cabinet Office Framework for the Management of Risk in Government and ISO31000: Risk Management – Principles and Guidelines. The Company's Risk Management Strategy and associated procedures provide clarity of the principles, accountabilities, responsibilities and methodology for the effective implementation of risk management across the enterprise in accordance with our Risk Appetite Statement (summarised below). With safety in our core values, we will not tolerate any risks that could result in injury or loss to the public, passengers or our workforce. Our reputation is influenced by our ability to manage public funds wisely and deliver HS2 on time and within budget and we will only accept low levels of risk in these areas. However, where there are opportunities to accelerate, or increase confidence in, programme delivery, reduce cost or enhance the passenger experience, we are prepared to accept commercial and operational risks. These include stimulating innovation, challenging industry and promoting best practice, both within the Company and our supply chain.

In 2017/18 HS2 transitioned from development to delivery and the year-end audit for 2016/17 identified areas of weakness within the control environment. As a result, in early 2018, our Executive reviewed and refreshed our risk management approach and updated the Company's strategic-level risks, refining and consolidating those previously publicised. The revised risks are summarised below:

- achieving an overall engaging customer proposition including the effective integration with the national rail network;
- managing the underlying uncertainties in the environment for such a long-term programme. These include: political, legislative and standards changes; and economic changes e.g. inflation;
- effects on the strategic business case, from issues e.g. technology (including disruptive) changes and

their effects on forecasting benefits, changing demands and demographics;

- specific external events that may affect confidence in HS2 Ltd's approach;
- maintaining appropriate and effective engagement with communities and across the significant range of stakeholders;
- our ability to develop, control and deliver the programme within the time constraints and funding envelopes;
- engaging an effective supply chain, appropriately incentivised with capacity, skills and structure to achieve the strategic goals;
- effectively managing health, safety and security for a programme of HS2's scale and complexity;
- supporting achievement of wider programme integration and benefits realisation; and
- building, developing and maintaining our organisational leadership, capability and capacity.

Executive owners are identified for these risks and work continues to develop our understanding of the scale of risk associated with each, to fully appreciate the effectiveness of existing controls and to reinforce our management responses. HS2 uses its ERM framework to integrate and monitor these strategic risks and any emerging programme risks that may arise as we accelerate delivery, make major commitments to our supply chain and undertake significant physical work. One emerging risk is the ongoing review by HMRC of HS2's VAT status, expected to be resolved over the coming months. The ERM Framework also monitors the underlying generic risks inherent in our business e.g. business disruption, fraud and bribery, governance and process compliance. Recognising the transition to delivery we have reviewed our approach to risk and assurance and the need to instil programme level risk management and ownership into the business more effectively. A "Risk-Control-Assure" project has been initiated to embed risk-based, control-effectiveness management and assurance and this will be fully implemented in 2018/19.

# Financial review

## Company financial performance for the year ended 31 March 2018

HS2 Ltd is entirely funded by the provision of capital contributions from the DfT. Combined capital and resource expenditure in 2017/18 amounted to £1,160.4 million (2016/17: £499.5 million).

Capital expenditure comprises the cost in the year of Phase One and Phase 2a (post the second reading of the HS2 Phase 2a: High Speed Rail (West Midlands to Crewe) Bill on 30 January 2018), which is being capitalised in accordance with HS2 Ltd's accounting policy and the cost of the development and/or acquisition of HS2 Ltd's leasehold office premises and IT assets. Resource expenditure comprises the costs of Phase 2a (pre 30 January 2018) and Phase 2b which have not yet reached the point of development at which capitalisation can occur.

This year's financial statements for the year ended 31 March 2018 show the following results:

- Capital expenditure of £931.1 million (2016/17: £396.7 million).
- Resource expenditure of £229.3 million (2016/17: £102.7 million).
- Net assets of £1,352.0 million (2016/17: £743.1 million).

A detailed account of HS2 Ltd's finances is provided in the financial statements (page 68–95).

The land and properties acquired to bring the railway into operational condition are purchased by the DfT on behalf of the Secretary of State and are recognised as assets in the DfT's financial statements. They are therefore not included in HS2 Ltd's financial statements.

## Going concern

The development and delivery of HS2 as part of the Government's wider high speed rail agenda is in accordance with the aims of DfT as our sponsor and is funded entirely by capital contribution from the DfT as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013. In November 2015, following a Governmentwide spending review, the level of resources available for HS2 Ltd for 2018/19 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021. £1.78 billion has been included in the main supply estimate for the Department in respect of HS2, further demonstrating support.

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

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

The Statement of Financial Position (SoFP) as at 31 March 2018 shows net assets of £1,352 million.



# Key performance indicators (KPIs)

Category	KPI	Target	How we have performed
<b>Benefits 1</b>	Contribution by contractors to benefits delivery, for example, number of apprenticeships relative to workforce number	Report on progress against all relevant measures and put in place mitigations for any targets or benchmarks that are off track.	100% of reported measures performing within tolerances against target.
<b>Benefits 2</b>	Contribution by HS2 Ltd to benefits delivery, for example, number of apprenticeships relative to workforce number	Report on progress against all relevant measures and put in place mitigations for any targets or benchmarks that are off track.	100% of reported measures performing within tolerances against target.
<b>Health and Safety</b>	Enterprise-level Health and Safety Index	The average across all measures in the index is $\geq 2.2$ .	<p>Overall Enterprise Health and Safety Index score is 0.66. The index is made up of a number of indicators including: Near Miss Reporting Rate; Workforce Engagement; and Weighted Incident Rates. Therefore there are a number of factors that will influence the outcome. Our 2017/18 score is indicative of our current performance and maturity at this stage of the project. The original targets were benchmarked against a number of established programmes and companies.</p> <p>One of the main reasons for the current lower score is due to the type of work HS2 is currently undertaking, which is primarily 'Design' rather than 'Construction' and therefore mostly 'office based'.</p>
<b>Cost Performance 1</b>	Projected programme costs	All works to remain within overall Spending Review funding envelope and the target price for each phase.	The forecast estimate at completion (EAC) remains within the overall spending review funding envelope.
<b>Cost Performance 2</b>	Budget management	Target for annual spend to be within 1% of annual budget, as adjusted at Q3.	Full year outturn (annual spend) = 0.72% under annual budget
<b>Schedule Performance 1</b>	Milestone performance	Deliver to the plan of annual milestones as set out in the Level 0 schedule.	15 of the 16 milestones have been delivered to date. The one remaining milestone (Health and Safety Passport development) is now forecast for early 2019 as agreed with NR & TfL.

Category	KPI	Target	How we have performed
<b>Schedule Performance 2</b>	Phase One Main Works Civils Contract design progress	All Main Works Civils Contractors to deliver Stage 1 designs as per agreed schedule.	The seven Main Works Civils Contractors have successfully completed gateway 2 assessments and overall are on target for the stage 1 delivery schedules.
<b>Quality Performance 1</b>	Percentage of technical requirements and guidance formalised in the Programme Requirements Specification (PRS) and specified into contractual documentation	100% of necessary requirements, tested at Phase One, Phase Two and Railway Operations programme gates and specified into contractual documentation.	Based on the Project Requirements Specification we have issued, and are developing at present, we are on track.
<b>Quality Performance 2</b>	Percentage of PRS technical requirements and guidance adopted into programmes and procurement. Percentage Design Panel recommendations acted on relating to agreed benefits	100% of requirements, tested for compliance at Phase One, Phase Two and Railway Operations and overall programme gates. Acted on 80% of Design Panel recommendations relevant to the 2017/18 period.	A system is in place for technical requirements to move directly into the supply chain once procurements are in place; we have achieved 100% for Early Works Contracts and Main Works Civils Contracts. 95% of all Design Panel recommendations acted on, ahead of target.
<b>Community Engagement</b>	Community Engagement Index	Establish a Community Engagement Index agreed with the Board and begin reporting.	Complete – achieved as part of the first iteration of Community Engagement Dashboard reporting.
<b>Equality Diversity and Inclusion</b>	Percentage of staff with each protected characteristic	Report on all protected characteristics. Exceed industry benchmarks where available: women (13%); black, Asian and minority ethnic (BAME) (6%); and disability (3%).	Women – 35% BAME – 16% Disabled – 6%
<b>Staff Engagement</b>	Staff engagement index	Improve on previous year's score in the staff survey, 63% in 2016.	An all-employee pulse survey was run in March 2018. This survey almost doubled the number of respondents and widened the response pool to all core HS2 employees. We expect engagement results to show a steady improvement when we run the full survey in Q4 of 2018.
<b>Company Capabilities</b>	Delivery of the Capability Programme	Complete the Capability Programme workstreams by end December 2017.	Complete – Capability Programme concluded end of December 2017.

# KPI performance analysis

## Benefits 1

This KPI draws together the performance of the Phase One Enabling Works and Main Works Civils Contractors in achieving the HS2 Programme benefits. Reported benefits include the proportion of small to medium enterprises and UK businesses in our supply chain; the diversity of the supply chain workforce, the number of apprenticeships, and health and safety performance. The benefits measures, and targets or benchmarks for each of the measures have been developed with subject matter experts for each area, based on equivalent industry performance. The measures, targets and benchmarks and an agreed level of tolerance for performance are summarised in the benefits baseline, the first version of which was recently approved for Phase One. The KPI is a summary of the supply chain performance reported in the quarterly benefits report which, since starting in September 2017, has improved both in terms of data quality and reported performance. This has been achieved as a result of increased awareness of the measures by the supply chain and scrutiny by HS2 Ltd leadership.

At March 2018, performance for all reported benefits measures by the supply chain was rated Green, (meeting or exceeding the set targets or benchmarks), or Amber, (below target or benchmark but within the agreed tolerance). Reporting mechanisms are still being developed for benefits measures relating to mitigation of environmental impacts. Community Engagement measures are not currently being reported as they are under review.

## Benefits 2

This KPI, complements the Benefits 1 KPI, by summarising the performance of HS2 Ltd in achieving the HS2 Programme benefits.

Although HS2 Ltd's contribution to the benefits is significantly lower than that of our supply chain, our performance in delivering the benefits is important to show both leadership and integrity. The reported benefits for HS2 Ltd are similar to those of the supply chain, and comprise the proportion of small to medium enterprises and UK businesses in our direct supply chain; the diversity of the HS2 Ltd workforce, the number of apprenticeships and health and safety performance. The benefits measures, and targets or benchmarks, are summarised in the recently approved benefits baseline. The targets or benchmarks for some measures differ from the supply chain to take account of the different capacity and influence of HS2 Ltd to deliver the benefits when compared to our supply chain.

At March 2018, performance for all reported benefits measures for HS2 Ltd was rated Green, (meeting or exceeding the set targets or benchmarks), or Amber, (below target or benchmark but within the agreed tolerance).

## Health and Safety

The HSPI is an index, made up of a number of indicators including Near Miss Reporting Rate, Workforce Engagement and Weighted Incident Rates. Therefore there are a number of factors that will influence the outcome.

The score of 0.66 in 2017/18, is not within our target banding of 1.5 or above (with 2.2 being where we aspire to be), and is indicative of our current performance and maturity at this stage of the project. The original scores were benchmarked against a number of established programmes and companies. One of the main reasons for the current lower score is due to the type of work HS2 Ltd is currently undertaking, which is primarily 'Design' rather than 'Construction' and therefore mostly 'office-based'.

## Cost Performance 1

The forecast estimate at completion (EAC) remains within the overall Spending Review Funding Envelope which is based on a p95 budget value.

## Cost Performance 2

HS2 Full year outturn was 0.7% below the Supplementary Estimate agreed at Q3 forecast.

## Schedule Performance 1

The corporate plan milestones for 2017/18 were set during the 2017 Business Planning process, and constituted 13 milestones. As at the end of 2017/18, 12 of the milestones are complete (92%) and 10 were completed within one month of the baseline date (77%). The one milestone missed was Launch of the Industry Wide Safety Passport, this was due to ongoing discussions with Network Rail and DfT.

## Schedule Performance 2

The four Main Works Civils Contractors (MWCC – seven contracts) completed Gateway 2 assessments during Month 6 of Stage 1. Overall, they are on target for the Stage 1 delivery schedules with each MWCC demonstrating their respective level of confidence in achieving Key Dates. The focus is to identify initiatives to reduce schedule durations, identifying innovations to convert opportunities, and also identifying concerns and areas of focus for Gateway 3 and beyond. Gateway 3 reviews occurred during April 2018.

## Quality Performance 1

The Project Requirements Specifications (PRS) have been developed to support the phased development of the HS2 Programme. For each delivery Phase the requirements contained within the PRS have matured over time to support key procurement activities. To date, the Phase One PRS was released to support Main Works Civils Contracts and Stations contracts (instructed into contracts via Contracts Requirements Technical (CRT)). Work is underway to get this updated for Rail Systems procurement. Given the stage of 'Design' development, these requirements will become more defined as HS2 progresses into Construction Phase. Phase 2a PRS and Phase 2b PRS have predominately been focused around the Parliamentary Design Stage.



# KPI performance analysis continued

## Quality Performance 2

The requirements contained within the PRS are directly allocated as per the HS2 Enterprise workbreakdown structure and apportioned to CRT via the requirements management system DOORS. Given the stage of development on Phase One, we have yet to receive the compliance verification evidence from the Phase One directorate for Main Works Civils Contracts and Stations. Reporting dashboards are being put in place to help monitor these as we progress further into detail design and construction.

The HS2 Design Review Panel was set up to provide independent professional expertise and advice to HS2 Ltd on the quality of design of all aspects of the HS2 operation. The Design Panel does not make design decisions, but offers impartial recommendations to HS2 Ltd on improving the quality and ambition of work. Since on-boarding our Main Works Civils Design Contractors in July 2017 each of the Joint Ventures have met and engaged with the Design Panel on their emerging designs. We set a target to act on 80% of Design Panel Recommendations in the 2017/18 period and have succeeded in going beyond our target, acting on 95% of the recommendations they made in the year. This is a quantitative measure, not qualitative. Design Panel recommendations are for consideration and are not contractual instructions. The high percentage illustrates the level of Joint Venture endorsement of the comments, which often supports their existing approach and aims. Design Panel recommendations are tracked and shared between Joint Ventures through development to ensure consistency and approach. Recommendation progress is fed back and reviewed with the Design Panel Chairs on a monthly basis.

