





# High Speed Two (HS2) Limited Annual Report and Accounts 2019 – 2020

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## Introduction





Clearance work at former Curzon Street car park site

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## Chair's introduction



**In the 10-year history of HS2, from concept to design and moving now to construction, there have been many important milestones. However, this last year has been a pivotal one in the evolution of the programme and this progress marks significant achievements for the company. The Government has announced, after careful consideration, their positive support for the full HS2 programme, Notice to Proceed (NTP) for Phase One has been issued to the Main Works Civils Contractors and an exciting new chapter of our story has begun.**



We should not underestimate this achievement for HS2 Ltd. It is the culmination of a decade of hard work, determination, skill and innovation. HS2 Ltd have assembled, under the leadership of our CEO Mark Thurston, an experienced and talented team. They are absolutely committed to providing value for money for the UK taxpayer in terms of meeting our commitments to delivery, cost and scope of the programme. The Stocktake, undertaken by the company in 2019, provided the Government with a detailed analysis of the programme and a cost and schedule for Phase One they can be confident in. The Stocktake was undertaken with considerably more knowledge of our supply chain, overall design and ground conditions than was previously available to HS2 Ltd. This has seen an increased, but more robust, cost estimate. The lessons learned from Phase One are now being adopted on Phase 2a and 2b. The Oakervee Review, commissioned by the Prime Minister, was carried out by a team of knowledgeable, experienced and impartial experts. Their remit was to review “whether and how we proceed” with HS2, testing all the evidence, including detailed scrutiny of the estimated cost and schedule, to allow the Prime Minister to make properly informed decisions on the future of Phase One and Phase Two. The conclusion was unequivocal backing for the Programme and some detailed recommendations for the Programme going forward.

The Prime Minister gave the go-ahead for HS2 in Parliament on 11 February. We recognise that this is a huge commitment from the Government. While the Prime Minister and the Oakervee Review made an overwhelming case for HS2, the Prime Minister highlighted the improvements needed across the project. Our commitment to be a good neighbour along the route, providing greater transparency and keeping control of the schedule and costs are central to this effort. The Prime Minister said that a series of measures would be taken to “restore discipline to the programme” and we are working closely with the Department for Transport (DfT) and the HS2 Taskforce to ensure that we implement these instructions.

The Full Business Case for Phase One was published in April 2020 and we have now ensured the schedule, costs and scope of the programme are realistic and provide value for the UK taxpayer. We are now contributing to the National Infrastructure Commission, under the leadership of Sir John Armitt, on an assessment of an Integrated Rail Plan that will ensure that the Phase 2b extension of HS2 to the North will be fully integrated with other programmes such as High Speed North and Midlands Connect. HS2 is essential to deliver these programmes and provide the full benefits of economic stimulus for the UK.

**“  
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## Chair's introduction continued

As our economy gradually rebuilds from the COVID-19 pandemic, HS2 is underpinning the construction and engineering sectors and will continue to do so for the next 20 years – sectors that support nearly 10% of UK jobs and around 7% of the UK GDP. At peak construction, HS2 will directly support more than 30,000 jobs, with many thousands more supported in the supply chain. Already our workforce is over 10,000 strong and 2,000 businesses are benefiting from contracts – 95% are UK based and two thirds are small and medium sized businesses (SMEs). They come from every region of the UK. Building HS2 is truly a national endeavour.

The benefits of HS2 will be national too, transforming the economy in the 21st century and helping the UK reach its full potential in a low carbon world. HS2 will be the spine of the country's transport system. Together with other programmes, it will provide much needed capacity on our railways to ensure the whole system has resilience for generations. It will provide a low carbon alternative for long distance travel, reducing the need for car and plane journeys, and play a vital role in delivering the Government's ambitious goal of Britain becoming net zero carbon by 2050. It will rebalance our economy and improve growth potential, investment and regeneration to regional economies. With this level of achievement, we will open up opportunities for people and businesses and provide better choices for employment and leisure.

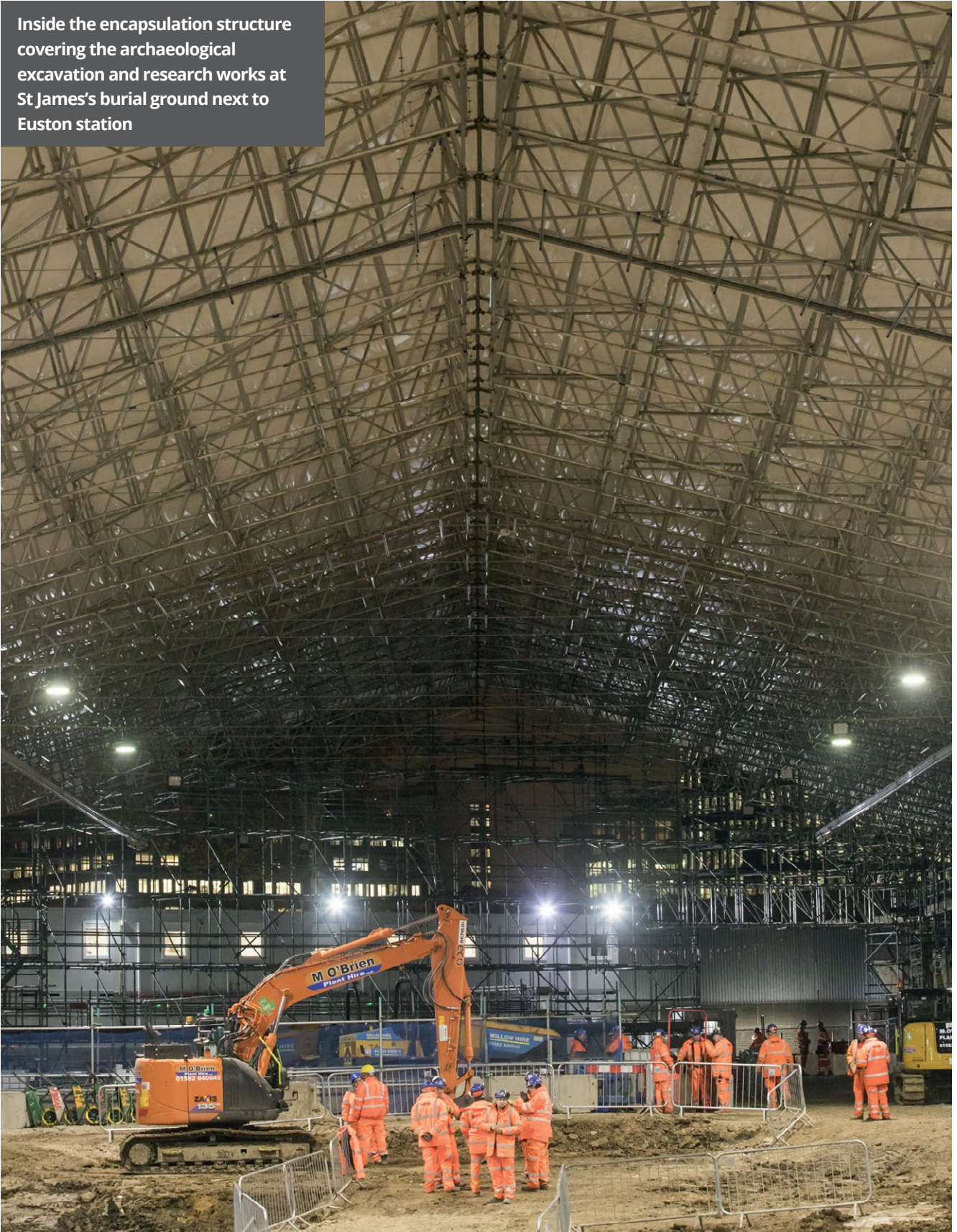
As we embark on this exciting new chapter of HS2, I would like to pay tribute to those who have made this level of achievement possible. This is a project of size and complexity never undertaken in modern Britain – or indeed Europe. As we progress, we will continue to expand our knowledge, apply lessons learned from other programmes in the private and public sector and by doing so we will build a strong, long-lasting legacy in our transport, infrastructure and construction industries for the future. Unfortunately – but inevitably – our construction will cause disruption to communities along the line of route. We have, as a company, vowed to be a good neighbour, to listen and be sensitive to the concerns of the communities affected by our programme.

We are absolutely committed to deliver on our promises to our stakeholders.

**Allan Cook**  
Chair



Inside the encapsulation structure covering the archaeological excavation and research works at St James's burial ground next to Euston station





## CEO's review



**I am now three years into the role of CEO at HS2 Ltd and over that time I have seen the company mature and grow significantly. Our relationships with communities and our supply chain continue to develop, as well as with the Department and our new HS2 Minister.**

## Reflections on 2019/20

My focus over the past three years has been addressing three main challenges:

1. To establish a firm grip on the cost and schedule across the programme. For Phase One, a two year-long piece of work culminated in the completion of Baseline 7 and the re-set of the funding envelope following the Chairman's Stocktake, Oakervee Review and the National Audit Office Value for Money Study reports, to give the most thorough and robust cost estimate to date.
2. To ensure the company was match-fit for the next stage of the programme, and address gaps in our workforce skills and capabilities as we transition from development into delivery. At the beginning of 2020 we completed the HS2 Improvement Programme and in parallel an organisational restructure to do just that.
3. To work with our main works civils supply chain to ensure they and HS2 Ltd were ready for the next stage of detailed design and construction. Early in 2020, we closed out contract negotiations of an unprecedented scale and complexity and established co-located, integrated project teams with our main works civils joint venture partners.

Within HS2 Ltd our capability as an organisation is vastly improved. We now have a greater understanding of the complexity of the programme, its interdependencies, and a robust cost and schedule for Phase One. The company both looks and feels very different to the one that delivered the Phase One Bill to Royal Assent in 2017.