## Community Engagement

The Community Engagement Strategy was launched in September 2017, setting out how HS2 Ltd will deliver on its aspiration to be a good neighbour every day by improving liaison with the people and communities impacted by the railway and being sensitive to their needs. The strategy included ten community commitments and high-level performance indicators, which we would use as our community engagement index and be the basis for measuring our success, and that of our suppliers, in how we deliver the new railway. We also committed to publishing public progress reports to provide transparency about our performance and help us continuously learn and improve. Since launching the strategy we have established internal reporting in line with these commitments and indicators and are due to publish the first public progress report in early summer 2018.

## Equality Diversity and Inclusion (EDI)

At the end of the financial year 2017/18 HS2 Ltd representation was 36% women, 16% BAME and 6% disabled (based on staff that have requested adjustments at moderate and substantive levels). The roll out of Clear Talents in both our recruitment process and for employees has assisted the organisation to manage requests for workplace adjustments in an effective manner. During this year we have also achieved Disability Confident Leader status, a recognition of our approach to embedding accessibility and disability inclusion into all aspects of the organisation. Additionally, the success of our Reverse Mentoring programme is helping to develop an inclusive leadership culture within the organisation. During 2017/18 we also piloted Blind Auditioning, a model of recruitment which seeks to reduce the impact of unconscious bias and focuses on the technical competence at the first selection stage. This approach proved effective and during 2018/19 we will roll out the approach further. The organisation continues to progress in relation to equality, diversity and inclusion which has been externally recognised, with HS2 Ltd winning a number of national EDI awards during the year. Further information is provided in the EDI Annual Data Report 2017-2018.

## Staff engagement

The Pulse survey is a mid-term snapshot of our full staff survey and was specifically commissioned early this year to gauge staff sentiment following significant change throughout HS2. The full survey is scheduled for Q4 2018/19. The results showed that the key indicators contributing to overall staff engagement (previously 63%) had dropped, giving an overall engagement score of 57% at the mid-term point. This was largely expected and was seen as the driver for carrying out the Pulse survey at this time, and action plans are being currently being developed to address the outcomes of the survey. We are responding to what our staff have told us and hope to show steady improvements over time.

## Company capabilities

The Capability Programme was made up of seven workstreams, which aimed to design and implement a series of changes to improve organisational maturity in key areas. Each workstream was sponsored by a member of the Executive Team, supported by a Business Change Manager from the Capability Programme team. The workstreams employed a companywide business change approach, to ensure people were aware of and motivated to embrace the changes, and had the necessary skills and tools to adopt new ways of working. The Capability Programme was delivered and closed out in December 2017 having met its objectives, with a decision made to progress the Integrated Management System (IMS) and Enterprise Resource Planning (ERP) workstreams as discrete projects.

# Non-financial information

## Health, Safety and Security

Taking responsibility for our own and others' health, safety and wellbeing is one of HS2's core values, and was one of the organisation's key objectives in 2017/18. The Health and Safety objective stated: management system and controls in place (including CDM) with responsibilities clearly established, cascaded and evidenced; safety leadership approach developed and evidence of embedding a proactive safety culture, to the satisfaction of the Board SHE sub-committee.

Achieving the Health and Safety objective was integral to our continual improvement approach to the management of Health and Safety with many activities within the Health and Safety milestone plan stemming from the objective. The highlights from the milestone plan are outlined below, and our Health and Safety Performance is reported in the Remuneration and Staff Report (pages 57-62).

### Management System

We have continued to build HS2 Ltd's Health and Safety capability through the development of our Health and Safety management system, which successfully passed an external audit against OHSAS 18001.

## Construction Design and Management Regulations (CDM) 2015

HS2 Ltd has applied a risk-based approach to compliance with the CDM 2015 legislation, with compliance largely devolved to the individual phases and delivery partners, as required. There is good awareness of the basic requirements of CDM and how it applies day-to-day within the programme among the different individuals involved in CDM compliance. This has been embedded through a robust CDM training and competency programme, and the approach has been externally audited.

### Safety Leadership

We have made good progress with developing our approach to safety leadership and the embedding of key initiatives and interventions.

### Health and Wellbeing

During the year we launched our internal wellbeing plan, with a significant focus on mental wellbeing. This has included:

- resilience training for all staff;
- launching mental health first aider training; and
- launching health and wellbeing champions in the business.

With our supply chain, we continue to develop and embed our approach to health as well as safety as we move closer to constructing the railway. This has included health leadership forums with our Main Works Civils Contractors and clear consideration given to health during the design stage of Main Works Civils.

## Fraud, Corruption and Whistleblowing

At the start of the 2016/17 financial year, HS2 Ltd appointed a dedicated resource, reporting to the General Counsel and Company Secretary, to be responsible for Counter Fraud and Business Ethics. During the year a significant amount of time was spent on ensuring that the Company meets all of the fraud functional standards that are set by the Cabinet Office for all Government departments and arm's-length bodies with expenditure in excess of £100 million.

The Counter Fraud and Business Ethics function reports quarterly into HS2 Ltd's Executive Committee and twice a year into HS2 Ltd's Audit and Risk Assurance Committee.

Given the nature of the project and the huge amount of taxpayer's money involved, HS2 Ltd undoubtedly faces fraud and corruption threats both internally and from a range of external sources.

The main current fraud and corruption threats that HS2 Ltd face are:

1. Procurement/Contract Fraud;
2. Staff Malfeasance;
3. Land & Property Valuation Fraud; and
4. Payments made with respect to:
  - contracts; and
  - acquisition of properties, land and businesses.

HS2 Ltd is adopting best practice with regard to controlling the above risks. This is being achieved by deploying a blend of both preventative and detective fraud controls to identify any incidents of fraud or corruption, at the very earliest opportunity, to reduce both the quantum of fraud loss and reputational damage.

Given the very unique attributes and the challenge in detecting procurement/contract fraud, data analytics has been proven to be one of most effective fraud tools in controlling this risk. During the next year the Company will be increasing its 'data analytics' activity together with recruiting increased investigative resource. This will significantly increase the protection from the fraud and corruption threats that HS2 Ltd faces.

World class fraud risk management programmes rely heavily on a whistleblowing service being in place. Approximately 40% of incidents of fraud and corruption are typically identified by such referrals. The Company launched its whistleblowing service ('Speak Out') in January 2018. As at the end of this financial year it had received a total of 17 'Speak Out' referrals.

During the year there were three incidents of fraud against HS2 Ltd, one of which related to a fraudulent application for HS2 Ltd to purchase a £1 million property under the Need to Sell scheme. The others were in relation to employment applications, which involved false statements being made in their applications. All frauds were detected without any financial loss being incurred.



# Sustainability Report

## Environmental Sustainability Report

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

### Our corporate data

Greenhouse Gas (GHG) Emissions <sup>1</sup>		2017/18	2016/17
Gross Emissions (tonnes CO <sub>2</sub> e <sup>2</sup> )	Scope 1: Direct emissions	163	47
	Scope 2: Indirect emissions	865	1,105
	Scope 2: Indirect emissions	865	1,105
	Scope 3: Business travel emissions <sup>3</sup>	456	639
	Total emissions <sup>4</sup>	1,484	1,791
Related consumption data	Estates electricity (kWh) <sup>5</sup>	2,458,898	2,680,857
	kWh per FTE	1,821	1,895
	Private car usage (road miles)	35,860	139,825
	Hire car usage (road miles)	126,553	132,640
Financial indicators	Total energy expenditure <sup>6</sup>	£118k	£352k
	Expenditure on business travel	£3,322k	£4,073k
Waste		2017/18	2016/17
Non-Financial Indicators	Total waste arisings (tonnes)	131	166
	Waste diverted from landfill (tonnes)	125	120
	Waste arisings - kg per FTE	97	117
	Percentage diverted from landfill	95%	72%
Water		2017/18	2016/17
Non-Financial Indicators	Estates water (cubic metres) <sup>7</sup>	24,012	25,915
	Cubic metres per FTE	17.8	18.3
	Emissions from water consumption (tonnes CO <sub>2</sub> e)	8.3	8.9

1 Greenhouse gas factors for electricity, gas, water consumption and business travel from Greenhouse gas reporting - Conversion factors 2017, Department for Business, Energy & Industrial Strategy, August 2017.

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

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

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

5 Includes estimates where direct meter readings were not available.

6 Energy expenditure directly incurred by HS2.

7 Includes estimates where direct meter readings were not available.

With the background of increasing staff numbers, we have reduced occupancy at Sanctuary Buildings and Canary Wharf and increased occupancy in our new office in The Podium, adjacent to Euston station, for those HS2 staff based in London. In addition, there has been an increase in occupancy by HS2 staff at our existing offices in Snow Hill and other temporary office accommodation in central Birmingham.

These office moves will assist with reducing our carbon footprint as they are near existing rail hubs, such as Snow Hill, New Street and Euston stations. In addition, these offices are provided with modern communications technology such as Smart Hubs and videoconferencing facilities to reduce travel.

The current year's greenhouse gas data demonstrates these facilities helped reduce our corporate carbon footprint, on a full time employee equivalent basis, particularly the greenhouse gas emissions associated with travel.

As a responsible business, we have adopted a target to reduce carbon emissions from our office estate (e.g. from consuming energy for lighting and heating) and domestic business travel (e.g. UK road and rail journeys) by, at least, 10% by 2021 (from a 2017/18 baseline). We have also adopted a longer term target to reduce carbon emissions from our office estate and domestic business travel by, at least, 50% by 2027. The targets support our strategic goal to 'deliver value to the UK tax payer' and strategic objective to 'design, construct and operate HS2 to reduce carbon'. We are in the process of identifying corporate waste reduction and other environmental targets as an element of our environmental management system, to align with the Greening Government Commitments.

## Our project approach to environmental sustainability

During late 2017, HS2 Ltd achieved the key milestone of ISO 14001 certification for our environmental management system (EMS). The standard is externally assessed by Lloyd's Register Quality Assurance (LRQA) and shows LRQA are satisfied with what we have achieved to date relating to formalising our systems and procedures in ensuring we meet our environmental policy commitments.

In February 2018, Phase One was the first project globally to be certified under the Building Research Establishment's BREEAM Infrastructure pilot scheme (a sustainability assessment methodology). The assessment demonstrates that we have the right policies, strategies and technical requirements in place and have integrated sustainability from the outset of the project.

This year saw the first grants awarded under our Community and Environment fund and Business and Local Economy fund for Phase One. This included a £450,000 grant towards a new woodland hub project in Wendover Woods near Aylesbury as well as smaller grants such as £5,442 to improve the safety and accessibility of the children's play area in Northamptonshire.

We have developed a Green Corridor approach that sets out how HS2 will support the natural environment through a network of habitats ranging from woodland and meadows to wetland and ponds, stretching along much of the 345 miles of track along the Phase One and Phase Two routes. We will work with local communities to create the Green Corridor. This includes the chance for local people to get involved in everything from landscape design to tree planting. From the outset, funds are being put into local hands to deliver environmental improvements that go above and beyond our own. A total of £6 million has been awarded to local groups in the Chilterns and the Colne Valley, which could support projects ranging from new habitats to cycle routes.

# Sustainability Report continued

In addition to the Green Corridor, we also established a separate £5 million woodland fund to support the restoration of existing ancient woodland sites and the creation of new native woodlands along the Phase One route. The first £1 million of funding is being managed as a grant scheme by the Forestry Commission on behalf of HS2 Ltd, and is available to all eligible woodland owners and land managers within 25 miles of the Act Limits.

We have continued to incorporate climate resilience into our key design and decision-making processes, including the Main Works Civils Contracts. This includes incorporating climate change resilience into our environmental impact assessments, altering design standards to reflect projected changes in parameters and requiring reporting at key design stages to increase the adaptive capacity of the organisation. The forthcoming Phase 2b Environmental Impact Assessment will consider both climate change adaptation and resilience and climate change in-combination impacts. We have also worked with partners, including the British Standards Institute to assist in developing

new standards in understanding and managing climate change adaptation and resilience as well as supporting the Natural Environment Research Council (NERC) Environmental Risks to Infrastructure Innovation Programme.

Enabling Works across Phase One have continued to increase in pace during 2017/18. HS2 Ltd's contractors have created six new ecological habitats and commenced works on a further 33 habitats; planted over 235,000 trees and shrubs with over 700,000 due to be planted next year; and have continued to undertake the UK's biggest archaeological investigation.

The archaeological works have included investigations into the burial ground at St James's Gardens, Euston, where several well-preserved coffins with intact name-plates have been unearthed, as well as a child's wooden doll.

The Adelaide Local Nature Reserve on the Chalk Farm railway embankment reopened to the public in March 2018 after HS2's contractors completed work to create new wildlife habitats and improve facilities for visitors and volunteers.

## Ecology facts and figures from Enabling Works

	Woodland Area Planted (Ha)	Hedgerow trees planted	Hedgerow (m)	Ponds	Hibernacula	Reptile banks	Bat houses	Bat boxes	Compost Heaps	Log piles	Badger sett
Total	26	9,068	5,053	38	50	22	3	44	19	30	1

## Air quality data for enabling works contracts

Our emission standards are a mix of requirements and targets set out in the two tables which follow.

The standards being worked to for HS2 go beyond anything attempted on previous major

infrastructure projects in the UK. As such, assuring every single piece of construction plant and every construction vehicle trip has required a massive commitment. Up to the end of April, we've used over 230 pieces of Non Road Mobile Machinery (NRMM) and completed 8,600 construction road trips so far on Early Works.

Requirements	Metric	Data from 14 Sep 17 – 31 Mar 18 (emissions standards became live 14 Sep 17)
Contractor Non Road Mobile Machinery (NRMM) to be compliant with HS2's requirements for engine emission standards	Proportion of NRMM that is compliant to the relevant EU Stage standard	93.2% compliant 1.5% exempt 5.3% non-compliant
100% of HGVs (Heavy Goods Vehicles) to be EURO VI in the London Low Emission Zone & Clean Air Zones	Proportion of HGVs that are Euro VI	90% compliant 5.2% exempt 4.8% non-compliant

In relation to the two requirements an approved exemption is deemed compliant. However, there remains 5.3% (NRMM) and 4.8% (London HGV) non-compliance. To address this the Phase One Environment Teams are taking action and compliance rates are improving month by month. Each non-compliance has been investigated and contractual action taken where required. All of these figures have been reported to the Phase One local authorities and the reasons behind them explained.

Target	Metric	Data from 14 Sep 17 – 31 Mar 18 (emissions standards became live 14 Sep 17)
HGVs (Heavy Goods Vehicles) to be EURO VI on rest of the route – as far as reasonable practicable 2017-2020, 100% from 2020	Proportion of HGVs that are Euro VI	93.9% compliant 0.0% exempt 6.1% non-compliant
% LDVs (Light Duty Vehicles) EURO 6 diesel and EURO 4 petrol: 100% from 2020	% LDVs (Light Duty Vehicles) that are EURO 6 diesel or EURO 4 petrol	53.6% compliant 0.1% exempt 46.3% non-compliant

We have worked closely with local planning authorities along the Phase One route and have received our first Schedule 17 planning approvals.

HS2 Ltd has established a series of collaborative best practice forums with its MWCCs to discuss implementation of HS2's sustainability objectives, such as no net loss to biodiversity, carbon minimisation and beneficial reuse of excavated material. The MWCCs have also validated the Life-Cycle Assessment baselines provided by HS2 Ltd, and have presented examples of how they will seek to achieve the 50% carbon reduction target to HS2 Ltd and other contractors in order to share best practice.

HS2 Ltd appointed its Station Design Services Contractors (SDSCs) in early 2018, and the design teams are mobilised, engaging with stakeholders and preparing their designs for stations and associated public realm; including the identification of opportunities to ensure each station will achieve HS2 Ltd's ambition of BREEAM Excellent.



# Sustainability Report continued

HS2 Ltd has commenced the procurement process to appoint its railway systems contractors who will design and install the railway track and associated systems, as well as the control centre. Relevant sustainability requirements have been added to these contracts.

The Phase 2a hybrid Bill was deposited in Parliament in July 2017. It was accompanied by an Environmental Statement setting out the likely significant environmental effects of the scheme and the measures proposed to avoid, prevent or reduce those effects. Environmental mitigation has been incorporated into the scheme, including landscape planting, noise barriers, ecological mitigation areas and green bridges. Borrow pits have also been incorporated into the scheme to reduce transport effects on the local roads.

A formal consultation period was held on the Environmental Statement until 30 September 2018. The consultation responses were summarised by an independent assessor appointed by Parliament and were used to inform the House of Commons' debate on the scheme at Second Reading. The Bill secured its Second Reading on 30 January 2018 which triggered a petitioning period. A Select Committee was appointed to hear those petitions and began its hearings in March 2018.

At the end of March 2018, an Additional Provision and Supplementary Environmental Statement to the hybrid Bill were deposited in Parliament. These provide additional information and propose further amendments to the Bill. Further Additional Provisions may be required as the Bill passes through the Select Committee process.

On Phase 2b, the environmental team and supporting supply chain have grown significantly over 2017/18 to help deliver the Phase 2b hybrid Bill. Over the reporting year, we developed and consulted on a draft Environmental Impact Assessment Scope and Methodology Report (EIA SMR). The documents set out the proposed approach to assessing the likely significant effects of the Phase 2b scheme for each environmental topic. In line with the EIA SMR, environmental baseline surveys and environmental assessments were undertaken across the entire scheme and continue. Environmental mitigation is now being designed into the scheme in response to the EIA and emerging details will be consulted upon. To ensure the hybrid Bill scheme embeds necessary environmental requirements, the Phase 2b Environmental Design Principles were established and rolled out across our supply chain. These high level environmental principles are aimed at all those involved in the design process.

## Community Engagement Report

Following the launch of HS2 Ltd's national community engagement strategy in 2017, our focus has been to demonstrate what the strategy means for communities at a local level by working with them to develop tailored local engagement plans.

We have launched 11 commonplace digital engagement platforms offering localised information sites for Phase One, with over 17,000 people having visited the combined sites and over 870 subscribed to regular updates, meaning they will automatically receive alerts for construction works in their area. In addition we held 195 events across, Phase One, Phase 2a and Phase 2b during 2017, at which we spoke to over 33,000 people.

We also saw an incremental increase in enquiries to the Helpdesk, with nearly 27,000 contacts via telephone and email reflecting HS2's growing impact in line with increasing construction works in Phase One and the huge programme of land surveys and assessments in Phases 2a and 2b.

With this increasing visibility, we have needed to be responsive in minimising disruption to impacted communities. When local traders perceived a reduction in trade due to construction works in Euston we worked with them to design and install hoardings with artwork specifically tailored to promoting their businesses. Following positive feedback from the businesses involved, we are now working on a similar project around Birmingham's Curzon Street to create a 'Digbeth Directory' to support local businesses there.

This year we also completed our formal response to the 13 recommendations made in the 2016 Bynoe review into HS2's complaints handling and community engagement approach. Since the report was published we have made comprehensive changes to the way community engagement and complaints handling is managed. We undertook an extensive review into the HS2 complaints service, which helped us identify areas in which it could be improved. As a result, our complaints procedure has been updated and published on the new HS2 website. Under our new procedure, we will assist every complainant at every stage, ensuring we treat each as an individual and adapt to their needs as well as offering a dedicated single point of contact to provide support and continuity. We are committed to going further than the letter of the Bynoe recommendations we have already identified future improvements. These include launching after-call or email surveys so we get direct feedback from the people who contact us about their experience. In this way, our work to support the people and communities we impact will keep improving to ensure HS2 Ltd achieves its goal of being a good neighbour.

Approved by the Board on 14 June 2018  
and signed on its behalf by



**Mark Thurston**  
Chief Executive and Accounting Officer





## Directors' Report







# Directors' Report

The Directors present their report together with the financial statements of the Company for the year ended 31 March 2018. The Company is registered in England and Wales and has registration number 06791686.

Directors who have held office on the HS2 Ltd Board between 1 April 2017 and 31 March 2018 are:

- Steve Allen – Executive Director (up to 31 March 2018)
- Lord Andrew Adonis – Non-Executive Director (up to 21 April 2017)
- Richard Brown – Non-Executive Director
- Christine Emmett – Non-Executive Director
- Mel Ewell – Non-Executive Director
- Sir David Higgins – Chairman
- Neil Masom – Non-Executive Director
- Roger Mountford – Non-Executive Director
- Alison Munro – Executive Director (up to 31 August 2017)
- Duncan Sutherland – Non-Executive Director
- Mark Thurston – Chief Executive (Executive Director)
- Baroness Jo Valentine – Non-Executive Director

## Conflicts of interest – Board

Board members update HS2 Ltd on conflicts of interest as and when they arise and make a declaration at the start of each meeting. If a conflict is identified members are excluded for the affected part of the meeting and/or prevented from receiving the relative paper (as appropriate). In addition, a register of Board members' business interests is maintained and is published periodically on the Gov.uk website below.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/698805/HS2\\_Ltd\\_Register\\_of\\_Business\\_Interests\\_180409.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/698805/HS2_Ltd_Register_of_Business_Interests_180409.pdf)

## Principal activities

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

## Remuneration and Staff Report, and Governance Statement

The Remuneration and Staff Report (page 57-64) and Governance Statement (page 43-56) are required under the Government's Financial Reporting Manual (FRM) and form part of these financial statements. The Remuneration and Staff Report also sets out details of staff policies for disabled persons, and employee consultation as required under the Companies Act 2006 requirements for annual reports.

The Strategic Report: Risk Management section addresses the Company's risk and control framework (page 18).

## Personal data related incidents

Category	Nature of Incident	2017/18	2016/17
1	Loss of inadequately protected electronic equipment, devices or paper documents from secure Government premises.	0	3
2	Loss of inadequately protected electronic equipment, devices or paper documents from outside secure Government premises.	1	0
3	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	0	2
4	Unauthorised disclosure.	17	7
5	Other	31	6

Serious data breaches need to be reported to the Information Commissioner's Office (ICO). In the 2017/18 period two incidents met the criteria for reporting to the ICO. One is awaiting ICO determination and the other the ICO determined no further regulatory action was required at that time.

The details of the incidents are as follows:

1. On 18 July 2017 a supplier working on behalf of HS2 Ltd left a small number of paper records on a train. The data for 17 households was lost. This data consisted of the names of three individuals for two households and just the addresses for the remaining 15. The documents related to property valuations and contained no data that would be classed as sensitive under the Data Protection Act (DPA) 1998. Due to particular sensitivities relating to the incident, it was reported to the ICO and

investigations were undertaken by both HS2 and the supplier. Following the conclusion of HS2's investigation, we were of the view that sufficient actions had been taken by the supplier to mitigate the possibility of a repeat incident. The ICO completed their investigation and determined that the incident was attributable to human error, that they had received sufficient assurances from the supplier regarding remedial action, and that, as a result, no further action was necessary at that time.

# Directors' Report continued

2. On the 1 August 2017 HS2 Ltd became aware that, on the 11 July 2017, shortly before they left HS2 Ltd, a former contractor to HS2 Ltd had emailed two Zip files to an email address in their name at a different organisation. Analysis of these files identified that they contained the data of 299 individuals. Approximately one-third of those individuals were identified solely in a professional capacity and were not considered at risk of detriment. The information relating to the remaining individuals consisted of various employment and financial data. Whilst potential detriment was identified, the age and nature of the data, and the circumstances of the incident indicated that the information was unlikely to be at a high risk of further disclosure. In addition, an investigation into the contractor's actions had commenced. As a result, notification to the ICO was not considered appropriate at that time. The contractor was interviewed and provided the opportunity to resolve the issue. It became apparent that the contractor was not willing to respond satisfactorily and the decision was taken by HS2 Ltd to raise the matter with the ICO. At the time of writing, HS2 Ltd is awaiting a response from the ICO and the contractor.

## Dividends

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

## Directors' third party indemnity provisions

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

## Company policy on payment of creditors

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

Monitoring of payments made during the year ended 31 March 2018 shows that 71% of approved invoices were paid within 30 working days of invoice date (2016/17: 94%). The reduction since last year is because the calculation was changed in June 2017 to reflect the invoice date compared to payment date. The previous calculation was based on invoice received date compared to payment date.

No claims have been paid in 2017/18 (2016/17: none) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

## Disclosures concerning Greenhouse Gas Emissions

Disclosures concerning Greenhouse Gas Emissions are set out in the Strategic Report: Sustainability Report (page 43-56).

## Charitable and political contributions

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

## Significant events post balance sheet date

No significant events have occurred post balance sheet date.

## Likely future developments

Likely future developments are set out under the Company Remit and Scope (page 14).

## Disclosure of information to auditors

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

Approved by the Board on 14 June 2018  
and signed on its behalf by



**Mark Thurston**

Chief Executive and Accounting Officer





## Corporate Governance Report





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# Corporate Governance Report

## Statement of Directors' and Accounting Officer's responsibilities

The Directors and Accounting Officer are responsible for ensuring that the Annual Report and financial statements are prepared in accordance with applicable law and regulations and for ensuring that proper accounting records are maintained that disclose, with reasonable accuracy at any time, the financial position of HS2 Ltd and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors and Accounting Officer are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

In preparing accounts, the Directors and Accounting Officer are required to comply with the requirements of the Government Finance Reporting Manual (FReM) and the Companies Act 2006, and in particular to:

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

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

### Fair, Balanced and Understandable requirement

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

# Corporate Governance Report

## Governance statement

### Accounting Officer's Introduction

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

I am required to ensure that HS2 Ltd as a whole is run on the basis of the governance, decision-making and financial management standards that are set out in HM Treasury's Managing Public Money. This Governance Statement sets out how I have discharged my responsibilities during 2017/18.

### HS2 Ltd Executive – Role of the Accounting Officer

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

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

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

<https://www.hs2.org.uk/how-to-complain/>

For the first six months of 2017/18, to prevent any perceived or actual conflicts of interest with Mark Thurston's previous employment at CH2M Hill, where any discussions were held at the Board or any other forum in relation to CH2M, the Chief Executive absented himself from the meeting and Steve Allen (Chief Financial Officer and Executive Director) acted as Accounting Officer for that item. This included decisions in relation to resourcing, work orders, approval of payment claims, approval of invoices, and processing of payments. This arrangement was confirmed and agreed with DfT.

Mark Thurston attended Government training on 'the role and responsibilities of the Accounting Officer in Government' in June 2017. From October 2017, quarterly Accounting Officer Reviews have been held to ensure that the AO is fully briefed on relevant issues and AO responsibilities are being discharged across the Company.



# Corporate Governance Report

## Governance Statement continued

### The HS2 Ltd Board

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

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

The Non-Executive Directors of the Board are appointed by the Secretary of State for Transport as sponsor and sole member of HS2 Ltd. The Chair and the eight Non-Executive Directors are independent Directors. The Chief Executive is an Executive Director.

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

### Board commitment and attendance

Biographies of the current Board members are published on the Gov.uk website. The appointment and resignation or retirement dates of Board members are set out below and details of their contractual commitments and remuneration are disclosed in the Remuneration and Staff Report on pages 57–64.

## Attendance at the HS2 Ltd Board and Committee (between April 2017 and March 2018)

	HS2Ltd Board		Audit and Risk Assurance Committee		Remuneration Committee		Commercial and Investment Committee		Health Safety and Environment Committee		Nominations Committee		Programme Committee	
	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings
Steve Allen Executive Director (up to 31.03.2018)	11	12												
Lord Andrew Adonis Non-Executive Director (up to 21.04.17)	1	1					0	1						
Richard Brown Non-Executive Director	12	12			5	6			5	5	4	5		
Christine Emmett Non-Executive Director	11	12			6	6	12	12	5	5	5	5		
Mel Ewell Non-Executive Director	11	12											5	5
Sir David Higgins Chairman	11	12												
Neil Masom Non-Executive Director	12	12	7	7			11	12	5	5			4	5
Roger Mountford Non-Executive Director	12	12	7	7			12	12						
Alison Munro Executive Director (up to 31.08.2017)	5	5												
Duncan Sutherland Non-Executive Director	11	12			5	6	8	10						
Mark Thurston Executive Director	10	12												
Baroness Jo Valentine Non-Executive Director	12	12	7	7							5	5		

### Changes to Board membership

Lord Andrew Adonis resigned from the Board on 21 April 2017.

Alison Munro announced her resignation from the Company in July 2017 and stepped down as Phase Two Managing Director and Executive Director on 31 August 2017.

Steve Allen announced his resignation from the Company in September 2017 and stepped down as Chief Financial Officer and Executive Director on 31 March 2018.

### Personal data related incidents

Serious data breaches are reported to the Information Commissioner's Office. This information is disclosed in the Directors' Report page 37-38.