This allowed us to undertake the Chairman's Stocktake review in 2019. It highlighted that the benefits of the project have been understated and provided a more robust cost estimate based on more knowledge about design, the supply

chain and ground conditions. This did mean the cost estimate for Phase One increased, which many will understandably feel frustrated about. However, it was absolutely right that we capitalised on our vastly improved capability as an organisation and the greater understanding of the programme to present a more robust view to government and to the public ahead of the Oakervee Review and Notice to Proceed so a fully informed decision could be made.

My reflections on 2019/20 are a year of challenges and changes, but ones we have adapted to and that haven't detracted from us making significant progress across the programme. Our resilience as an organisation has been tested and strengthened throughout the year, which has positioned us well to respond to the challenges of the years ahead.

### A national endeavour

HS2 as a project has the potential to transform the social and economic geography of the country. We know investment in transport infrastructure can enable the regeneration of areas surrounding stations, as well as helping to connect more people and businesses – unlocking job creation and economic growth. The case for HS2 remains as strong as ever:

- the clear need to address **capacity** challenges on the existing rail network and provide for future increases in demand;
- improving **connectivity** between our major economic centres in the North and the Midlands, creating jobs and supporting the Government's levelling-up agenda; and
- delivering **low carbon** transport infrastructure for the UK, shifting people off road and regional flights to reduce carbon emissions arising from future travel in the UK.

## CEO's review continued

Delivering a programme of the scale and complexity of HS2, and maximising its potential for growth and regeneration is a national undertaking. The Government has set out its vision for the future of the UK's high speed rail network, and HS2 Ltd along with our supply chain partners are setting about delivering that vision.

But for HS2's potential to be truly realised, strategic partnerships between HS2 Ltd, local authorities, and delivery bodies are vital in driving forward growth and investment, as they know how HS2 can best support their distinctive local strengths and ambitions.

Over the past year we have seen those partnerships helping to optimise the design of the railway and Phase One stations as well as securing investment in the regions.

### Protecting the environment

Climate change remains one of the biggest future threats to wildlife and habitats in the UK and high-speed rail is an important part of reducing the UK's carbon and supporting net zero emissions by 2050. Once built, HS2 will offer low carbon journeys to over 300,000 people every day. It will also free up space on the existing network for more commuter trains and for freight to be carried by rail. As more people and goods travel by rail, carbon emissions from cars, planes and lorries will reduce, and air quality will improve.

It is increasingly likely that, following the impact of COVID-19 on regional aviation and the continuing uncertainty for that sector, high-speed rail will play an increasingly important role in domestic long-distance travel, further supporting our national effort to reduce carbon emissions.

It is also crucial for us to manage the impact of construction on the existing natural environment. In the past year we have faced an increase in environmental protest activity and legal challenge from environmental groups. I would urge these groups to get behind the project and support rail as the low carbon transport future of the country. Whilst there are unavoidable impacts from construction, we have been clear that our approach is to ensure HS2 will be the most sustainable railway ever built in this country. Our green corridor of 7 million trees and shrubs will help to integrate the new railway into the landscape, with the design respecting its surroundings and providing new habitats for wildlife. We're also creating opportunities for local people to get involved. To date, we have awarded over £5 million to support locally led environmental projects through the HS2 community funds, as well as supporting the £7 million HS2 Woodland Fund to help restore existing ancient woodlands and to create new native woodlands.

### Review of the year

#### Responding to scrutiny and making the case

2019/20 saw the programme and organisation come under intense scrutiny. In July 2019 the Chairman concluded his Stocktake report, setting out the challenges the programme faced in terms of cost and schedule.

Based on the Stocktake's findings, and with a change of Prime Minister and Secretary of State soon after, it was appropriate for the Government to consider whether HS2 remained the right option for the country. In August the Secretary of State set out the terms of reference for the Oakervee Review. The context for that review was made



clear, whether and how to proceed with HS2. As the responsible delivery body, it was clear to everyone within HS2 Ltd that there was a stark choice in front of the new Government and a compelling case needed to be made to continue. The Government was also clear with us, in order to continue the benefits needed to unambiguously stack-up against the increased costs.

Throughout the review we saw significant support for HS2 from regional stakeholders across the country who were clear that HS2 is vital for their economic growth strategies, many of whom have already seen significant investments made over recent years predicated on HS2's arrival and the regeneration opportunity around station sites. The conclusion from the review was clear – HS2 remains the right strategic choice for the country. No alternatives are able to deliver the step change the country requires in terms of much needed capacity, whilst connecting the great cities of the North and the Midlands to drive regional growth and level up the economy.

Alongside the Oakervee Review, the National Audit Office (NAO) conducted their Value for Money study in the Autumn, leading to a Public Accounts Committee hearing in March. As with the findings of the Stocktake, the NAO recognised that the scale and complexity of HS2 was now becoming clear. Their assessment built upon their previous report in 2016 and was clear that over optimism in how initial budgets and schedules were set, along with underestimating the complexity of the programme from the outset, were major drivers for the increase in the cost estimate we have seen. The culmination of these key internal and external reviews led us to a reset of the funding envelope and schedule for Phase One, giving us a solid foundation for Phase One to be approved by Government.

### Maintaining momentum

During this period of intense scrutiny and review, the Government was clear that progress should continue to be made on the programme. Our Enabling Works programme has continued at pace throughout the year. Two key archaeology projects were completed around our station sites at the St James's Garden burial ground in Euston and Park Street Cemetery in Birmingham, paving the way for our Main Works programme to get underway in the year ahead of us. We launched our station designs for our West Midlands stations at Birmingham Curzon Street and Birmingham Interchange. We also completed critical demolitions of the Great Western Railway Sheds at Old Oak Common, and former railway depot at Washwood Heath, Birmingham, clearing hundreds of thousands of tonnes of material, the vast majority of which we have been able to reuse on site.

Preparing for the next stages of the programme, we also continued to progress key procurement activities, notably entering into contracts with the Phase One Main Works Civils Contractors in readiness for the start of construction, progressing the rolling stock procurement, as well as the planning work to allow us to launch the first of our Rail Systems procurements in May.

## CEO's review continued

### Government decision; the go-ahead

The Government gave HS2 the green signal in February following the General Election, and this was quickly followed by the successful passing of a Revival Motion for the Phase 2a Bill in Parliament. Through the Spring our capability and maturity as an organisation was tested and assured by the Major Projects Review Group, Cabinet Office and Treasury. These were significant tests of the company's readiness to deliver and reflect a pivotal point in time in terms of the go or no-go decision-making process for the programme.

In giving his backing to the project, we must also recognise criticism the Prime Minister had for the project and we will make every effort to ensure we have a strong grip on the programme and deliver on our commitment to be a good neighbour along the route. In addition, we very much welcome the appointment of Andrew Stephenson MP as the Minister for HS2 to support us in that effort and we are already working closely with him across the project.

Demonstrating we have the right capabilities in place was always a condition of Government granting us permission to commence construction of Phase One. We have undergone a significant transformation as an organisation and March saw the completion of two years of work in delivering the HS2 Improvement Programme (HIP). Alongside this we have successfully restructured the organisation and set up integrated project teams with our

Main Works Contractors, ensuring we are a fit-for-purpose, efficient organisation, supporting our construction contractors.

In early April the Department for Transport (DfT) agreed that we had met the conditions necessary to authorise Notice to Proceed for the Main Works Civils Contractors, allowing HS2 Ltd to issue contracts totalling £14 billion, the most significant tranche of contracts for Phase One. In total, around 400,000 contract opportunities for UK businesses will be created during Phase One construction, supporting jobs around the country. We estimate that 95% of those contract opportunities will be won by UK-based firms and around two thirds of those will be small and medium sized businesses (SMEs). Every region of the UK is already benefiting from HS2 with thousands of jobs and businesses being supported by the programme for the next 20 years of construction. As the economy faces some uncertain times ahead, HS2 will be at the heart of the country's green recovery.

### Looking ahead

The uncertainty caused by the COVID-19 pandemic has raised a number of challenges for HS2 Ltd and across our supply chain more widely. This uncertainty is likely to continue for much of the next six to 12 months. However, across Phase One we are now underway with Main Works Civils Construction and are continuing to deliver the new railway, with our sites operating safely.

For Phase 2a, the Bill successfully passed a Revival Motion in Parliament earlier in the year and will continue its final stages of Committee Hearings in the Lords once COVID-19 guidance determines it is safe to do so. Like other major projects in the construction sector we will continue to follow government and Public Health England guidance to keep both our workers and adjacent communities safe.

We will continue to support the DfT in agreeing the right delivery solution for Euston, and contribute to the National Infrastructure Commission's (NIC) work to review Phase 2b as part of the Integrated Rail Plan for the North and the Midlands. Phase Two remains at a far earlier stage of development and, learning from the experience of Phase One, we have moved to ranged estimates for cost and schedule. A number of key decisions will need to be made in the year ahead to allow us to refine the programme and cost estimates with the DfT.

This Programme is now entering its most significant stage to date and we will, rightly, be judged on our ability to deliver to time and budget. Our success as a project will equally be judged on how we work with our communities as a good neighbour, our respect for the environment, and how we establish the foundations for a national legacy in terms of safety, skills and innovation in the construction sector.

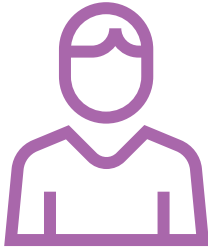
We look forward to the challenges 2020/21 brings.