# Corporate Governance Report

## Governance Statement *continued*

### Corporate Governance Principles

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

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

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

- The Board seeks to uphold the seven key principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership in order to deliver the long term success of the Company.
- The composition of the Board at the time of reporting is one Executive Director and eight independent Non-Executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of the Board Chair and Non-Executive Board members.
- As identified in the Framework Document, the Secretary of State has delegated authority to the HS2 Ltd Board to appoint up to three Executive Directors (in addition to the Chief Executive) to sit on the Board. As reported, during the year, two Executive Directors left the organisation and replacement is anticipated in the course of 2018/19 financial year. The introduction of the Nominations Committee in February 2017 has allowed the Board to review the mixture of skills, experience and qualities of the Board members to provide input to the DfT and Board processes.

- The remit of the Board and the roles and responsibilities of its members have been clearly defined, including the role and responsibilities of the Accounting Officer.
- An induction process is in place for new Board members (in line with Cabinet Office and UK Corporate Governance Code guidance), which includes introductory meetings with the Chairman followed by briefings with the Chief Executive and other members of the Executive team.
- 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 continually improve performance (an internal Board evaluation was undertaken during 2017/18 and findings are being actioned).

### Board decision making

Effective, structured decision making is crucial as the Company progresses towards construction of the railway. In 2017/18, the Board covered a number of regular agenda items including: updates from each meeting of the Board Sub-Committees, Health and Safety, Finance, Corporate Affairs and Community Engagement.

The Board also made a number of investment approvals as well as considering strategic risk and people matters for the organisation.

During the year, the Board approved the 2017/18 Business Plan and Budget and reviewed progress against the same. The Board also reviews the Annual Report and Accounts and in the financial year reviewed the following:

- Main Works Civils Contracts: readiness to proceed and the award of contracts;
- Advice provided to Secretary of State on Phase 2b route decision;

- Review of the governance structure of the organisation;
- Community Engagement Strategy;
- Rail Systems Category Plan;
- Euston Master Development Partner award;
- Advice provided to DfT for Phase 2a hybrid Bill;
- Rolling Stock Pre-Qualification draft and Invitation to Tender; and
- Activities of the Board Sub-Committees (covering investment matters, risk/audit matters, health and safety matters, programme performance: on time and on budget, board health, composition and recruitment and remuneration matters).

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

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

## Management Information and Quality of Data

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

### Board effectiveness

In 2017/18, an internal Board Effectiveness assessment was undertaken in accordance with corporate best practice. The assessment included a review of progress against actions identified from the external effectiveness review the previous financial year (with most actions closed), together with actions from the internal review. These were presented to the Board on 5 October 2017.

Good progress is being made on all actions including:

- sharing succession plans for the Executive with the Board;
- a review of the Terms of Reference for all Board sub-Committees, to assure that these remain fit for purpose;
- increased opportunity for the Board to robustly examine the budget prior to approval. This was dealt with by providing two Board updates of the budget prior to the request for approval at the April Board meeting;
- information and monitoring of the Supply Chain and capacity is being managed through the Programme Committee established in March 2017; and
- the Board participated in a Strategy Day on 4 October 2017 to further consider HS2 Ltd's primary risks.

## Board sub-committees

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

### Audit and Risk Assurance Committee

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

ARAC oversees HS2 Ltd's assurance and risk frameworks and internal audit outcomes and receives regular updates from the Company's internal and external auditors. The Committee also approves internal and external audit plans, advises the Board on accounting policies and monitors the annual accounts process in order to recommend the accounts for approval by the Board.



# Corporate Governance Report

## Governance Statement *continued*

The Chair of the Committee provides a report to the Board and Accounting Officer after each meeting and provides the Board and Accounting Officer with an Annual Report, timed to support the finalisation of the annual accounts and the Governance Statement, summarising its conclusions from the work it has done during the financial year. ARAC has considered the following significant matters in 2017/18:

- HS2 Ltd risk management strategy and approach and risk appetite;
- deep-dive reviews on certain matters (risk, fraud and bribery, security, community engagement, governance and decision making, and commercial development);
- integrated audit and assurance plan;
- review of the Period 9 and year-end financial statements and related audit reports;
- a range of internal audit reports under the annual audit programme; and
- monitoring actions from the National Audit Office and Internal Audit and the actions taken by management to address those recommendations.

### Remuneration Committee

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

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

### Commercial and Investment Committee

The Commercial and Investment Committee (CIC) was established to enhance the Board's scrutiny of major investment decisions. Its function is to review procurement and investment proposals in 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), Christine Emmett, Neil Masom and Duncan Sutherland. Duncan Sutherland replaced Lord Andrew Adonis as a member of the CIC following the resignation of Lord Adonis.

### 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, safety, security and environmental matters.

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

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

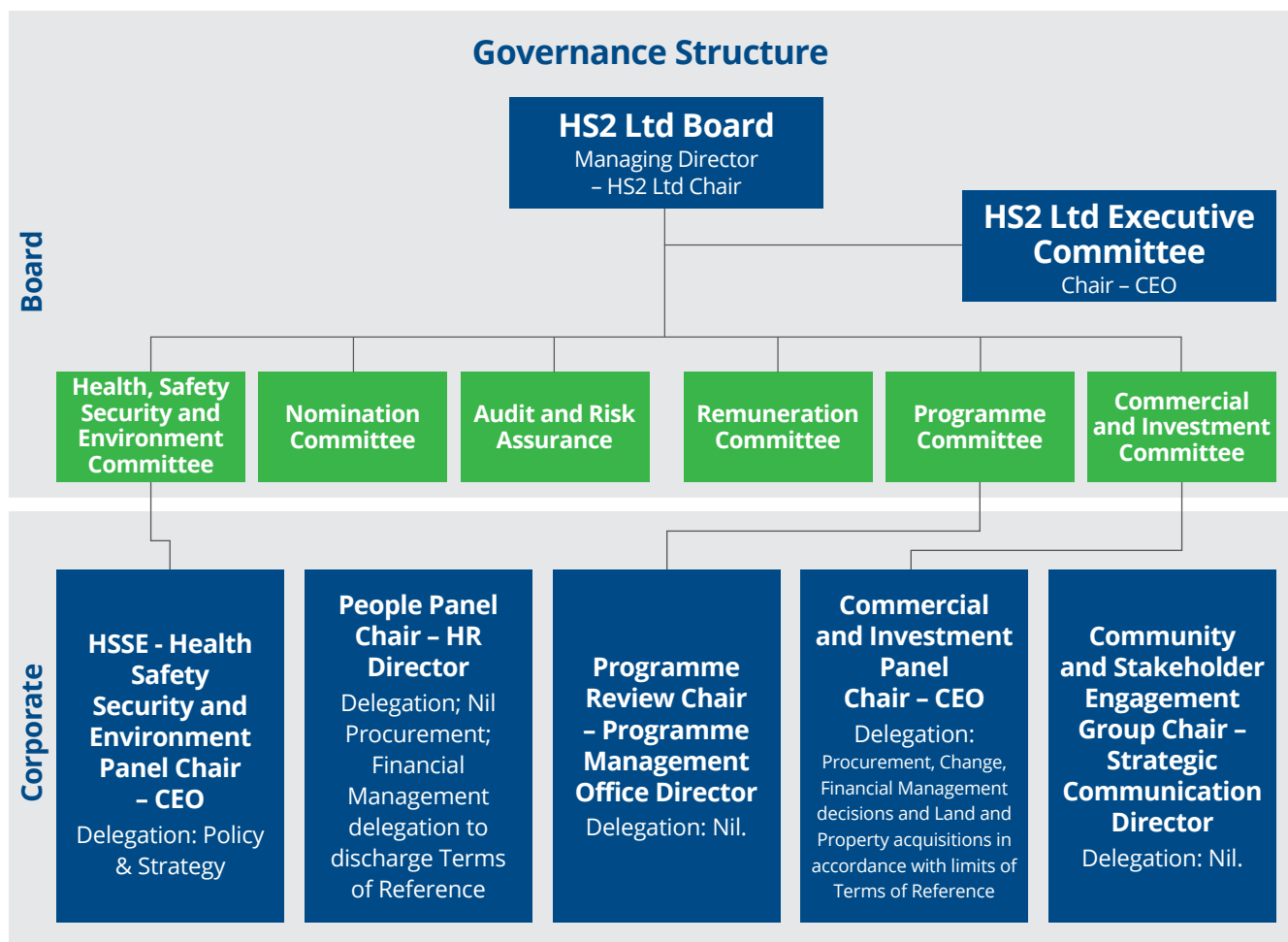
## Nominations Committee

The Nominations Committee is an advisory body for the Board that reviews and makes recommendations in relation to Board composition, succession planning for Board members, and Board effectiveness. The Committee meets six monthly and as matters arise. Its members are all Non-Executive Directors: Baroness Jo Valentine (Chair), Richard Brown and Christine Emmett. Nominations Committee has considered the following significant matters in 2017/18:

- Internal Board effectiveness.
- Non-Executive Director recruitment updates.
- Succession and recruitment planning for the HS2 Ltd Chair.
- ARAC effectiveness review.

## Programme Committee

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



# Corporate Governance Report

## Governance Statement *continued*

### Executive Team

The Executive Team manages the day-to-day management and operations of HS2 Ltd and in 2017/18 has comprised as per the table below (unless otherwise stated, the relevant Executive member served throughout the year). During the year there has been a review of the Executive Team in order to strengthen leadership:

Position	Executive	Started	Ceased to be an Executive member
Chief Executive Officer	Mark Thurston		
Chief Financial Officer	Steve Allen		31/03/18
Director of Corporate Health, Safety, Security & Environmental Management	Emma Head		
Interim HR Director	Gerry Skelton	30/05/17	08/09/17
Acting HR Director	Rob Jones	11/09/17	10/11/17
HR Director	Neil Hayward	16/11/17	
General Counsel and Company Secretary	Nicole Geoghegan	03/05/17	
Managing Director, Phase One	Jim Crawford		
Managing Director, Phase Two	Alison Munro		31/08/17
Managing Director, Phase Two	Paul Griffiths	21/09/17	
Managing Director, Railway Operations/ Operations and Infrastructure Maintenance	Chris Rayner		
Strategic Director for Stakeholder Engagement	Tom Kelly	15/02/18	
Technical Director	Andrew McNaughton		02/01/18

The Executive meets twice monthly to consider strategic and operational issues related both to the Company and the programme (and more frequently to consider operational matters). The Executive delegates the detailed scrutiny of certain issues to a range of formally constituted forums, including Programme Review (scrutiny for the Phase teams), Commercial and Investment Panel (investment decisions), People Panel (workforce-related issues), HSSE Panel (health, safety, security and environment matters) and Community and Stakeholder Engagement Group.

### Risk Management

Our approach to Risk Management is set out in our Strategic Report page 18.

### Internal control

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

The HS2 Ltd Integrated Management System (IMS) defines our key control frameworks; each one sets out how we operate to deliver or achieve our overall objective. HS2 Ltd's policies, strategies, plans, processes, procedures, forms, work instructions and guidance documents are maintained in line with our quality and document control procedures.

These documents are essential elements in making sure that activities are carried out in a consistent and efficient manner, complying with the DfT Sponsor's Requirements, requirements arising from the Parliamentary process, and legal and regulatory requirements. The Company maintains risk registers at corporate, programme, individual projects and directorate levels.

### Three Lines of Defence

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

Level	First Line of Defence	Second Line of Defence	Third Line of Defence
Description	Operational Assurance	Business Assurance	Strategic Assurance
Objective	Ensuring right first time (RFT) delivery through routine controls and monitoring activities	Oversight of operational assurance and line management activities	Independent assessment of the operating environment including governance, risk management, assurance and internal controls
Conducted by	Line management	Assurance practitioners, peer reviewers and/or external experts, independent of line management delivering the activity being assured	Internal Audit (Government Internal Audit Agency) and other independent assurance providers, often commissioned by the HS2 Ltd Board and/or Audit & Risk Assurance Committee (such as the Independent Assurance Panel coordinated by the Institute of Civil Engineers)
Reporting to	Management and Leadership Team meetings	Management and Governance bodies	The HS2 Ltd Board and/or Audit & Risk Assurance Committee
Outputs (examples)	Management assessments, compliance attestations, management information and performance data, process improvements	Audit reports, assurance reports and trackers, management information, quality review reports, policy reviews and updates	Internal Audit reports, Head of Internal Audit annual opinion, Independent Assurance Panel reports, ISO Certification



# Corporate Governance Report

## Governance Statement continued

### Governance

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

HS2 Ltd was granted increased delegations during financial year 2017/18 to reflect the growing maturity and to ensure its governance regime is fit for purpose. Further changes are likely in financial year 2018/19 as construction commences.

### Integrated Assurance & Approvals Plan

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

### Analytical modelling

Economic and business modelling remains essential to the work of HS2 Ltd to ensure that the costs and benefits of the programme included in the HS2 business case are based on a rigorous assessment of transport demand. A register of business critical models is maintained. Assurance of these models is undertaken in line with the DfT's Strength in Numbers analytical assurance framework.

### Management Assurance

HS2 Ltd completes a Management Assurance (MA) review twice a year, resulting in the production of a Management Assurance Statement (MAS) which is signed by the Accounting Officer and is submitted to the DfT. The purpose of the review is to provide a self-assessment of the effectiveness of our systems

of internal control; to identify areas where controls may not be operating effectively; and to identify and instigate future actions for improvement.

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

### Progress against 'areas for development' identified for 2017/18

There were a number of areas identified for improvement in last year's Annual Report and Accounts. These include actions resulting from the NAO's qualification, report and management letter; the work of internal audit; and the Company's own continuous improvement efforts. Below is the progress made to address the identified areas which will continue to be addressed throughout the year ahead.

#### 1. Make significant improvements in the general controls environment

Significant improvements in the controls environment were implemented during the year including the launch of a new governance regime and reviews of key processes such as Procure to Pay. A re-induction training programme and governance training were delivered to the whole business covering a range of topics including compliance with 'Managing Public Money', the Development Agreement, and the Framework Document.

More specific actions on the controls environment identified by the NAO and Government Internal Audit Agency (GIAA) have also been addressed during the year including the ongoing maintenance of the Register of Interests, a formal loan agreement put in place between HS2 Ltd and the National College of High Speed Rail covering a £2.9 million loan, and improved financial processes for undertaking accruals and journals, balance sheet (trial balance) and bank reconciliations, and allocation of capital spend.

## 2. Enhance Human Resources (HR) controls

Actions related to the HR controls environment identified by NAO and GIAA have been defined, actioned, and monitored through the year with progress reported. The key areas that we have improved include a strengthened HR governance structure, re-establishment of a specific governance forum for HS2's workforce, improved HR processes including hire to retire, better coordination of agency staff, and management of data.