**Mark Thurston**

Chief Executive and Accounting Officer

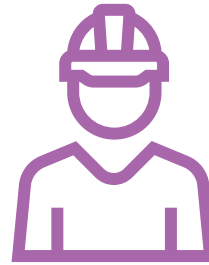


# Highlights of the year



**+10,000**

people employed in our supply chain



**>400**

apprentices working across the project



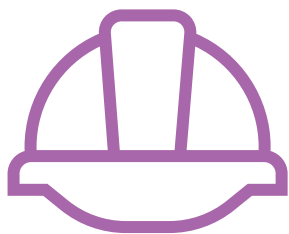
**1,200**

properties purchased



**61,000**

visitors at our engagement events



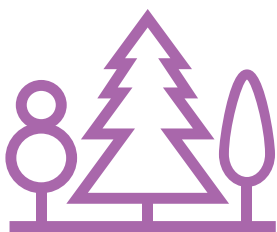
**200+**

sites where work is underway



**37,000**

responses to our Phase 2b draft  
Environmental Statement consultation



**350,000**

trees planted and 50 new wildlife  
habitats created, as we progress with  
the 'green corridor' which will run  
alongside the Phase One route



**£5 million**

awarded to community projects  
through our Community and  
Environment Fund, and Business  
and Local Economy Fund

# Resetting the Baseline and issuing Notice to Proceed

Throughout 2019/20, HS2 Ltd continued to develop cost and schedule estimates for the Project. This work has resulted in the revision of the delivery into service date for initial Phase One services to between 2029 and 2033, and a revised cost forecast for Phase One of between £40 billion and £45 billion (in 2019 prices).

The Chairman's Stocktake identified a number of reasons for cost increases on Phase One; the key drivers were rooted in a greater understanding of the complexity of the programme and its interdependencies, in particular:

- In Main Works, the costs for constructing various assets including bridges and tunnels were higher than previously anticipated, as were the related logistical costs for our contractors to manage these works in line with environmental and other requirements;
- Prior to Royal Assent and powers granted by the High Speed Rail (London – West Midlands) Act 2017, access to land was limited. During preparatory works, far worse ground conditions were encountered than anticipated, resulting in increased costs for excavations and demolitions; and
- Scheme designs, including for stations, were developed to reflect requirements from the Department for Transport and input from other interested stakeholders. Previous cost estimates were made with just 2–3% design maturity.

## Baseline 7

A key output of the work to develop cost and schedule estimates was the completion of Baseline 7, approved by the DfT in November 2019.

Baseline 7 was the first baseline with substantial input from the supply chain, based upon new scheme design, informed by survey and ground condition information, and with improved knowledge of obligations contained within the HS2 Phase One legislation. As a result this estimate is significantly more mature than previous estimates.

Detailed bottom-up estimates were received direct from the supply chain for the first time (enabled by the land access powers granted in the High Speed Rail Act), as opposed to primarily desktop-based estimates being used previously. The estimate itself is now 260,000 lines of data held in an estimating system called PRISM, up from 15,000 lines previously available. A sophisticated rates database has also been built, covering over 12,000 individual activity rates and prices, to enable us to compare and contrast prices we are being quoted by the supply chain for common materials and activities.

Scheme designs are now at an advanced stage (70–80% complete for Main Works Civils) and these are supported by a HS2 specific engineering requirement set and Building Information Modelling (BIM) designs. Project scope is now system driven through the HS2 Ltd Asset Management System. Over 2,000 assumptions and exclusions were reviewed and rationalised as part of Baseline 7, informed by over 8,000 ground investigations undertaken along the route, and revised schedule and risk registers totalling around 30,000 individual entries – underpinning the latest Quantitative Risk Assessments.

These factors together mean that the estimate is far more granular than ever before, in turn providing a greater level of confidence. Despite this, history has proved that setting point estimate budgets for complex megaprojects in excess of 10 years in duration is difficult, and organisations such as the National Audit Office and Infrastructure and Projects Authority have recognised this. So the use of ranges for both delivery into service dates and estimated Phase One costs, gives HS2 Ltd the opportunity to be transparent about the range of possible outcomes and the inherent risk still remaining in the programme. However as design maturity progresses further and commercial arrangements are agreed with the supply chain, and as the construction programme develops, we would expect the cost and schedule ranges to narrow.



## Notice to Proceed

The delivery of a new Baseline Cost Model and Delivery Schedule were key conditions required of HS2 Ltd to satisfy the DfT, prior to them giving permission to HS2 Ltd to issue Notice to Proceed to our Main Works Civils Contractors.

Other conditions included:

- an updated Operational Cost Model, Benefits Baseline, and associated assurance;
- in relation to the Main Works Civils Contracts – demonstration and assurance of organisation and contractor readiness, and the conclusion of Stage 2 commercial negotiations including stress-testing; and
- in relation to the wider programme – demonstration of HS2 Ltd's Enterprise Capability, alignment of the baseline products to the Sponsor's Requirements, and ensuring that HS2 Ltd has an appropriate systems integration function in place.

The permission to give Notice to Proceed in April 2020 was a huge decision for the Government. It was enabled by HS2 Ltd meeting the conditions set out above, but we also recognise that there is continuous work to do to demonstrate and maintain our capability and delivery. It is also a huge boost to the construction sector – one of the cornerstones of the UK economy; releasing £14 billion into the supply chain and providing greater certainty to the UK economy will create and support thousands of jobs and provide a significant number of opportunities for small and medium sized enterprises up and down the country at a time when they need the boost most.

Notice to Proceed means more than a decade of research, design and preparation can be brought to life.

This major milestone gives the 'green light' to our Main Works Civils Contractors to begin construction along the Phase One route. It also provides them, their supply chains and the wider UK construction industry with much-needed certainty against the economic impact of COVID-19.

This is unquestionably the most challenging, but also a hugely exciting stage of the project – where construction of the new high-speed railway begins to take shape and we see the legacy it will leave for our future.



## Strategic Report





Finham Brook mitigation site, Warwickshire

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# Business model

## Remit and scope

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

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

The authority to build track and stations infrastructure for the high speed network is being sought for Phase 2a and Phase 2b from Parliament, but has already been granted for Phase One. The high speed network is being delivered in phases:

- Phase One between London and the West Midlands. The Phase One legislation received Royal Assent in February 2017, and Enabling Works have continued throughout the year including site clearance, ecological surveys and ground investigations. Main Works Civils Contracts (MWCC), split over seven packages, were awarded to four joint ventures (JVs) in July 2017 and Notices to Proceed were issued to the MWCC JVs in April 2020 to authorise Main Civils Construction Works to commence. Construction partner contracts have also been awarded for the design and construction of Euston and Old Oak Common stations; and

- Phase Two infrastructure is being delivered in two parts: the West Midlands to Crewe section (Phase 2a), with timescales to be scheduled to align more closely with Phase One, and the remainder of Phase Two, Crewe to Manchester and the West Midlands to Leeds (Phase 2b), is currently anticipated to open between 2036 and 2040. The Phase 2a Bill is currently being considered by Parliament and is expected to receive Royal Assent by January 2021. Government has instructed HS2 Ltd to progress development of a hybrid Bill for the western leg of Phase 2b, connecting Crewe to Manchester. The National Infrastructure Commission is currently developing the Integrated Rail Plan for the North and the Midlands, including: how best to integrate HS2 Phase 2b and wider transport plans in the North and the Midlands; how to deliver benefits from investments more quickly; and improving efficiency and reducing costs, by drawing on Phase One lessons learnt.

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

## Relationship with the Department for Transport

The relationship between HS2 Ltd and the DfT is managed through a Framework Document and a Development Agreement.

## The Framework Document

The Framework Document sets out the requirements and expectations on HS2 Ltd as an arm's length public body and covers issues such as the appointment of the Board, risk management protocols, expectations for financial management, and controls on expenditure. The Framework Document can be found through the following link:

[www.gov.uk/government/publications/hs2-ltd-framework-document-may-2018](http://www.gov.uk/government/publications/hs2-ltd-framework-document-may-2018)

## The Development Agreement

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

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

- set the scope of the programme;
- provide the necessary funding to HS2 Ltd;
- be held accountable for both the business case and delivery of the benefits;
- be responsible for gaining the necessary Acts of Parliament;
- own the relationships with Ministers and Government bodies; and
- decide how the railway will be operated.

HS2 Ltd agrees to:

- deliver an operational high speed railway to the agreed specification, cost and timetable;
- provide support functions to the DfT, including policy development, Bill design, stakeholder engagement and communications;
- seek to design commercial opportunities into hybrid legislation whenever it is practical and affordable to do so and where those opportunities are consistent with delivering value for money and its legal obligations;
- seek to maximise proceeds when disposing of surplus land and to seek to make strategic land acquisitions when appropriate and consistent with our legal obligations;
- co-operate with and support the Master Development Partner (Lendlease Euston Developments LLP) to realise development and regeneration at Euston;

- work with the West Coast Partner, Avanti, who is acting as the shadow operator for Phase One and Phase 2a, and act as the proxy operator for Phase 2b; and
- act as the future infrastructure manager for the infrastructure.

The Development Agreement can be found through the following link:

[assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/769850/hs2-development-agreement.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/769850/hs2-development-agreement.pdf)

## Company strategy

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

Our seven strategic goals are:



We will be a catalyst for economic growth.



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



We will be good neighbours and protect the natural environment.



We will foster skills and create new employment opportunities.



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



We will deliver value for money to the taxpayer.



We will set new standards for customer experience.

HS2 Ltd is already delivering on many of these goals.