## 3. Embed the Integrated Assurance and Approvals Plan (IAAP)

The HS2 Ltd Development Agreement sets out the requirement for an Integrated Assurance and Approvals Plan (IAAP). Our IAAP was endorsed by the HS2 Ltd Board in March 2017 and the IAAP Schedule is updated on a monthly basis through the Assurance Working Group, Executive Team, and HS2 Ltd Audit and Risk Assurance Committee (ARAC). The IAAP facilitates collaborative and efficient assurance planning and delivery resulting in:

- effective and efficient delivery of assurance around key approvals and business priority decisions, ensuring the alignment and sequence of assurance delivers timely input to these approval points;
- risk-based assurance; identification and elimination of duplication and gaps and ensuring the right balance across the three Lines of Defence (LoDs); and
- coordination with external and approvals requirements e.g. Project Assessment Reviews (PARs) and Major Project Review Groups (MPRGs), and DfT's Project Representatives (P-Rep) activities.

Further improvements are planned for 2018/19 including enhanced ability to plan and assess assurance activity and outcomes against a number of key dimensions, including the HS2 Strategic Risks, our Integrated Management Systems (IMS) control frameworks and organisational capabilities, allowing resource to be focused in the right areas.

## 4. Enhance HS2 Ltd's Whistleblowing/Raising Concerns capability

A 'Speak Out' hotline and new policy was launched in January 2018. The hotline is available to staff, contractors, and the general public. The facility is managed by HS2 Ltd's Head of Counter Fraud and Business Ethics.

## 5. Improve 'Procurement to Pay' (P2P) and contract management controls

A new 'Procurement to Pay' (P2P) Policy has been implemented with specific training delivered to users and key messages included in the re-induction sessions rolled out to all staff.

A new P2P dashboard detailing our performance against raising purchase orders prior to work starting, timely receipting of goods/services and prompt payment of invoices is run each month and analysis communicated to the business. Improvements to performance have been made since tracking commenced.

The P2P materials and tools are now easily accessible via the new Integrated Management System. The new ERP system planned for October 2018 has been configured with robust controls to further improve our controls framework.

Contract management controls are now set out in a Contract Management Strategy and have been implemented via our contract management plans specific to each framework/contract. This is supported by new contract governance processes including change management.

# Corporate Governance Report

## Governance Statement **continued**

### **6. Improvements in the collection and reporting of data**

Collaboration with Civils contractors has allowed the collection of data from our supply chain to be streamlined and our reporting teams have been restructured to better manage the flow of information into enterprise reporting and management information. A recent GIAA audit confirmed “when comparing the maturity of MI within HS2 to the previous audit in the summer of 2017, there has clearly been progress and overall improvement. There is now a regular, structured report (HS2 Monthly Report) that begins to provide a single version of the truth to multiple stakeholders”. Reporting to support effective decision making will continue to be a focus for improvement and optimisation.

### **7. Operationalisation of changes in the organisational structure and governance framework**

The new governance regime was rolled out in July 2017, mirroring the new organisational structure, and staff training delivered across the business. The roll out included; a new P2P policy and procedure, an update to the delegated authorities across the organisation, and a new structure and terms of reference for all forums holding delegated authority.

### **8. Implementation of physical and personnel Security Policies;**

During the year, we have implemented a physical security strategy which, in addition to physical security of our sites and assets, covers our security threat assessment team, incident management, personal security and the use of specialist security services for protecting our sites. We relaunched our Personal Security Policy which outlines our commitment to protecting all members of staff, and our Lone Working Procedure, supported by the HS2 Lone Worker App, which is available to all members of staff.

On personnel security we identified all high risk posts in HS2 that require increased vetting controls and ensured processing of those vetting applications takes place.

### **9. Testing and exercising of the Business Continuity Management Plans.**

We tested our plans at Executive level in late 2017. A renewed Business Continuity Policy and Strategy released in 2018 embeds the need for testing and exercising as part of our business as usual activities. HS2 has partnered with the Business Continuity Institute to give relevant members of staff access to the latest training and learning materials.

### **10. Enhancement of information made publicly available on Gov.uk**

During 2017/18, new management information has been made public on Gov.uk. This includes; details of travel, expenses, and gifts and hospitality for the Executive team. This supplements existing information published on spend on corporate cards and all transactions over £25,000.

### **11. Targeted development training for managers**

We introduced a Senior Leader programme and a Leading People programme aimed at all line managers. This was a blended development programme, including elements that were face to face, experience based, and online.

A number of cohorts went through the programme, raising the capability of our leaders in the organisation.

The programmes were also supported by an online portal, which is available on any device 24 hours a day and provides access to a number of practical learning resources to support leaders in their day-to-day work.

## Response to the recommendations made by the Public Accounts Committee

On 30 October 2017, HS2 Ltd was required to attend the Public Accounts Committee to explain how during 2016/17 it made unauthorised payments to staff through compulsory and voluntary redundancy schemes offered at enhanced terms in excess of those authorised by the Department for Transport (the Department).

In attendance were: Bernadette Kelly, Permanent Secretary, DfT; Steve Allen, Chief Financial Officer HS2 Ltd; and Mark Thurston, Chief Executive, HS2 Ltd. The Treasury minutes, which include the PAC recommendations and HS2 response, are detailed in the link below.

<https://www.gov.uk/government/publications/treasury-minutes-1-march-2018>

Below is a year-end update on the four PAC recommendations.

**PAC recommendation: HS2 Ltd should, by the end of January 2018, write to the Committee outlining how it will ensure that all staff recognise that they are dealing with taxpayers' money and that they are required to comply with the specific rules and regulations governing its use.**

HS2 Ltd wrote to the Committee to outline the steps it has taken to ensure staff understand their responsibilities under the Framework Document and Managing Public Money (MPM) guidance. A mandatory re-induction programme, covering a range of topics including: MPM, the Development Agreement, and the Framework Document has been delivered to HS2 Ltd staff. In addition, all HS2 Ltd staff have been trained on HS2 Ltd's new governance framework. For any staff member whose role holds delegated authority, training is a mandatory requirement prior to exercising authority.

**PAC recommendation: HS2 Ltd should ensure that all organisations overseeing the work of the Company receive full and accurate information, and that proposals or requests to operate outside of the agreed Framework Document are reported to both the HS2 Board and the Department. The Department must ensure that such notifications are fully considered, challenged and a formal response made to the HS2 Board.**

Both organisations should ensure that appropriate sanctions are put in place for any failure to share full and accurate information.

A new version of the Development Agreement (July 2017) is now agreed and available on Gov.uk. A revised Framework Document was published on 23 May 2018. The new documents are clearer on the responsibilities of both HS2 Ltd and the DfT for sharing full and accurate information through the defined Sponsorship Teams.

To improve the structured and proper exchange of information between HS2 and DfT, HS2 Ltd has consolidated our sponsorship activity into a single Sponsorship function. The Sponsorship function reports to the CFO. This new model simplifies our approach to sponsorship inside HS2 Ltd and provides the primary point of interface for our relationship with the DfT and our obligations under the Development Agreement and Framework Document. A Communications Protocols is being developed to clearly define the communications arrangements between HS2 Ltd and DfT.

**PAC recommendation: HS2 Ltd should return to the Committee within 12 months to explain how it has addressed all the concerns relating to its financial controls raised by the Committee and the NAO.**

The work we have done to address the concerns relating to financial controls is set out in the section: 'Progress against 'areas for development' identified for 2017/18' on page (52-54). HS2 Ltd will return to the Committee, as requested, within 12 months to explain how it has addressed the concerns relating to its financial controls.



# Corporate Governance Report

## Governance Statement **continued**

**PAC recommendation: HS2 Ltd and the Department should, before the end of January 2018, write to the Committee to explain how they are ensuring that they have a clear shared understanding of, and approach to addressing, the key risks to successful delivery.**

On 29 January 2018, HS2 Ltd and the Department issued a letter to the Committee to explain how they approach risk and ensure shared understanding. HS2 Ltd's approach to risk management is set out on page 18.

### Head of Internal Audit Opinion

In his annual opinion, the independent Head of Internal Audit observed that HS2 Ltd has continued to undergo significant growth and change during the year and noted the considerable amount of work being undertaken as part of maturing the Company in readiness for construction activities.

Based on his findings, it is his view that a 'moderate' assurance rating was appropriate, meaning that there were 'some improvements required to enhance the adequacy and effectiveness of the framework of governance, risk management and control'. This is a higher level of assurance than the 'limited' opinion given by the Head of Internal Audit in 2016/17 (which meant that there were significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective). The Company's risk management, governance arrangements and control systems continue to develop and mature as the Company transforms from a development organisation to a construction organisation.

### External Certifications and Reviews

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

### Conclusion

HS2 Ltd continues to progress towards becoming a mature construction client organisation with processes, systems and controls which are appropriate for a programme of such scale and complexity.

I recognise that we will need to continue to build on the work already completed on improving controls to further mature the governance and controls environment to increase effectiveness and reduce risk. The results of the training and improved processes will be monitored and analysed to ensure continuous improvement.

In arriving at my conclusion, I have taken into account the annual audit opinion reported by the Head of Internal Audit, the report of ARAC and the management letter of the NAO. As Accounting Officer, I am confident that there is a sound system of internal control that supports the achievement of the Company's policies, aims and objectives. This report is for the financial year 2017/18 and, in relation to significant balance sheet events, to the date of signing.

Approved by the Board on 14 June 2018  
and signed on its behalf by



**Mark Thurston**  
Chief Executive and Accounting Officer

# Remuneration and Staff Report

The Remuneration and Staff Report for HS2 Ltd includes the Chair and other members of the Board. Changes in the composition of the Board and a summary of its members' commitments in 2017/18 are shown in the Governance Statement on page 43-49.

## Remuneration policy

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

In line with the Government's policy on transparency, HS2 Ltd published details of those who receive more than £150,000 per annum most recently at 30 September 2017 on the Cabinet Office website at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/693864/\\_150k\\_2017\\_Master\\_for\\_publication\\_March\\_18\\_update.csv/preview](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/693864/_150k_2017_Master_for_publication_March_18_update.csv/preview)

## Total Remuneration - Board Directors (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 of two days per calendar month and additional days worked are remunerated at the same daily rate. The travel expenses of Board members are reimbursed in line with the rates allowed under HS2 Ltd's business expenses policy. All Non-Executive Board members have fixed-term appointments and fee levels are set by the Secretary of State through the DfT. Non-Executive Board members are entitled to a month's notice period with no compensation for early termination of their contracts. Executive Board members are entitled to notice as stated in their employment contracts.

The fees and salaries of the Board members during the year are shown overleaf:

# Remuneration and Staff Report *continued*

	Fees and salary (£)		Bonus Payment (£)		Taxable Benefit (£)		Pension Benefit (£)		Total (£)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Lord Andrew Adonis * (to 27 April 2017)	1,900 (22,800)	22,800	0	0	0	0	0	0	1,900 (22,800)	22,800
Steven David Allen (to 31 March 2018)	422,389	415,000	0	0	54	0	0	0	422,442	415,000
Richard Howard Brown, CBE	22,800	23,750	0	0	215	0	0	0	23,015	23,750
Melvyn Ewell	23,038	13,300	0	0	261	0	0	0	23,298	13,300 (22,800)
Christine Emmett	34,200	39,900	0	0	4,306	9,100	0	0	38,506	49,000
Sir David Hartmann Higgins	240,000	240,000	0	0	0	900	0	0	240,000	240,900
Roy Francis Hill * (from 9 Dec 2016 to 2 March 2017) **	0 (582,000)	212,495 (582,000)	0	0	0	0	0	0	0 (582,000)	212,495 (582,000)
Simon Neil Kirby * (to 8 Dec 2016)	0 (750,000)	574,038 (750,000)	0	0	0	0	0	0	0 (750,000)	574,038 (750,000)
Neil Andrew Masom, OBE	40,850	38,950	0	0	12,622	12,800	0	0	53,472	51,750
Roger Philip Mountford	39,188	39,900	0	0	3,197	0	0	0	42,385	39,900
Alison Munro, CBE	68,835	158,873	23,333	35,000	22	0	6,761	16,065	98,951	209,938
Mark John Thurston * (from 1 March 2017)	600,000 (600,000)	50,000	0	0	1,087	0	892		601,979 (600,000)	50,000
Duncan William Sutherland	27,075	38,475	0	0	2,725	10,900	0	0	29,800	49,375
Baroness Josephine Clare Valentine	22,800	22,800	0	0	1,885	0	0	0	24,685	22,800

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

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

Taxable benefits include benefits in kind for travel and accommodation

Alison Munro remains an advisory consultant to the Company

The accrued pension contribution of Mark Thurston is £892

The prior year taxable benefit for Mark Thurston of £5,417 has been restated as salary. This amount relates to a cash allowance in lieu of employer pension contributions. Mark Thurston's total remuneration for the prior year remains unchanged.

Taxable benefits for Non-Executive Directors constitute the reimbursement of travel and accommodation costs associated with meeting attendance, to the extent that these are deemed taxable by HMRC under the taxable travel rules.

## Pension entitlements

Employees of HS2 Ltd are eligible to participate in a defined contribution pension scheme, in which the Company matches the employee contributions rate on a 2:1 basis to a maximum of 6% which means the maximum employer contribution is 12%. The HS2 Ltd pension scheme is managed on the Company's behalf by Legal & General Ltd. For the year ended 31 March 2018, employers' contributions were £7.1 million (2016/17: £5.5 million).

Staff on secondment from DfT and other Government entities are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The Scheme is an unfunded defined benefit scheme and liability rests with their employer, and not HS2 Ltd.

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

## Payments under compensation schemes (Audited)

In 2016 HS2 announced that it would be relocating our Head Office to Birmingham as part of our commitment to ensure we are working with our communities along the route and meeting our benefits realisation. In the process of concluding this relocation HS2 Ltd incurred certain costs in 2017/18 financial year in relation to relocation and redundancy. Relocation and redundancy costs are disclosed in full in the year of relocation or departure respectively.

## Relocation Payments

Band	2017/18 Number/Cost	2016/17 Number/Cost
<£10,000	9	23
£10,000 – £25,000	5	1
£25,000 – £50,000	–	2
>£50,000	1	–
<b>Total number of payments</b>	<b>15</b>	<b>26</b>
<b>Total cost</b>	<b>£166,584</b>	<b>£115,532</b>

## Enhanced Redundancy Payments

The payments were based on enhanced terms and included in the 2016–2017 Annual Report and Accounts as either accrued expenditure, a provision or a contingent liability and forms part of the qualified audit opinion on those accounts from the National Audit Office (NAO). They were paid out during 2017/18 with the agreement of the DfT provided in July 2017.