# Business model continued

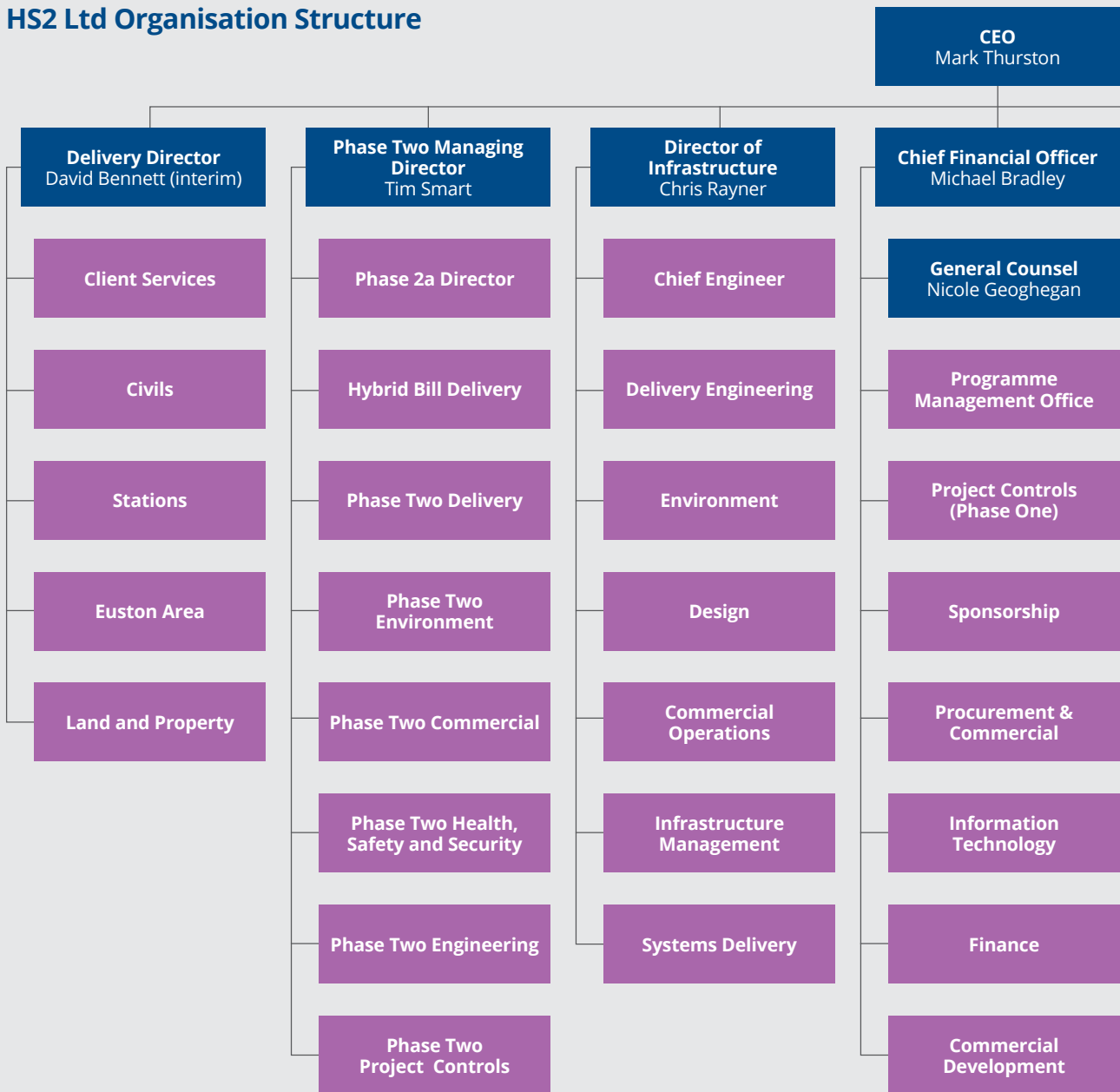
## Corporate and business plans

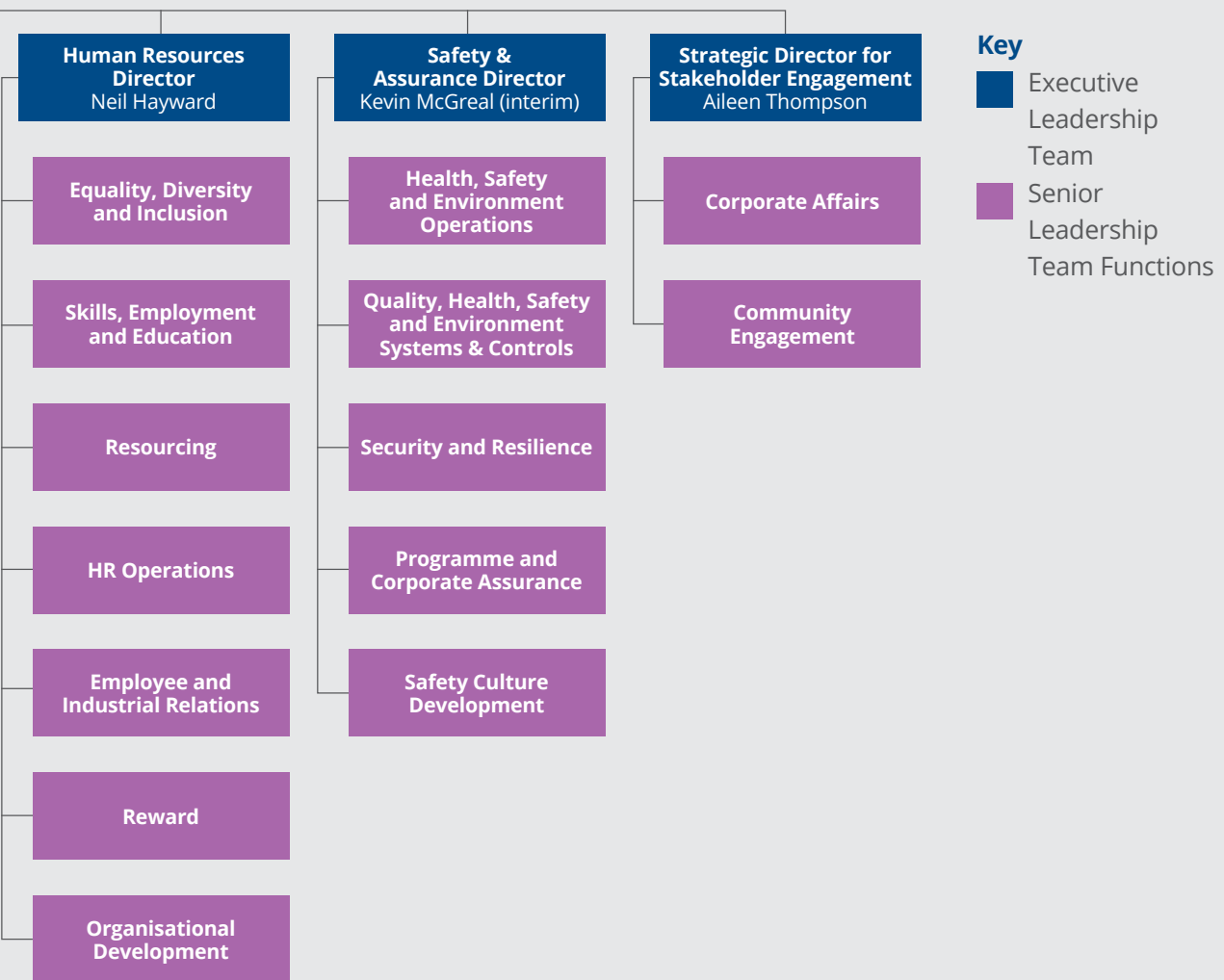
As required in the Framework Document, HS2 Ltd produces an annual Corporate Plan providing a forward look and a review of the previous year against the plan. The 2019/20 financial year is covered by the 2019–2022 Corporate Plan, which can be found through the following link: [www.hs2.org.uk/documents/hs2-ltd-corporate-plan-2019-to-2022/](http://www.hs2.org.uk/documents/hs2-ltd-corporate-plan-2019-to-2022/)

## Business model and organisational development

HS2 Ltd’s head office is in Birmingham, at the heart of the high speed network. Approximately two-thirds of our staff are based there. The majority of our London-based staff are located at our offices at Euston, at the heart of the Euston station transformation area.

### HS2 Ltd Organisation Structure







# Financial review

## Company financial performance for the year ended 31 March 2020

HS2 Ltd is entirely funded by the DfT. Combined capital and resource expenditure in 2019/20 amounted to £2,539.5 million (2018/19: £2,083.7 million).

Capital expenditure comprises the cost in the year of Phase One and Phase 2a, which are 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 includes the costs of Phase 2b which have not yet reached the point of development at which capitalisation can occur.

The financial statements for the year ended 31 March 2020 show the following results:

- capital expenditure of £2,309.6 million (2018/19: £1,826.4 million);
- resource expenditure of £229.9 million (2018/19: £257.3 million); and
- net assets of £5,654.2 million (2018/19: £2,824.9 million).

The increase in capital expenditure reflects ongoing enabling works and the mobilisation of Main Works Civils Contractors, to support the delivery of Phase One.

A detailed account of HS2 Ltd's finances is provided in the financial statements (pages 76 to 104). The land and properties acquired for the construction and operation of the railway are purchased by HS2 Ltd as agent for the Secretary of State and are recognised as assets in the DfT's financial statements. They are therefore not included in HS2 Ltd's financial statements.

## Going concern

The development and delivery of HS2 as part of the Government's wider high speed rail agenda is in accordance with the aims of the DfT as our sponsor and is funded entirely by the DfT as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013. The Development Agreement, outlined further on page 21, remains in force and details HS2 Ltd's current and future role in developing, building and operating the new railway.

In November 2015, following a Government-wide spending review, the level of resources available for HS2 Ltd for 2019/20 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for HS2 Ltd for the period to 2021. As is the case for all capital projects funded by central government, future funding allocations for the period after 2021 are expected to be confirmed in future Spending Reviews.

HS2 Ltd was granted permission by the DfT on 14 April 2020 to issue Notice to Proceed for Phase One to its Main Works Civils Contractors following the statement from the Prime Minister on 11 February 2020 to give "high speed rail the green signal". Progress continues towards Royal Assent for Phase 2a and on development of the Phase 2b hybrid Bill. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

# Key Performance Indicators (KPIs)

## Performance vs. KPIs

A summary of our progress against the Key Performance Indicators for 2019/20 is presented in the following table:

### Are we safe?

KPI	Target/measures	Target achieved?	How we did
<b>1. Improved Health and Safety Performance Indicator (HSPI)</b>	Health and Safety Performance with HSPI > 1.5	Yes	The Health and Safety Performance Index is an aggregation of a number of health and safety related performance measures, including: leadership and behaviour; design; communications; workplace health and safety; and performance improvement. The overall Health and Safety Index score increased throughout the 2019/20 financial year, moving from a starting point of 1.22 to a final score of 1.50. The improvement from last year has seen some of the component measures doing better than others. There is still more we can do to educate both HS2 Ltd and our supply chain to continue to improve on our score in 2020/21.
<b>2. HS2 to continue to provide visible leadership across the industry on mental health and wellbeing, as well as Safety</b>	<p>HS2 Leadership Safety Programme in place</p> <hr/> <p>Wellbeing Strategy and plan in place and being delivered</p>	Partially	<p>'Safety conversations' training has been designed, piloted and is ready to roll out across HS2 Ltd's Senior Leadership Team. However the training was delayed in order to coincide with Notice to Proceed and further delays have arisen since due to COVID-19.</p> <hr/> <p>The HS2 Wellbeing approach was signed off internally and a delivery plan is in place for 2020/2021 which will support the wellbeing of our employees. Externally our 'Meeting of minds' pledge was launched in collaboration with the supply chain at the Safe at Heart Conference in March 2020, with action plans proposed for 2020/21 and beyond.</p>

# Key Performance Indicators (KPIs) continued

## Are we on time?

KPI	Target/measures	Target achieved?	How we did
<b>3. Phase One Schedule Performance</b>	Schedule Performance Index (SPI) score for 'live' projects on Phase One $\geq 0.9$	Yes	<p>Our cumulative SPI for live projects through March 2020 was 0.91.</p> <p>The term 'live projects' relates to let contracts for Euston, stations, Enabling Works, On Network Works and utilities.</p> <p>Earned Value Management is used to measure if we are delivering to plan and how efficiently, and is reported cumulatively to date. The outputs produced are used to independently validate current schedule performance.</p> <p>The Schedule Performance Index compares the Budgeted Cost of Work Performed (the value of work completed) against the Budgeted Cost of Work Scheduled. A figure of 1.0 would indicate that work is being accomplished as planned. A SPI of 0.91 means cumulatively we were 9% behind the schedule baselines set out in the contracts for the live projects and working at 91% efficiency.</p>
<b>4. Phase One Notice to Proceed (NTP)</b>	Achieve NTP for Main Works Civils Contracts (MWCC) by the end of 2019	No	Notice to Proceed was issued to our Main Works Civils Contractors on 14 April 2020.
<b>5. Phase 2a Bill Progress</b>	Receive Royal Assent for Phase 2a by end of 2019	No	At year-end, the Royal Assent forecast date had been revised to 15 December 2020. This followed the postponement of the House of Lords Select Committee process due to the COVID-19 pandemic. The revised forecast date is based on Select Committee resumption in September 2020.
<b>6. Phase 2b Progress</b>	Complete Baseline 2 by January 2020 for Phase 2b	No	Delivery of Baseline 2 has been reprogrammed for September 2020, with a draft suite of integrated baseline documents (including updated cost and schedule estimates) beginning assurance reviews in April.

## Are we on budget?

<b>7. Phase One Full Business Case (FBC)</b>	Complete Phase One FBC to achieve NTP for MWCC	Yes	The Full Business Case for Phase One was approved by the Department for Transport's Investment, Portfolio and Delivery Committee (IPDC) on 2 March 2020.
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## Are we on budget? continued

KPI	Target/measures	Target achieved?	How we did
<b>8. Phase One Cost Performance</b>	Cost Performance Index (CPI) score for 'live' projects on Phase One $\geq 0.9$	Yes	<p>Our cumulative CPI for live projects through March 2020 was 0.94.</p> <p>The term 'live projects' relates to let contracts for Euston, stations, Enabling Works, On Network Works and utilities.</p> <p>Earned Value Management is used to measure if we are delivering to plan and how efficiently, and is reported cumulatively to date. The outputs produced are used to independently validate current cost performance.</p> <p>The Cost Performance Index compares the Budgeted Cost of Work Performed (the value of work completed) against the Actual Cost of Work Performed (what was actually spent on undertaking the work). A figure of 1.0 would indicate that the value of work accomplished is equal to the amount of money spent to earn it. A CPI of 0.94 means cumulatively we achieved £0.94 worth of work for every £1 spent, against the cost baselines set out in the contracts for the live projects.</p>
<b>9. Annual Budget Performance</b>	Year end out-turn not to exceed 1% of Q3 forecast and to be no more than 5% less than forecast for capital spend and 1% for resource spend	Partially	<p>Full-year targets were updated at Q3 to inform HS2 Ltd's Supplementary Estimate.</p> <p>Capital spend was 2% below Q3 forecast (achieving the target threshold) while resource spend was 4.5% below Q3 forecast.</p>

## Are we a good neighbour?

<b>10. Minimise disruption through timely land and property acquisition programme</b>	> 80% of Advance Payments ready to be paid on time	Partially	<p>'Ready to be paid' represents the point at which HS2 Ltd has issued deeds to the claimant and funds are available to be paid. The proportion of Advance Payments ready to be paid on time for the full year was 75%. However from September 2019 when additional focus was introduced to remedy issues arising from summer possessions, Advance Payments ready to be paid on time trended at 80%.</p>
	> 90% of land possessions taken on time		<p>The proportion of land possessions taken on time trended at 85% during 2019/20, below the stated target. A number of factors have influenced possessions delivery, including: refused access; landowners requesting delays; and changes to construction requirements.</p>



# Key Performance Indicators (KPIs) continued

## Are we a good neighbour? continued

KPI	Target/measures	Target achieved?	How we did
<b>11. Public Response Performance</b>	Queries and complaints acknowledgement within two working days	Yes	97% of public enquiries were acknowledged within two working days and 96% of complaints acknowledged within two days, exceeding our 90% targets.
	Stage 1 complaint responses within 20 working days		95% of Stage 1 complaint responses were completed within 20 working days, exceeding the 90% target.

## Capability and capacity

<b>12. HS2 Ltd organisation operating model</b>	Complete HS2 Improvement Programme and Project Evolve to demonstrate organisational readiness for NTP	Yes	<p>Level 3 maturity was achieved for our enterprise capability improvement programme, endorsed by the HS2 Ltd Board in February 2020.</p> <p>HS2 Ltd's Enterprise Capability Framework identified 24 capability areas that were required to reach a set level of maturity.</p> <p>Maturity levels for each capability were measured against a scale of 1–5. Against the five-point scale, the target maturity for NTP was agreed by the HS2 Ltd Board as Level 3 'Implemented', where processes are documented and the majority of the execution, resourcing, tools and data are consistently implemented. Some capability areas are striving towards achieving Level 4, 'Enhanced' by December 2020.</p> <p>All recruitment for groups impacted by Project Evolve concluded, with contracts issued and accepted for critical roles in our Integrated Project Teams (IPTs).</p>
<b>13. Equality Diversity and Inclusion (EDI)</b>	Maintain current gender and BAME balance and target gender balance improvement of 4% (from 36%) and 2% improvement in BAME (from 19%)	Partially	The organisation's EDI balance of 37% Women and 19% BAME reflects some progress towards stretch target for gender and maintenance of the BAME representation levels realised in 2018/19.
<b>14. Talent and succession management</b>	Maintain succession plans for Executive Team +1 and establish plans for Senior Leadership Team +1	Yes	Final 2019/20 talent and succession plans were reviewed by the HS2 Ltd Executive Team in February and reported to the Remuneration Committee (a sub-committee of the HS2 Ltd Board) on 12 March 2020. Regular talent reviews are now held across the organisation, on a quarterly basis.

# Environmental Sustainability Report

This year HS2 Ltd updated its Environmental Policy which fulfils the environmental commitments established through the Sustainability Policy and our strategic goal of creating an environmentally sustainable solution and being a good neighbour to local communities.

The policy sets out five objectives that seek to guide and manage our potential environmental impacts.

## Sustainability assessment

HS2 Ltd is committed to using a recognised environmental rating such as Building Research Establishment Environmental Assessment Method (BREEAM) and Civil Engineering Environmental Quality Assessment and Award Scheme (CEEQUAL) for assessing the design and construction of all its stations, depots, control centre and infrastructure works.



### Green corridor:

create a green corridor for both nature and people that will conserve and enhance habitats, seek to achieve no net loss in biodiversity while designing mitigation to integrate into the character of the landscape.



### Climate change:

build a network that is resilient for the long term, minimise the carbon footprint of HS2 and deliver low carbon, long distance journeys that are supported by low carbon energy.



### Being a good neighbour:

manage the impact of HS2 construction and operation on people and the environment including effects from air pollution, flooding, noise and vibration.



### Historic environment:

reduce harm to the historic environment and deliver a programme of heritage mitigation including knowledge creation through investigation, reporting, engagement and archiving.



### Responsible consumption and production:

promote circular economy principles, responsibly source and make efficient use of sustainable resources, reduce waste and maximise the proportion of material diverted from landfill.

# Environmental Sustainability Report continued

This year we were recognised by CEEQUAL and were awarded the CEEQUAL Exceptional Achievement Director’s Corporate Award for our contributions to the development of the BREEAM Infrastructure Scheme (Pilot) and our ongoing input to CEEQUAL Version 6, which is the successor to the BREEAM Infrastructure Scheme (Pilot).

All our Phase One civils’ and stations’ assessments continue to be on track to achieve our ‘excellent’ rating target and some of them have submitted their design stage assessments over this period.