Band	2017/18		2016/17	
	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
<£10,000	9	–	16	1
£10,000 – £25,000	19	5	9	3
£25,000 – £50,000	4	6	3	–
£50,000 – £95,000	–	3	–	–
>£95,000	–	3	–	5
<b>Total number of payments</b>	<b>32</b>	<b>17</b>	<b>28</b>	<b>9</b>
<b>Total cost</b>	<b>£478,881</b>	<b>£806,565</b>	<b>£322,772</b>	<b>£890,501</b>

Below is a table detailing the total enhanced scheme qualified by the NAO in 2016/17. The last payment under this scheme is to be paid in the 2018/19 year and will be reported in next year's Remuneration and Staff report.

## Enhanced Redundancy Scheme

Year	Compulsory redundancies	Number	Other departures agreed	Number	Total	Number
2016/17	£322,772	28	£890,501	9	£1,213,273	37
2017/18	£478,881	32	£806,565	17	£1,285,446	49
2018/19	£22,186	1	0	0	£22,186	1
<b>Total</b>	<b>£823,839</b>	<b>61</b>	<b>£1,697,066</b>	<b>26</b>	<b>£2,520,905</b>	<b>87</b>

The total of £2.52 million is lower than the £2.76 million for commitments included in the report of the Comptroller and Auditor General in the 2016/17 Annual Report and Accounts due to the redeployment of a number of staff into other roles.



# Remuneration and Staff Report *continued*

## Statutory Redundancy Payments

Band	2017/18 Number/Cost	2016/17 Number/Cost
<£10,000	2	–
>£10,000	–	–
<b>Total number of payments</b>	<b>2</b>	<b>–</b>
<b>Total cost</b>	<b>£5,135</b>	<b>–</b>

Payments were made as a result of restructuring activities within the delegations granted to HS2 Ltd with no external approval required for redundancies made under statutory terms.

## Fair pay disclosures (Audited)

The total annualised remuneration of the highest paid Director at 31 March 2018 was £601,000 per annum (2016/17: £600,000 pa). This was 9.1 times the £66,400 pa median salary of the Company's workforce at 31 March 2018 (2016/17: 8.8 times the median salary of £67,900 pa). The median is determined as the mid-point of all salaries of the workforce comprising employees, secondees and temporary staff.

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

No employees, secondees or temporary staff have received remuneration in excess of the highest-paid Director in the year (2016/17: none). Actual staff remuneration (on an annualised basis) for full-time work at 31 March 2018 (excluding the highest paid director) range from £15,000 to £406,000 per annum.

## Staff numbers and costs

Audited staff numbers and costs are in note 5 of the Financial Statements on page 81.

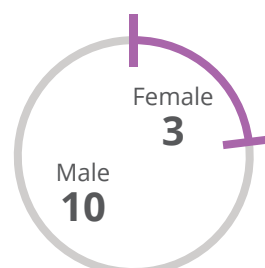
## Staff composition

The overall proportion of female employees in 2017/18 is 34% (31 March 2018) compared to 35% reported in 2016/17.

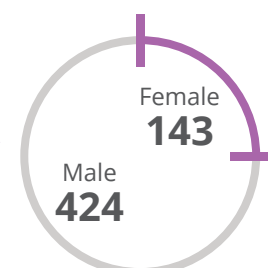
Definition used for senior managers differs from 2016/17 reporting in that senior manager has been defined as roles equivalent to Senior Civil Servants (SCS) grade SCS4 to SCS1 as per Transparency reporting types (i.e. HS2 grade 20–26).

## 2016/17 staff composition, as of 31 March 2017

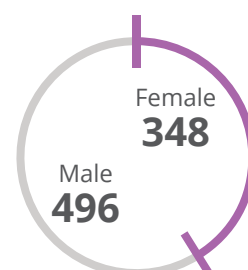
### Directors



### Senior Managers

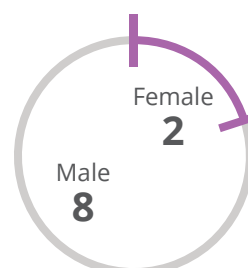


### Employees

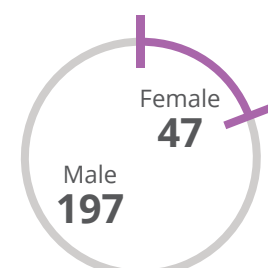


## 2017/18 staff composition, as of 31 March 2018

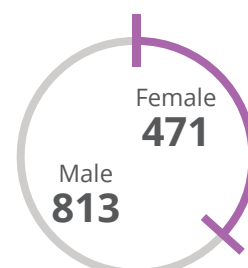
### Directors



### Senior Managers



### Employees



## Sickness absence data

Recorded staff absence due to sickness equated to an average of 2.4 days per employee during the year (2016/17: 1.9 days) for direct employees of HS2 Ltd.

## Staff policies for disabled persons

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

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

## Other employee matters

### Diversity and equal treatment

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

- Develop and implement recruitment and selection processes that are open and fair and that enable the selection of the best talent.
- Aim to build a workforce that reflects the communities it serves.
- Promote an environment free from discrimination, harassment, bullying and victimisation and tackle any behaviour that breaches this.

- Provide training support and encouragement to employees and workers so that they can develop their careers and enhance their contribution to the organisation.
- Make all employees and workers aware of their responsibility for promoting equality, diversity and inclusion in their work; and involve employees and workers and their representatives in the development of implementation monitoring and review of human resources policies, procedures and flexible working arrangements.

### Employee consultation

The HS2 Ltd Workplace Forum (WPF) was relaunched in March 2018, which included revised terms of reference and the election of new representatives from 15 constituencies across HS2 London and Birmingham offices.

The Workplace Forum has four key purposes:

- To be a two-way, communication channel between representatives and Management.
- To be the united voice of employees, to allow representatives to challenge and understand impacts to employees, and for Management to understand the concerns and issues of employees.
- To be a forum for Management to consult on changes that will impact on the organisation and its employees.
- The WPF is also the Health and Safety forum for HS2. As such, Health and Safety is always a standing agenda item at all WPF meetings.

# Remuneration and Staff Report *continued*

Long-term objectives of the Workplace Forum are:



## Health and safety at work

There was positive health and safety performance throughout 2017/18. There were no RIDDOR reportable incidents despite twice as many working hours being recorded compared to 2016/17. The number of injuries of any severity also fell, whilst near miss reporting increased (demonstrating an improved reporting culture). The following table sets out the comparative statistics relating to health and safety.

	2017/18	2016/17
Total RIDDOR injuries	0	4
Total lost time injuries	5	5
Total injuries	52	82
Total near misses	231	170
Total hours worked	8,961,530	4,201,039

The occurrence of Health, Safety, Security and Environmental incidents remain at a low level, in comparison with other businesses of a similar nature, however near miss reporting is also low.

## Trade union relationships

HS2 Ltd and the TUC signed an 'initial framework agreement' in April 2016. This described HS2 Ltd and TUC's shared purpose and values for effective joint working, and how issues concerning the employment, development, diversity and inclusion of people working throughout the project's supply chain will be discussed.

It also provided a platform for future work package agreements to be agreed directly between the relevant contractors and unions with support from HS2 Ltd and the TUC.

In January 2018 Mark Thurston, on behalf of HS2 Ltd, and the General Secretary of Transport Salaried Staffs' Association (TSSA) agreed a memorandum of understanding that supports the election of representatives by TSSA by providing appropriate facility time to carry out their duties as representatives for HS2 employed staff.

The memorandum gives limited rights to areas of recruitment and individual representation on grievance and disciplinary matters, along with some involvement in health and safety matters.

#### **New TU facility time publication requirements for public sector employers**

The new regulations – which implement section 13 of the Trade Union Act 2016 – came into force on 1 April 2017. The new requirement of the Facility Time Publication Regulations is that public sector employers publish the total cost of paid facility time taken by employees who are union officials.

In 2017/18 HS2 did not have any employees who were union officials and therefore did not capture this. As we have an agreement with the TSSA we will record this information from 1 April 2018.

#### **Managing our people**

Our new People Strategy was developed and approved by the Board of Directors in May 2018. In developing our people strategy, we have carefully considered the needs of the programme over its lifecycle, as well as the support that our staff and stakeholders need and expect – and have set wide-ranging priorities that directly support the aims of HS2 Ltd.

Those four key priority themes are developing an effective organisation with the right skills and capabilities; realising the HS2 skills legacy; developing a high-performing and diverse workforce with an inclusive culture; and delivering proactive, professional, innovative HR support.

Each strategic theme will be delivered through underpinning projects and targets, which we will measure to ensure we are delivering against our targets.

They set out how we will improve support across People Services – from an improved business partner service to proactive resource planning and recruitment support, developing our people and ensuring that HS2 leaves a skilled legacy for the future.



# Remuneration and Staff Report *continued*

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

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

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

No of existing engagements as at 31 March 2018	78
of which	
Number that have existed for less than one year at the time of reporting	35
Number that have existed for between one and two years at the time of reporting	25
Number that have existed for between two and three years at the time of reporting	12
Number that have existed for between three and four years at the time of reporting	5
Number that have existed for four or more years at the time of reporting	1

### For all new off-payroll appointments, or those that reach six months in duration, between 1 April and 31 March for more than £245 per day and will last for longer than six months:

The number of new engagements or those that reached six months during the period	119
The number of these engagements which were assessed as caught by IR35	88
The number of these engagements which were assessed as not caught by IR35	31
The number that were engaged directly (via PSC contracted to department) and are on the departmental payroll	0
The number that were reassessed for consistency / assurance purposes during the year whom assurance has been requested but not received; and	0
The number that saw a change to IR35 status following the consistency review	0

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

The number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility, during the financial year;	2
These engagements were to facilitate the permanent recruitment of the right individual with appropriate skills.	
Both of these exceptional engagements were no longer than six months in duration.	
The total number of individuals both on and off-payroll that have been deemed "Board members and/or senior officials with significant financial responsibility", during the financial year.	10

Approved by the Board on 14 June 2018 and signed on its behalf by



**Mark Thurston**

Chief Executive and Accounting Officer

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

## Opinion on financial statements

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

## Opinion on regularity

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

## Basis of opinions

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

## Responsibilities of the directors and Accounting Officer for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's Responsibilities, the directors and accounting officer are responsible for:

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of High Speed Two (HS2) Limited's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on High Speed Two (HS2) Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

## Other information

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

## Opinion on other matters

In my opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual;
- in light of the knowledge and understanding of the group and the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

## Report

I have no observations to make on these financial statements. However, in light of the issues raised in respect of High Speed Two (HS2) Limited's redundancy scheme and associated governance issues in my Report on the 2016/17 Accounts, I draw the attention of users of the account to management's own disclosures in the Governance Statement on pages 52–56 and Remuneration and Staff Report on pages 58–59 which provide an update on the issues reported, and on the actions taken by management to respond to the issues raised.

**Sir Amyas C E Morse**  
Comptroller and Auditor General

19 July 2018

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





## Financial Statements





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# Statement of comprehensive net expenditure

	Note	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
<b>Income</b>			
Interest income	3	102	–
<b>Total income for the year</b>		<b>102</b>	<b>–</b>
<b>Expenditure</b>			
Staff costs	5	26,367	29,993
Other expenditure	6	147,406	71,649
Non-cash items	6	55,499	1,083
<b>Total expenditure for the year</b>		<b>229,272</b>	<b>102,725</b>
<b>Net expenditure before taxation</b>		<b>229,170</b>	<b>102,725</b>
Taxation	7	19	–
<b>Net expenditure after taxation</b>		<b>229,189</b>	<b>102,725</b>
<b>Other comprehensive Income</b>			
Items which will not be reclassified to net operating costs:			
Net gain/loss on revaluation of Asset Under Construction – Railway		–	3,443
<b>Comprehensive net expenditure for the year</b>		<b>229,189</b>	<b>106,168</b>

The Accounting Policies and Notes on pages 74 to 96 form part of these financial statements.



# Statement of financial position

	Note	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
<b>Non-current assets</b>			
Intangible assets	8	10,298	20
Property, plant and equipment	9	1,779,720	864,480
Financial assets	10	2,873	4,081
<b>Total non-current assets</b>		<b>1,792,891</b>	868,581
<b>Current assets</b>			
Trade and other receivables	11	41,092	10,401
Cash and cash equivalents	12	29,668	13,586
<b>Total current assets</b>		<b>70,760</b>	23,987
<b>Total assets</b>		<b>1,863,651</b>	892,568
<b>Current liabilities</b>			
Trade and other payables	13	(226,371)	(144,436)
Provisions	14	(285,283)	(5,047)
<b>Total current liabilities</b>		<b>(511,654)</b>	(149,483)
<b>Total net assets</b>		<b>1,351,997</b>	743,085
<b>Taxpayers' equity</b>			
General reserve		1,351,997	743,085
		<b>1,351,997</b>	743,085

The general reserve represents the net investment by the DfT in HS2 Ltd.

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

The Accounting Policies and Notes on pages 74 to 96 form part of these financial statements. The financial statements on pages 68 to 95 were approved by the Board on 14 June 2018 and were signed on its behalf by:



**Mark Thurston**

Chief Executive and Accounting Officer



# Statement of cash flows

	Note	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
<b>Cash flows from operating activities</b>			
Net operating cost per Expenditure Statement		(229,189)	(102,725)
(Increase) / decrease in trade and other receivables	11	(6,905)	(914)
Increase / (decrease) in trade and other payables	13	18,436	11,530
Adjustment for non-cash transactions	6	55,499	1,083
<b>Net cash outflow from operating activities</b>		<b>(162,159)</b>	<b>(91,026)</b>
<b>Cash flows from investing activities</b>			
(Increase) / decrease in trade and other receivables	11	(23,786)	425
Increase / (decrease) in trade and other payables	13	63,500	46,122
Use of provisions	14	(438)	–
Purchase of property, plant and equipment	9	(921,575)	(396,732)
Purchase of intangible assets	8	(9,535)	–
Decrease / (increase) in loan receivables	10	1,208	(4,081)
Adjustment for other non-cash transactions	6	230,766	8,869
<b>Net cash outflow from investing activities</b>		<b>(659,860)</b>	<b>(345,397)</b>
<b>Cash flows from financing activities</b>			
Capital contribution from DfT		838,101	445,000
<b>Net cash inflow from financing activities</b>		<b>838,101</b>	<b>445,000</b>
Net increase / (decrease) in cash and cash equivalents		16,082	8,577
Cash and cash equivalents at the beginning of the year	12	13,586	5,009
<b>Cash and cash equivalents at the end of the year</b>	12	<b>29,668</b>	<b>13,586</b>

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

The Accounting Policies and Notes on pages 74 to 95 form part of these financial statements.