For example, our Euston Tunnels and approaches civils contract achieved the first ever BREEAM Excellent rated infrastructure project following their design stage certification, with a score of 82.86%, and Birmingham Interchange station received an interim certificate of an ‘Outstanding’ BREEAM rating with a score of 86.05%, exceeding our target requirement and meeting our sustainability aspirations.

The table below outlines the assessment progress to date:

Civils station/contract	BREEAM standard	Target rating	Design stage rating
S1 – Euston Tunnels and Approaches		Excellent (70%)	82.86% (awarded)
S2 – Northolt Tunnels			
C1 – Chiltern Tunnels and Colne Valley Viaduct		Excellent (70%)	77.83% (forecasted)
C2 – North Portal Chiltern Tunnels to Brackley	BREEAM Infrastructure (Pilot)	Excellent (70%)	77% (forecasted)
C3 – Brackley to Long Itchington Wood Green Tunnel South Portal			
N1 – Long Itchington Wood Green Tunnel to Delta Junction / Birmingham Spur		Excellent (70%)	78.33% (forecasted)
N2 – Delta Junction to West Coast Main Line Tie-in			
S3 – Euston Station		Excellent (70%)	81.47% (forecasted)
S4 – Old Oak Common Station	BREEAM Buildings bespoke criteria (2014)	Excellent (70%)	83.72% (forecasted)
N3 – Birmingham Interchange Station		Excellent (70%)	86.05% (awarded)
N4 – Curzon Street Station		Excellent (70%)	81.2% (forecasted)

## Environmental sustainability: Implementation

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

### Green corridor

The HS2 'green corridor' consists of new wildlife habitats, native woodlands, landscape and community spaces along the line of route, that integrate and reconnect the new railway into the surrounding landscape.

HS2 Ltd has been working to address the intent of the Government's 25-year environment plan, considering how an infrastructure project the scale of HS2 can deliver added value for people and nature. By combining HS2 funds with external capital, HS2 is helping realise local stakeholder projects that will further enhance the UK environment.

A green corridor web-based mapping platform is in development that will chart the progress of HS2 Ltd's environmental design while identifying stakeholder projects adjacent to the line that HS2 Ltd (or others) are to take forward. As the green corridor takes further shape there will be opportunities for environmental groups, landowners and local communities to get involved further.

These include the £5 million Woodland Fund for Phase One that is in place to create new native woodland, connect existing woodlands and restore existing ancient woodland sites within a 25-mile zone surrounding the Phase One route. The Forestry Commission has successfully managed the allocation of the first £1.2 million of the Fund which will lead to approximately 96 hectares of new woodland and 63 hectares of ancient woodland restoration (restocking of Plantations on Ancient Woodland Sites).

Applications for the remaining £3.8 million of the Woodland Fund for Phase One are currently open and we anticipate further applications for new woodland creation and ancient woodland restoration projects in the vicinity of the route.

A further £2 million has been allocated for a Phase 2a Woodland Fund to help landowners along the route between Birmingham and Crewe to plant new trees native to the area.

From our Community and Environment Fund, 15 grants totalling over £1.27 million have been awarded to projects that contribute towards our green corridor objectives.

During 2019/20, the plantings contract (awarded in 2017) has successfully delivered a total of 616,500 trees and shrubs to sites along the Phase One route to begin the planting at sites that will, over time, deliver landscape and ecology benefits that have been identified for the project.

Planned clearance works at our four ancient woodland sites on Phase One commenced in Spring 2020 with an extensive soil salvage operation being carried out. As we have progressed these works, we have continued to explore in parallel additional compensation measures for each of the woodlands affected.

During the year, some of our environmental works attracted protestor action such as the early utility works at Harvil Road in the London Borough of Hillingdon and ancient woodland removal in Warwickshire. All HS2's ecology work is being carried out in accordance with the law. The Act of Parliament gives HS2 Ltd the legitimacy to carry out work to build the railway, and licences from Natural England ensure that the right safeguarding is in place to protect wildlife species and that other protections are met. A licence application sets out why the works are needed, how they will be undertaken and how impacts on wildlife species will be mitigated. HS2 operates a Service Level Agreement with Natural England to enable smooth operation of our joint responsibilities towards the natural environment.



# Environmental Sustainability Report *continued*

During this year, communities have raised the issue of vegetation clearance and nesting birds. Wherever possible we will undertake clearance works within the most appropriate season for nesting birds. Where such activity needs to take place within the bird nesting season this is undertaken within the law, with works assessed and supervised by an Ecological Clerk of Works. In cases where an active bird nest has been found, vegetation clearance has ceased in that area and a suitable sized zone set-up around the specific location to avoid disturbance that could cause the adults to abandon the nest. This exclusion zone remains in place until the chicks have fledged. This recognised approach is employed to minimise disturbance to nesting birds and aims to prevent nests being abandoned or destroyed.

In early 2020, the environmental campaigner Chris Packham sought permission to apply for a judicial review of the Government's decision to proceed with the project. He also applied for an injunction to prevent the clearance of six ancient woodlands. The high court hearing followed in April 2020 and both were dismissed. Mr. Packham has since been granted permission to appeal.

## Climate change

This year we developed an Energy Strategy that aims to reduce energy consumption across the HS2 network, and in doing so reduce carbon emissions. Applying energy efficiency measures across all parts of the HS2 network – traction infrastructure, rolling stock, stations and depots and non-traction railway systems – will reduce overall energy demand in operation, therefore minimising potential emissions. Opportunities to procure renewable electricity during operation are being explored. HS2 has the potential to create a major shift in the energy market towards decarbonisation by opting for more renewable traction power and exploring incentives for the new railway to use green energy sources. This also has the potential to further improve the carbon benefit resulting from modal shift from road and air to HS2.

We're mindful that the construction of HS2 is carbon intensive and are committed to minimising the carbon footprint of the programme. Currently we're forecasting a 6.5% carbon reduction for Phase One, equivalent to a reduction of almost one million tonnes of carbon dioxide equivalent emissions (MtCO<sub>2</sub>e). This reduction is measured against carbon baselines representative of current construction industry practice. Nevertheless, the forecast is lower (by about a third) than what we would hope to be forecasting at this stage. This is largely being driven by the carbon reduction performance reported by Main Works Civils Contractors. Stations contracts however are on track to deliver substantial carbon reduction.

Over the past year, the Phase One Main Works Civils Contractors have focused on 'build less and build clever' solutions, in accordance with the industry recognised carbon reduction hierarchy. This has included optimising the number and size of ventilation shafts to reduce the carbon footprint and harmonising tunnel diameters to reduce the number of tunnel boring machines that need to be manufactured, and the associated carbon emissions. Several opportunities for potential improvements during the construction stage have been identified; for example, using less cement in concrete mixes, increasing the recycled content of steel and using low/zero carbon electricity for tunnel boring machines. We will continue to work with our Main Works Civils Contractors to identify carbon reduction solutions to contribute to meeting our carbon reduction targets.

For stations, each design has developed bespoke solutions to reduce carbon emissions. For example, the team working on Old Oak Common station has optimised the station roof design so that 27% less steel can be used. This is a reduction of over 1,000 tonnes; equivalent to a 2,700 tonne reduction in carbon and saving £7 million. The Birmingham Interchange station team has developed a design solution which is forecast to reduce the whole life carbon footprint by over 47% compared to a typical station and achieves net zero carbon emissions for day-to-day energy consumption.

Organisationally, to demonstrate we have a robust carbon management system in place we have committed to seek accreditation, by an independent third party, to the best practice carbon management framework PAS 2080:2016 – Carbon Management in Infrastructure. Audits will take place in the second half of 2020, and our aim is to secure verification in the 2020/21 financial year.

### Being a good neighbour

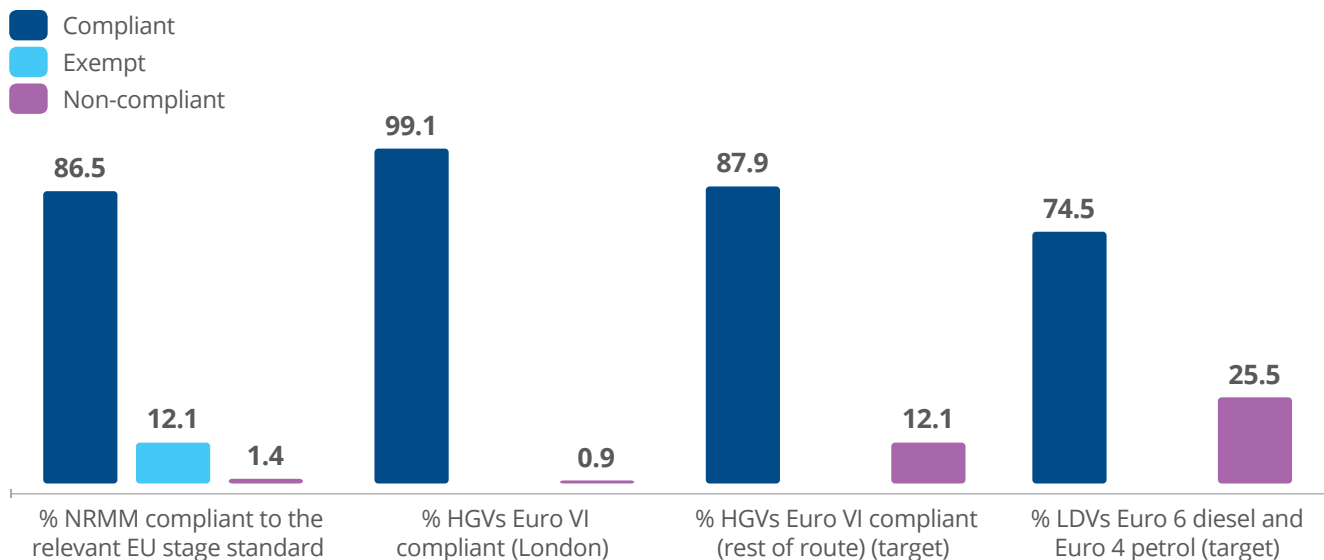
HS2 Ltd aims to be a good neighbour but we are aware that the construction and operation of HS2 will have an impact on people and the environment, so we seek to minimise that impact.