# Statement of changes in taxpayers' equity

	General Reserve £'000	Revaluation Reserve £'000	Total Reserves £'000
<b>Balance at 31 March 2016</b>	400,810	3,443	404,253
<b>Changes in Taxpayers' equity for 2016-17</b>			
Net operating cost for the year	(102,725)	–	(102,725)
Revaluation on Assets under Construction	–	(3,443)	(3,443)
Capital contribution from DfT	445,000	–	445,000
<b>Balance at 31 March 2017</b>	743,085	–	743,085
<b>Changes in Taxpayers' equity for 2017-18</b>			
Net operating cost for the year	(229,189)	–	(229,189)
Revaluation on Assets under Construction	–	–	–
Capital contribution from DfT	838,101	–	838,101
<b>Balance at 31 March 2018</b>	<b>1,351,997</b>	<b>–</b>	<b>1,351,997</b>

The Accounting Policies and Notes on pages 74 to 95 form part of these financial statements.

# Notes to the financial statements

## 1. General information

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

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

The registered office and principal place of business of the Company is Two Snowhill, Queensway, Birmingham B4 6GA, and the Company's principal activities are to develop proposals, design, build and operate a high speed rail network between London, Birmingham, Leeds and Manchester. The period covered by these accounts is 12 months to the 31 March 2018.

## 2. Statement of Accounting Policies

### 2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with the requirements of the Companies Act 2006 applicable to companies reporting under IFRSs. As a Non-Departmental Public Body (NDPB), the Company also adopts the interpretations of IFRS and additional disclosure requirements contained in the Government Financial Reporting Manual (FReM) for 2017/18, where these are compatible with the requirements of the Companies Act.

Where this framework permits a choice of policy, the accounting policy judged to be most appropriate to the particular circumstances of HS2 Ltd for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Company are described below and have been applied consistently in dealing with matters considered material to the accounts.

### 2.2 Measurement convention

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

### 2.3 New or amended accounting standards and interpretations

The Company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the period ending 31 March 2018 to determine the impact on the Company's financial statements.

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

A number of new standards, amendments and interpretations are not yet effective for the period ended 31 March 2018 and accordingly have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods.

- IFRS 9 Financial instruments, which replaces IAS 39, deals with the classification and measurement of financial assets and financial liabilities, hedge accounting, de-recognition and the impairment of financial assets. It is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1 January 2018, though earlier application is permitted. The impact of the initial application of IFRS 9 is not expected to be significant. This is because, while the classification of financial assets and liabilities will change, it appears that existing measurement approaches will continue to be appropriate. It is also considered that there will be no significant change to the recognition of impairment on the Company's financial assets, because the expected credit losses on these assets are considered to be immaterial.

- IFRS 15 Revenue from Contracts with Customers came into effect on the 1 January 2018. It requires the recognition of revenue as the performance obligations are satisfied. Its implementation is expected to have no material impact on the Company.
- IFRS 16 covering Leases was issued in January 2016 and should be effective in the private sector periods commencing on or after 1 January 2019. It should be included in the 2019/20 FReM resulting in HS2 adopting the standard in that financial year. IFRS 16 will specify how HS2 will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. For HS2 this will impact operating leases in Note 16, which is for building leases currently recorded in the Statement of Comprehensive Net Expenditure. When adopted the leases will be recorded in the Statement of Financial Position recognising a right-of-use asset and a lease liability.
- There were no new standards issued that would materially affect the Company's financial statements as at 31 March 2018. Other changes due to come in effect after 31 December 2018, are considered to have no material impact on the Company.

## 2.5 Going concern

The development and delivery of HS2 as part of the Government's wider high speed rail agenda is in accordance with the aims of DfT as our sponsor and is funded entirely by capital contribution from the DfT as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013. In November 2015, following a Government-wide spending review, the level of resources available for HS2 Ltd for 2018/19 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021.

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

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

The Statement of Financial Position (SoFP) as at 31 March 2018 shows net assets of £1,352 million.



# Notes to the financial statements continued

## 2.6 Estimation techniques used and changes in accounting estimates

HS2 Ltd applies the following significant estimation techniques.

- The recognition and valuation of accrued liabilities for work done by its professional service contractors is based on the Company's best estimates of the work done at the balance sheet date. The value of work done is certified, invoiced and paid only when all issues regarding the valuation of work done have been resolved to the Company's satisfaction. Accruals are based on the Company's view of application for payment and other information provided by the contractors leading up to certification. When accruing the Company takes a view of any disputed amounts.
- Estimates of the contribution of each business unit are used to allocate costs to the phases of the HS2 programme. The approach to allocating these costs has been modified and is based on using appropriate allocation drivers rather than using a level of judgment from the business. This has removed some uncertainty in allocating costs correctly to the phases.
- Estimates relating to classifying Undertaking and Assurances (U&A) as either a contingent liability or a provision is based on applying IAS37. Each U&A is considered on a case by case basis and involves some degree of judgement and estimation of the potential liability and appropriate classification.

## 2.7 Financing

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

## 2.8 Leases

### Operating Leases

As a lessee:

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

## 2.9 Intangible assets

### Recognition

Expenditure on intangible assets which are non-monetary assets without physical substance and identifiable are capitalised where the cost is £1,000 or more and this is applied on a grouped basis using the threshold of £1000 where the elements in substance form a single asset. Subsequent acquisitions of less than £1,000 value which are of the same nature as existing grouped assets are appended. Otherwise, expenditure on intangible assets which fall below £1,000 is charged as an expense in the (SoCNE).

### Measurement

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

### Impairment

Intangible assets are monitored throughout the year as to whether there is any indication that an asset may be impaired. At the end of each reporting period, tests for impairment are carried out 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 (SoCNE).

Where an impairment loss is subsequently reversed, the reversal is credited in the (SoCNE), up to the amount of the original loss, adjusted for amortisation that would have been charged if the loss had not been recognised.

### Amortisation

Amortisation is provided on all non-current assets from the date at which they are available for their intended use at rates calculated to write off the cost of each asset (less any estimated residual value) on a straight-line basis over its useful economic life (UEL). The Company reviews and updates the remaining UEL of all its intangible assets each year. This is the period for which the asset provides economic benefits that will flow to the Company from its use.

### Disposals

When scrapping or 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.

## 2.10 Property, plant and equipment

### Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the UEL including service potential, associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

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

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

The railway infrastructure asset, is capitalised on an accruals basis, provided that it is probable that the UEL including service potential, associated with the item will flow to the Company and the cost of the item can be measured reliably. The trigger point at which these criteria are satisfied is considered separately for each phase of the railway, and is taken to be met at the point when key enabling legislation is substantively enacted.

Note that land and property acquisitions and compensation schemes are required to bring the railway asset into operational condition. This is an expense that the SoS (DfT) recognises and is therefore not listed in these accounts. Please refer to Note 2.11.

# Notes to the financial statements continued

## Measurement

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

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

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

- All property, plant and equipment, other than railway infrastructure assets, are considered to be relatively short-life or low-value assets and are valued on the basis of depreciated historic cost as an approximation of fair value.
- Railway infrastructure assets, when complete and available for their intended purpose, will be valued in accordance with IFRS and any compatible interpretations in the FReM. During the construction period, such assets are valued at cost. The hybrid Bill second readings are the recognition point when costs are classified as railway infrastructure assets. For Phase One the second reading took place in April 2014 and for Phase 2a this took place in January 2018.

## Impairment

Property, plant and equipment are monitored throughout the year as to whether there is any indication that an asset may be impaired. At the end of each reporting period, tests for impairment are carried out for 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 (SoCNE).

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

## Depreciation

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

The Company reviews and updates the remaining UEL of all its assets each year. This is the period for which the asset provides economic benefits that will flow to the Company from its use.

## Disposals

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

## 2.11 Land and Property

Properties acquired to bring the railway asset into operational condition are purchased by the DfT on behalf of the SoS and are recognised as assets in the DfT's financial statements. Consequently, the Company does not accrue or make provision for the acquisition of property. Activity undertaken on behalf of the SoS include Compulsory Purchase Orders, Compensation Schemes and Safeguarding Schemes.

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

### 2.12 Cash and cash equivalents

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

### 2.13 Taxation

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

### 2.14 Value added tax

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

### 2.15 Provisions

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

Undertaking and Assurances (U&A) are only classified as a provision when they meet the definitions contained in IAS37. Each U&A is classified on a case by case basis. If a U&A (or part thereof) has a present obligation from a past event with a probable outflow and can be reliably estimated then it is recorded as a provision (see Note 14).

### 2.16 Contingent liabilities

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



# Notes to the financial statements continued

## 3. Income

	Year ended 31 Mar 2018 Capital £'000	Year ended 31 Mar 2018 Resource £'000	Year ended 31 Mar 2017 Capital £'000	Year ended 31 Mar 2017 Resource £'000
<b>Income includes:</b>				
Interest income	-	102	-	-
	-	102	-	-

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

## 4. Statement of expenditure by operating segment

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

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

	Resource Expenditure £'000	Capital Expenditure £'000	Total £'000
<b>Year ended 31 Mar 2018</b>			
Phase One: between London and the West Midlands	-	908,089	908,089
Phase Two: between Birmingham and Leeds and Manchester	221,270	6,025	227,295
Other Capital	-	16,996	16,996
Depreciation	5,033	-	5,033
Administration	2,969	-	2,969
<b>Total Net Expenditure</b>	<b>229,272</b>	<b>931,110</b>	<b>1,160,382</b>

<b>Analysed as to:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Programme Costs	226,303	931,110	1,157,413
Administration Costs	2,969	-	2,969
<b>Total Net Expenditure</b>	<b>229,272</b>	<b>931,110</b>	<b>1,160,382</b>

Year ended 31 Mar 2017	Resource Expenditure £'000	Capital Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	–	394,386	394,386
Phase Two: between Birmingham and Leeds and Manchester	99,283	–	99,283
Other Capital	–	2,346	2,346
Administration	3,442	–	3,442
<b>Total Net Expenditure</b>	<b>102,725</b>	<b>396,732</b>	<b>499,457</b>
Analysed as to:	£'000	£'000	£'000
Programme Costs	99,283	396,732	496,015
Administration Costs	3,442	–	3,442
<b>Total Net Expenditure</b>	<b>102,725</b>	<b>396,732</b>	<b>499,457</b>

## 5. Staff numbers and costs

	Direct employees 2018	Other personnel 2018	Year ended 31 Mar 2018 Total	Year ended 31 Mar 2017 Total
<b>Whole time equivalent persons employed – average for the year</b>	<b>1,122</b>	<b>228</b>	1,350	1,292
<b>Staff costs comprise:</b>	<b>£'000</b>	<b>£'000</b>	£'000	£'000
Wages and salaries	76,441	27,471	103,912	119,109
Social security costs	8,928	93	9,021	7,419
Other pension costs	7,053	69	7,122	5,663
Chairman and Non-Executives fees	550	–	550	528
<b>Total staff costs</b>	<b>92,972</b>	<b>27,633</b>	120,605	132,719
<b>Non-cash items include:</b>			£'000	£'000
Capitalised expenses (Staff costs)			(94,238)	(102,726)
<b>Total non-cash costs</b>			(94,238)	(102,726)
<b>Total staff costs in statement of net expenditure</b>			<b>26,367</b>	<b>29,993</b>

Fees and salaries paid to the Directors are set out in the Remuneration and Staff Report (page 57-64).

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

# Notes to the financial statements continued

## 6. Other expenditure

	Year ended 31 Mar 2018 Capital £'000	Year ended 31 Mar 2018 Resource £'000	Year ended 31 Mar 2017 Capital £'000	Year ended 31 Mar 2017 Resource £'000
<b>Non-staff expenditure includes:</b>				
Professional services	108,211	37,289	43,596	7,401
Engineering services	377,022	64,151	145,072	43,183
Environmental services	3,734	17,450	19,186	1,949
Design – utilities	49,080	805	17,860	380
Licences and surveys	4,115	2,837	7,118	1,836
Communication and Information Technology	13,562	4,872	18,386	5,805
Accommodation costs	10,610	3,181	11,710	3,282
Property advice and valuation	12,183	13,835	8,555	3,688
Legal costs	6,193	561	2,441	1,016
Travel and subsistence	2,770	849	3,290	1,184
Auditors' remuneration and expenses	–	190	–	140
Recruitment fees	564	190	2,200	610
Other costs	1,066	1,196	3,377	1,175
	<b>589,110</b>	<b>147,406</b>	<b>282,791</b>	<b>71,649</b>
<b>Non-cash items include:</b>				
Depreciation of tangible assets	–	5,493	3,648	1,031
Provisions	230,766	49,908	5,047	–
Amortisation of intangible assets	–	98	174	52
<b>Total non-cash costs</b>	<b>230,766</b>	<b>55,499</b>	<b>8,869</b>	<b>1,083</b>
<b>Total other expenditure</b>	<b>819,876</b>	<b>202,905</b>	<b>291,660</b>	<b>72,732</b>

In the 2016/17 accounts professional services, engineering services, environmental services and design - utilities were classified under professional services. For this year's accounts professional services have been split to provide enhanced disclosure of the main expenditure types. As a result the 2016/17 figures have been split for comparative purposes.

## 7. Taxation

	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
<b>Current taxation</b>		
UK corporation tax	19	–
<b>Total UK corporation tax</b>	<b>19</b>	<b>–</b>
<b>Factors affecting the tax charge for the period</b>		
The effective rate of tax for the period is equal to the standard rate of corporation tax in the UK of 19%.		
<b>The differences are explained below:</b>		
Net expenditure on ordinary activities	(229,170)	(102,725)
Tax at the standard rate of corporation tax in the UK 19% (2017: 20%)	(43,542)	(20,545)
Income and expenditure not subject to corporation tax	43,561	20,545
<b>Total taxation charge</b>	<b>19</b>	<b>–</b>

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

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



# Notes to the financial statements continued

## 8. Intangible assets

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

The additions mainly relate to assets currently under development of £7,930k and are not yet amortise.