To protect air quality, there are strict requirements for all construction vehicles (HGVs and Light-duty vehicles) and Non-Road Mobile Machinery (NRMM) across the route, which goes above and

beyond current national best practice, steering the construction industry towards a cleaner future. Our Air Quality Strategy<sup>1</sup> provides further information on these requirements. During the calendar year 2019, our contractors achieved 98.9% compliance with the Strategy across the Phase One route.

HS2 Ltd undertakes passive monitoring of nitrogen dioxide through a network of 117 diffusion tubes across the Greater London area. Dust emissions from our on-site activities area are also controlled through the implementation of National Best Practice Guidance, as set out in the Phase One Code of Construction Practice. Continuous dust monitors are set up for all Medium and High-risk sites (in line with the Institute of Air Quality Management guidance). During 2019/20, 58 monitors were installed at 25 sites across Phase One.

### Non-road mobile machinery (NRMM) and vehicle compliance



<sup>1</sup> [www.gov.uk/government/publications/hs2-air-quality-strategy](http://www.gov.uk/government/publications/hs2-air-quality-strategy)

# Environmental Sustainability Report **continued**

All monitoring data is reported in monthly and annual monitoring reports published at:

[www.gov.uk/government/collections/monitoring-the-environmental-effects-of-hs2](http://www.gov.uk/government/collections/monitoring-the-environmental-effects-of-hs2)

To help offset the disruption of constructing the Phase One route on local communities and businesses, two funds are available: the Community and Environment Fund (CEF) and the Business and Local Economy Fund (BLEF). These funds are administered on behalf of HS2 Ltd by the charity Groundwork UK throughout the construction of Phase One.

This year, in collaboration with Groundwork UK, we have awarded £2.14 million to 47 projects along the Phase One line of route. For more information see the Groundwork UK interactive map:

[www.groundwork.org.uk/Sites/hs2funds/pages/hs2-community-and-business-funds-project-map](http://www.groundwork.org.uk/Sites/hs2funds/pages/hs2-community-and-business-funds-project-map)

A total of £5.57 million has been awarded overall since the funds launched in March 2017 and our funding has also led to an additional £12.5 million (across all financial years) in cash and in-kind match contributions from other organisations associated with the projects, which demonstrates the wider benefits and legacy which CEF and BLEF promotes. The funding has been awarded to a range of projects: from a mobile museum in Amersham; to youth projects in the Coventry area; and support to social enterprises in Birmingham.

An additional £5 million is to be added to the CEF and BLEF funding pot for Phase 2a from the West Midlands to Crewe. This brings the overall total of CEF and BLEF available funds for Phase One and Phase 2a to £45 million.

## Historic environment

The historic environment programme is fully underway with field surveys, archaeological investigations and historic building recording along the Phase One route. The unprecedented scale of the heritage works makes Phase One the largest ever archaeological project in Europe and reinforces HS2's outstanding commitment to the historic environment.

The completion of geophysical surveys across the majority of the Phase One route comprises the largest programme of this type of work ever carried out in the UK. Alongside extensive trial trench evaluation we have found important examples of a late prehistoric and Roman-British settlement, enclosure and land division, which will contribute significantly to our understanding of the development of the rural landscape from the later centuries BC up to the 5th century AD.

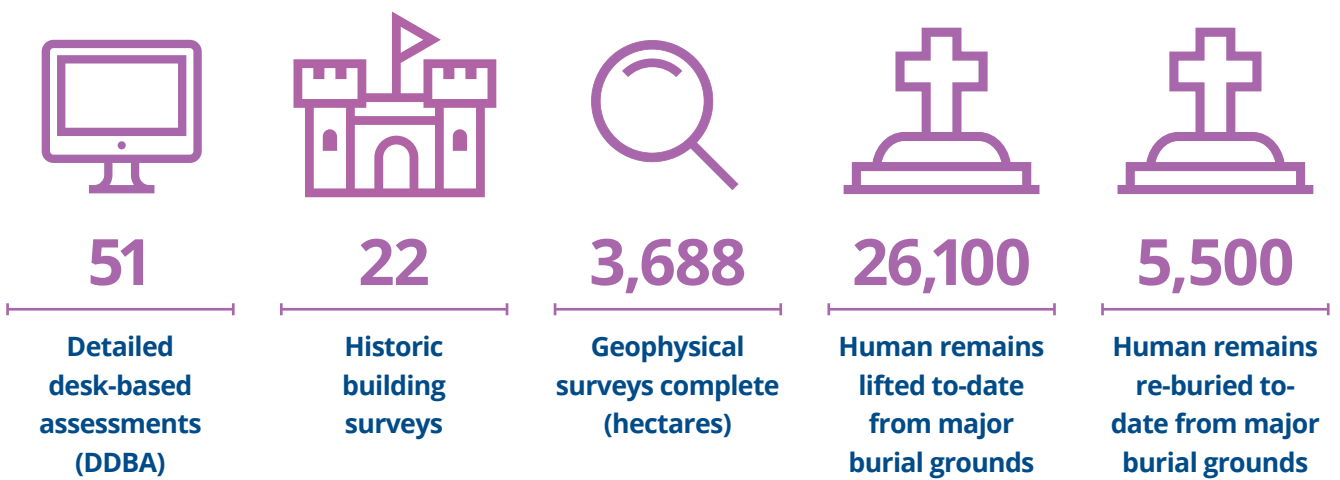
The prevalence of archaeology from late prehistory and the Romano-British periods contrasts with far fewer examples of archaeology from earlier periods; however, investigations near Wendover, Buckinghamshire have uncovered an important late Neolithic/Bronze Age timber circle, and in Hillingdon we have found evidence of early prehistoric occupation in the Colne valley.

For the medieval and later periods, we have seen a predominantly rural landscape of ridge and furrow agriculture and settlements, with some evidence of rural industry in the form of kilns towards the southern part of Phase One. A significant highlight for the industrial period is the archaeological excavation of the Curzon Street railway at Birmingham where the world's first railway roundhouse has been revealed. Our works have also identified a WWII Special Operations Executive (SOE) listening station. This intriguing discovery is one of only three known in the country.

HS2 Ltd and its contractors have been active in the sharing of these findings, with over 150 community engagement activities, including talks, lectures, site tours, conferences, community events, blogs, and schools' workshops, with many more activities planned.

The historic environment works will continue to evaluate the landscape and use the results to target mitigation areas, focusing further investigation on the research objectives set out in the HS2 Historic Environment Research and Delivery Strategy and then sharing those discoveries with communities along the route.

### Key statistics



Aerial shot of a probable Bronze Age burial mound in Buckinghamshire



# Environmental Sustainability Report **continued**

## Responsible consumption and production

This objective focuses on waste minimisation, materials management and circular economy principles.

This year our suppliers have taken on the circular economy challenge and one of our enabling works contractors, Fusion, has identified an opportunity to remove the use of plastic tree guards during tree planting. They researched alternatives and selected a biodegradable guard, which is better for the environment, costs the same as a conventional plastic guard and is said to be easier to install, resulting in a saving. To date Fusion has used over 2,000 biodegradable tree guards during tree planting in Buckinghamshire.

Several innovative practices to minimise waste have been developed and adopted by our Early Works Contract (EWC) partners. At St James's Gardens near Euston, we carried out an extensive programme of archaeological work, primarily to exhume 61,000

graves from within the historic burial ground.

This challenging project was complicated further by the presence of Japanese Knotweed (JK) throughout the site. The control of this invasive plant species is heavily regulated to prevent its spread throughout the environment. Standard recommended practice for dealing with JK involves excavating extensive areas (7m radius and 3m depth) from any stands of the plant. This was a significant issue for this site as mechanical disturbance of the graves below was strictly prohibited. A special method of working was agreed which involved removal of the soil above the "burial horizon" (c1.2m below ground level). When excavating below this level, a watching brief was provided by a trained and experienced ecologist who was able to identify and hand-dig any remaining JK rhizomes. This significantly reduced the amount of material that was deemed to be contaminated. Collaboration, planning and communication between a multi-disciplinary team of experts ensured the successful removal of this



Biodegradable tree guards in Buckinghamshire

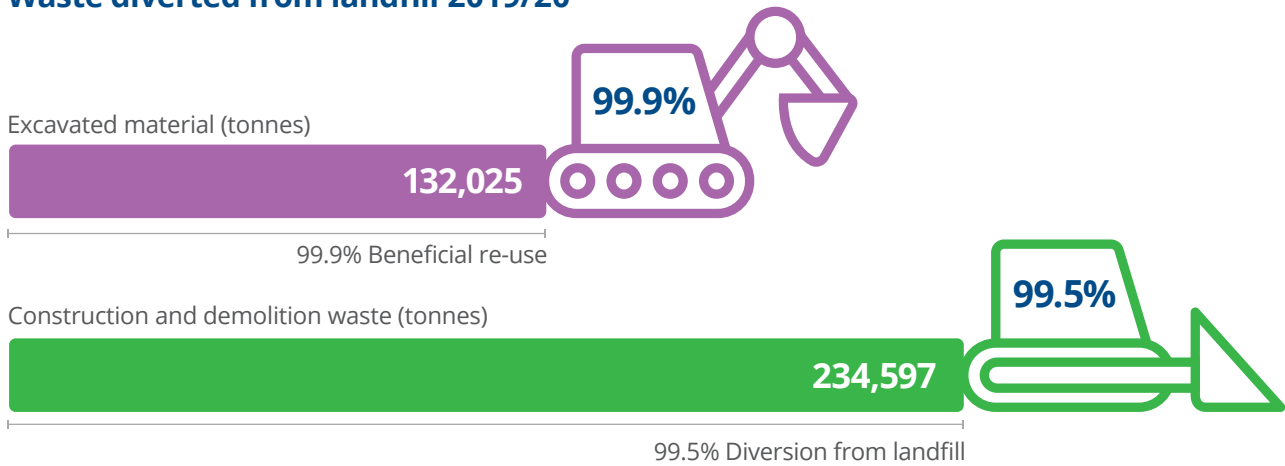


Biodegradable tree guards in Buckinghamshire

invasive species whilst reducing the amount of spoil sent to landfill by approximately 9,000 tonnes, thereby preventing approximately 490 road-based vehicle movements. The estimated cost saving resulting from these measures was approximately £1.2 million.