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

All assets are owned and there are no intangible assets under a finance lease. To be consistent with DfT accounts IT system builds were reclassified into Software and Development being previously recorded as IT equipment.

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

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

	Assets under construction railway £'000	Leasehold improvements, plant & equip £'000	IT equipment £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2016	454,656	16,492	15,645	486,793
Additions	394,386	1,136	1,210	396,732
Disposals	–	–	–	–
Revaluations	(3,443)	–	–	(3,443)
<b>At 31 March 2017</b>	<b>845,599</b>	<b>17,628</b>	<b>16,855</b>	<b>880,082</b>
<b>Depreciation</b>				
At 1 April 2016	–	2,761	8,162	10,923
Charged in year	–	2,368	2,311	4,679
Disposals	–	–	–	–
<b>At 31 March 2017</b>	<b>–</b>	<b>5,129</b>	<b>10,473</b>	<b>15,602</b>
<b>Net book value at 31 March 2017</b>	<b>845,599</b>	<b>12,499</b>	<b>6,382</b>	<b>864,480</b>
<b>Net book value at 31 March 2016</b>	<b>454,656</b>	<b>13,731</b>	<b>7,483</b>	<b>475,870</b>

# Notes to the financial statements continued

All assets are owned and there are no assets under a finance lease. The leasehold improvements and IT equipment headings include assets under construction amounting to £36k and NIL respectively which are not available for use at the year end, and therefore have not yet been depreciated (2016/17: £11k and £1,976k). In 2017/18 HS2 Ltd reviewed and updated the UEL of all its PPE assets in accordance with its accounting policy.

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

## 10. Financial Assets

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Amounts falling due after more than one year:</b>		
Loan to National College for High Speed Rail	2,873	4,081
	<b>2,873</b>	<b>4,081</b>

The loan receivable relates to a working capital loan to the National College for High Speed Rail. The loan is interest bearing at 3.6% per annum. Repayment of the loan will start in the 2021/22 financial year with the loan being fully repaid by 31 March 2025. As a result there is no immediate credit, liquidity or market risk associated with the loan.

## 11. Trade receivables and other current assets

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Amounts falling due within one year:</b>		
VAT receivables	19,496	9,255
Other receivables	5,269	1,146
Prepayments	16,327	–
	<b>41,092</b>	<b>10,401</b>

## 12. Cash and cash equivalents

	31 Mar 2018 £'000	31 Mar 2017 £'000
Balance at 1 April	13,586	5,009
Net change in cash and cash equivalent balances	16,082	8,577
<b>Balance at 31 March</b>	<b>29,668</b>	<b>13,586</b>

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Analysis of cash and cash equivalents:</b>		
Cash held with the Government Banking Services	21,461	–
Cash held in Commercial bank account	8,207	13,586
	<b>29,668</b>	<b>13,586</b>

## 13. Trade payables and other current liabilities

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Amounts falling due within one year:</b>		
Trade payables	63,413	14,981
Corporate tax	19	–
Accruals	162,939	129,455
<b>Balance at 31 March</b>	<b>226,371</b>	<b>144,436</b>



# Notes to the financial statements continued

## 14. Provisions

	Petition undertakings and assurances £'000	Restructuring £'000	VAT £'000	Other £'000	Total £'000
<b>Balance at 31 Mar 2017</b>	4,609	438	–	–	5,047
Provided in the year	4,303	–	274,552	1,819	280,674
Provisions utilised in the year	–	(438)	–	–	(438)
Provisions not required written back	–	–	–	–	–
<b>At 31 March 2018</b>	<b>8,912</b>	<b>–</b>	<b>274,552</b>	<b>1,819</b>	<b>285,283</b>
<b>Analysis of expected timing of flows:</b>					
Not later than one year	8,912	–	274,552	–	283,464
Later than one year and not later than five years	–	–	–	1,819	1,819
Later than five years	–	–	–	–	–
	8,912	–	274,552	1,819	285,283
<b>At 31 March 2017</b>					
<b>Analysis of expected timing of flows:</b>					
Not later than one year	4,609	438	–	–	5,047
Later than one year and not later than five years	–	–	–	–	–
Later than five years	–	–	–	–	–
	4,609	438	–	–	5,047

## Petition undertakings and assurances

As part of the legislative process for the High Speed Rail (London – West Midlands) Act 2017, individuals and organisations were able to raise their objections to the HS2 scheme as petitions. As a result, a number of assurances to petitioners will inform the planning, design and future construction of Phase One.

As a result, a number of assurances were given to petitioners which will inform the planning, design and future construction of Phase One in certain cases. HS2 Ltd is required as 'nominated undertaker' to meet these assurances. A form of compensation must be provided to those directly affected by the construction and operation of the railway which does not form part of the design and plans for the railway. As set out in our Community Engagement Strategy, HS2 Ltd aspires to be a 'good neighbour' and will continually seek to reduce the impact of the railway. Some of the commitments HS2 Ltd has entered into are recognised as provisions as defined by IAS 37, since at year end there is a present obligation, with a probable outflow of resources which can be reliably estimated.

## VAT

The Company registered for VAT with effect from April 2014. HMRC are currently reviewing the Company's ability to recover VAT incurred on construction activity. The Company has sought specialist advice to ensure that the correct treatment is applied.

Subject to the outcome of this review, there may be a change in the way VAT is applied to HS2 Ltd's activities. The Company therefore considers that recognition of a provision covering the VAT reclaimed to date is appropriate. The change in recognition from a contingent liability in 2016/17 is the result of a reappraisal of the liability based on the latest information available. In the event that HMRC's review results in a decision to remove the Company's ability to recover VAT on construction costs, HS2 Ltd would be required to repay up to £275 million of reclaimed VAT for the period April 2014 to March 2018.

HS2 Ltd is currently assessing the likely impact of a HMRC ruling on the total cost of the infrastructure with assistance from specialist advisors. The NAO made it clear in their 2013 report on HS2 that in respect of construction costs affecting the Company, any VAT 'represents an internal transfer within Government. Any change to the Company's VAT status would not change the net cost to the UK taxpayer of delivering HS2.

## Other

The Company has provided for supplier incentive costs that are payable dependent on specific performance criteria being met. These are for amounts where the likelihood of payment has been assessed as probable.

# Notes to the financial statements continued

## 15. Financial instruments

HS2 Ltd has no borrowings and is funded by capital contribution from the DfT. The Company aims to maintain minimal holdings of cash equivalents appropriate to its short-term needs and has only one significant third-party receivable being the loan to the National College of High Speed Rail, refer to Note 10. The Company is considered to have no material credit, liquidity, interest rate or market risk.

## 16. Operating lease arrangements

### As a lessee:

	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
Minimum lease payments under operating leases recognised in the Statement of comprehensive net expenditure in the year	5,581	8,173

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

	Year ended 31 Mar 2018 £'000	Year ended 31 Mar 2017 £'000
Not later than one year	6,105	8,188
Later than one year and not later than five years	17,918	19,756
Later than five years	7,923	13,460
	31,946	41,404

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

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

## 17. Financial commitments

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

	31 Mar 2018 £'000	31 Mar 2017 £'000
Financial commitments (excluding capital commitments) at 31 March	13,450	355
Property, plant and equipment	52,743	19,045
Intangible assets	3,956	–
Contracted capital commitments at 31 March	56,699	19,045

## 18. Contingent liabilities

Contingent liabilities do not represent a current liability for HS2 Ltd at 31 March 2018, but some will result in an obligation to transfer cash in the future, depending on one or more relevant events occurring. They are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation or a transfer of economic benefits has become probable, a provision will be made. As such, these are contingent liabilities within the definition of IAS37 – Provisions, Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- As part of the legislative process for the High Speed Rail (London – West Midlands) Act 2017, individuals and organisations were able to raise their objections to the HS2 scheme as petitions. As a result, a number of assurances were given to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, HS2 Ltd is required as 'nominated undertaker' to meet these assurances.
- HS2 Ltd has identified a number of undertakings and assurances which lead to contingent liabilities totalling £114.9m (2017: £64.9m). These are undertakings and assurances where there is uncertainty over whether a 'present obligation' (as defined by IAS 37) exists at year end which is likely to lead to expenditure by HS2 Ltd. The hybrid Bill authorising Phase 2a works has been introduced. 188 petitions against the Phase 2a hybrid Bill have been deposited. The petitions will be considered by the Select Committee, with hearings starting later in the spring of 2018. In advance of these hearings, a small number of assurances have been issued as at year end. These commitments do not meet the definitions of provisions or contingent liabilities, as defined in IAS 37.



# Notes to the financial statements continued

- As part of its normal course of business, the Company has given indemnities to individuals and companies who could be impacted by the construction of HS2. In all cases, no claims have arisen. It is not possible to quantify the liabilities that may arise in the future with any reliability:
  - A Framework Asset Protection Agreement with Network Rail dated 13 January 2015. The agreement includes an uncapped indemnity in relation to all losses suffered by Network Rail because of the Company's works.
  - A number of Protective Provisions Agreement's ("PPA") with either special status or utility companies that include indemnities in relation to the Company's work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the Phase One hybrid Bill Act that provides for protection, repair, compensation and indemnification from third party claims.
- Agreements providing for access to land and property owned by private individuals and businesses prior to the construction phase. Such agreements provide an indemnity to the property owners for loss or damage caused by the Company in the course of its work.
- A legal claim to challenge the decision by HS2 Ltd not to shortlist an applicant at the pre-qualification stage of its rolling stock procurement.
- The Company has supplier incentive costs that are payable dependent on specific performance criteria being met. The amounts relating to the period after 31 March 2018, where the assessment of payment is less than probable, have not been provided for.

As set out in Note 2.11, the Company does not have any contingent liability in respect of the potential cost of property that may be acquired in the name of the Secretary of State along the HS2 route. Any such contingent liability will be reported in the DfT's financial statements.

## 19. Related-party transactions

Members of the senior leadership team and all holders of delegated authorities were surveyed at year-end to identify any significant related party transactions and to highlight any possible conflicts of interest. The results confirmed that there were no significant related party transactions for wider HS2 staff requiring disclosure.

HS2 Ltd operates a Conflicts of Interest Policy that applies to both internal staff and our supply chain. The process is supported by a dedicated Commercial Compliance team and a Conflict of Interest Panel to manage actual, potential or perceived conflicts of interest. The Conflict of Interest Panel are HS2 Ltd employees selected to provide a cross section of views and experience, the core members include senior representatives from HR, Finance, Procurement, Commercial, Legal and Compliance.

### Department for Transport Group

HS2 Ltd is an Executive Non-Departmental Public Body sponsored by the DfT, which accordingly is a related party.

HS2 Ltd has had related party transactions during 2017/18 with the following members of the Department for Transport group; Network Rail Infrastructure Ltd, Highways England Company Ltd, British Transport Police, and Transport Focus.

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and Department for Transport (DfT)</b>		
<b>Amounts received / (paid) in year:</b>		
Capital contribution received from the DfT	838,101	445,000
Amounts paid to DfT	(37,619)	(32,325)
Other amounts received from DfT	1,527	8,089
Other amounts reimbursed to DfT	(7,100)	(1,684)
Amounts included in note 11 as receivable at end of year	2,431	–
Amounts included in note 11 as prepaid expenses at end of year	853	–
Amounts included in note 13 as payable at end of year	30,454	21,961
	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and Network Rail (NR)</b>		
Amounts paid to NR	(83,588)	(45,162)
Amounts included in note 13 as payable at end of year	37,849	7,712
	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and Highways England Company Ltd</b>		
<b>Amounts received / (paid) in year:</b>		
Amounts paid to Highways England Company Ltd	(11,361)	(3,728)
Other amounts received from Highways England Company Ltd	162	–
Amounts included in note 13 as payable at end of year	1,660	1,499
	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and British Transport Police</b>		
Amounts paid to British Transport Police	(97)	(31)
Amounts included in note 13 as payable at end of year	5	–
	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and Transport Focus</b>		
Amounts paid to Transport Focus	(121)	(153)
Amounts included in note 11 as receivable at end of year	–	4
Amounts included in note 13 as payable at end of year	7	–

# Notes to the financial statements continued

All of the transactions with the DfT and members of the DfT group controlled by DfT are carried out on an arm's-length basis.

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

## Central Government

HS2 Ltd has undertaken transactions with a range of other Government departments, agencies, and bodies. These are included in aggregate as Central Government. All transactions are carried out on an arm's length basis. The organisations include; Cabinet Office, Department for Education, Home Office, Valuation Office Agency and the Environment Agency

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and Central Government</b>		
Amounts paid to Central Government	(4,247)	(8,203)
Amounts included in note 13 as payable at end of year	1,887	1,734

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

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

## Other Organisations

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and WYG Environmental Planning Transport Ltd</b>		
Amounts paid to WYG Environmental Planning Transport Ltd	(639)	(1,273)
Amounts included in note 13 as payable at end of year	193	563

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

	31 Mar 2018 £'000	31 Mar 2017 £'000
<b>Transactions between HS2 and National College for High Speed Rail (NCHSR)</b>		
Amounts included in note 10 as loans receivable at end of year	2,873	4,081
Amounts paid to NCHSR	(6)	–
Loan interest received from NCHSR	102	–

Mark Thurston, the Chief Executive Officer of the Company, is a Board Member for NCHSR. The Company has in the past, when NCHSR was starting, provided funding in the form of a repayable loan. HS2 has also assisted with day-to day operational support, such as administration of the payroll and settlement of supplier invoices. The loan is subject to a loan agreement with an agreed repayment schedule.

Alison Munro, Executive Board Member of the Company until 31 August 2017 left the organisation as a permanent staff member but remains an Advisory Consultant between 4 September 2017 and 31 August 2018. Alison was appointed as Chair of the Board of the NCHSR on 31 January 2018.

## 20. Losses and special payments

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

Losses statement	31 Mar 2018	31 Mar 2017
Total number of cases	10	3
Total amount (£'000)	36	6

Special payments	31 Mar 2018	31 Mar 2017
Total number of cases	32	54
Total amount (£'000)	429	1,219

The special payments all relate to redundancy payments in excess of the amounts payable on statutory rates, which have since been agreed by the DfT. Further information can be found in the Remuneration and Staff Report.

## 21. Events after the reporting period

These financial statements are laid before the Houses of Parliament. The International Accounting Standards (IAS10) require the Company to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General signs the audit certificate (page 65-67).

## 22. Ultimate controlling party

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