Another initiative involved the recycling of disposable PPE gloves that would otherwise have gone to landfill. To date over 7,000 units have been sent for recycling. The scheme also generates funds for charity based on the number of units donated.

### Waste diverted from landfill 2019/20



# Environmental Sustainability Report *continued*

## Estates and facilities reporting

The scope of this reporting covers Estates and Facilities, as well as the corporate travel requirements of HS2 Ltd, in accordance with Greening Government Commitment requirements.

### Greenhouse gas emissions

The table below details energy consumption at HS2 Ltd's Offices including corporate travel.

There is year on year reduction of our Scope 1, Scope 2 and Scope 3 Emissions due to reducing the number of offices occupied, moving into new more energy efficient offices and using technology to reduce the need for travel between offices.

		2019/20	2018/19	2017/18
<b>Non-financial indicators (CO<sub>2</sub>e in tonnes)</b>	Scope 1: Direct emissions	279 <sup>4</sup>	371 <sup>1</sup>	318
	Scope 2: Indirect emissions (electricity consumption): Market	12 <sup>4</sup>	155	
	Scope 2: Indirect emissions (electricity consumption): Location	348 <sup>4</sup>	570 <sup>2</sup>	847
	Scope 3: Emissions (business travel emissions)	375	477	463
	Total emissions (market-based method)	666 <sup>4</sup>	1004	n/a
	Total emissions (location-based method)	1002 <sup>4</sup>	1419	1628
<b>Related energy consumption (kWh)</b>	Electricity including renewables	1,361,262 <sup>4</sup>	2,014,070 <sup>2</sup>	2,408,080
	Gas	1,518,623 <sup>4</sup>	2,019,489	1,727,948
<b>Related consumption data</b>	Private car usage (road miles)	30,476	40,185	35,860
	Hire care usage (road miles)	206,582	185,623	126,553
<b>Financial indicators</b>	Total expenditure on energy	£241k	£198k <sup>3</sup>	£118k

1 Gas tCO<sub>2</sub>e adjusted for 2018/19 as some consumption previously not converted from ft<sup>3</sup> to kWh

2 Electricity tCO<sub>2</sub>e adjusted for 2018/19 as estimated readings replaced with actual readings

3 Expenditure adjusted to include charges for Podium / Snow Hill which were previously not provided

4 For Gas and Electricity, consumption for Victoria Square is estimated, based on consumption per sq ft for Podium and Snow Hill

### Waste generation

The table below details waste charges incurred across HS2 Ltd's office estates. Charges are calculated based either on direct measured totals, or on a percentage of overall building charges, as defined in the individual lease. All HS2 Ltd's offices are in multi-tenanted buildings.

		2019/20	2018/19	2017/18
<b>Non-financial indicators (tonnes)</b>	Waste – Recycled	<b>110.91</b>	118.96	65.54
	Waste – RDF	<b>59.42</b>	65.75	49.59
	Waste – Landfill	<b>000<sup>5</sup></b>	1.32	4.9

### Water consumption

The table below shows water consumption across the HS2 Ltd's Office estate. All HS2 Ltd's offices are in multi-tenanted buildings. Charges are based on a percentage of the overall building water costs, as per the lease for each building.

		2019/20	2018/19	2017/18
<b>Non-financial indicators (water)</b>	Water consumption m <sup>3</sup>	<b>8,261</b>	17,033 <sup>6</sup>	20,813 <sup>6</sup>
	Water consumption CO <sub>2</sub> e	<b>2.84</b>	5.86 <sup>7</sup>	7.16 <sup>7</sup>

### Paper consumption

The table below shows total paper ordered from HS2 Ltd's stationery supplier. All paper used in HS2 Ltd's offices is recycled.

		2019/20	2018/19	2017/18
<b>Non-financial indicators (reams)</b>	A5	<b>25</b>	N/A	N/A
	A4	<b>810</b>	4,755	N/A
	A3	<b>125</b>	445	N/A

<sup>5</sup> Snow Hill and Podium zero waste to landfill, previous years waste to landfill from offices no longer occupied

<sup>6</sup> Water consumption adjusted for 2017/18 and 2018/19 as some readings used previously were estimates rather than actuals

<sup>7</sup> Water tCO<sub>2</sub>e adjusted based on revised consumption for 2017/18 and 2018/19



# Environmental Sustainability Report *continued*

## Intensity metrics

The table below shows the total number of occupants at HS2 offices, including direct employees, agency staff and staff directly contracted to HS2.

		2019/20	2018/19	2017/18
<b>Non-financial indicators</b>	Total occupancy at HS2 Offices <sup>8</sup>	<b>2448</b>	2387	2274
	Electricity (kWh per occupant) <sup>9</sup>	<b>556</b>	844	1059
	Waste arisings (kg per occupant) <sup>10</sup>	<b>69</b>	78	53
	Water consumption (m <sup>3</sup> per occupant) <sup>11</sup>	<b>3.37</b>	7.13	9.15

8 Figure adjusted to include all occupants of HS2 offices – previously reported on HS2 direct employees only

9 Figures adjusted based on revised occupancy information

10 Figures adjusted based on revised occupancy information

11 Figures adjusted based on revised occupancy information

## Biodiversity action planning

Not applicable as HS2 Ltd does not own any of the office buildings.

## Climate change adaptation

HS2 Ltd occupies only tenanted offices and thus abide by the landlord's arrangements for climate adaptation.

## Rural proofing

Not applicable as HS2 Ltd does not decide where any office buildings are built.

## Sustainable construction

Not applicable as HS2 Ltd does not own any of the office buildings and as such has no major refurbishments planned.

As our construction activities increase, we are reviewing the scope of our environmental sustainability reporting. Options for more comprehensive reporting of project data are actively being considered for 2020/21, including the introduction of a new, standalone Environmental Sustainability Report.

# Non-financial information

## Health, Safety, Security and Environmental (HSSE) management

Taking responsibility for our own and others' health, safety, security and wellbeing is one of HS2 Ltd's core values. In 2019/20, we set ourselves a HSSE company objective, divided into four distinct elements. The highlights from our performance against this objective are set out below:

### 1. Mobilise to build HS2 safely, facilitating all tiers of the supply chain to be 'construction ready'.

During the year, multiple interventions have been instigated to demonstrate readiness. All Construction Design and Management (CDM) duty holders for Main Works Civils Contracts (MWCC) have been trained, assessed as competent and appointed into role. In support, CDM management arrangements have been enhanced to reflect the MWCC asset model and to provide a control process for commencing works. Emergency planning arrangements are in place at Joint Venture (JV) level and have been sample tested, although we have only been able to deliver four out of our six planned exercises. Each JV has also developed its own minimum 'safe to start' arrangements that have been peer reviewed across the supply chain.

### 2. Safe at Heart approach instilled, with demonstrable and visible safety leadership, that is supportive of health and wellbeing, as well as safety.

Whilst this objective is generally on track, there have been some delays due to uncertainties in the timing of Notice to Proceed, with which it needed to be aligned. Safety conversations training has been designed, piloted and is ready to roll out across the HS2 Ltd Senior Leadership Team, but the start of this training was delayed to April 2020. Our 'Meeting of Mind' pledge was launched in March in collaboration with the supply chain with action plans proposed for 2020 and beyond. Internally, the HS2 Wellbeing approach has been approved in collaboration with internal stakeholders, with a delivery plan in place for 2020/21 which will support the wellbeing of our employees.

### 3. Caring for the health, safety, security and environmental impact of HS2, on our neighbours and communities, through engagement and local risk management.

There were four undertakings and assurances (U&As) non compliances in the year. The first incident occurred due to a gap in air quality monitoring during site handover between contractors at the Chiltern Tunnel Main Compound. The other three incidents all relate to work undertaken within 15 metres of Canal & River Trust property without their prior permission. New processes have been put in place to ensure improved communication between contractors and the landowner. During the year, 43 Health, Safety, Security or Environmental complaints have been received by the HS2 helpdesk relating to protestor activity.

In primary schools close to our construction sites, 126 separate Health and Safety events have taken place across 81 schools with 6,701 Year 5 and 6 pupils engaged. These interactive workshops help children understand the dangers of living near construction sites and how to stay safe when living or playing near building works.

### 4. Improved Health and Safety performance across HS2 Ltd & the supply chain, evidenced by a shift in our H and S Performance Index (HSPI) score to 1.5 (from 1.22 in March 2019). Improve HSSE measurement and external benchmarking.

The Health and Safety Performance Index is an aggregation of a number of performance measures, including: leadership and behaviour; design; communications; workplace health and safety; and performance improvement. The overall HSPI score has increased throughout the 2019/20 financial year, moving from a starting point of 1.22 to a final score of 1.50. The impact of COVID-19 has yet to be fully evaluated but it will have an impact on hours worked and the reporting of near miss/ observations and incidents. This could have an impact on our HSPI score in the coming months.

## Non-financial information continued

There is still a lot more to be done to achieve our target of 1.80 for 2020/21.

### Fraud, corruption and speak out

We are committed to preventing, deterring, detecting and disrupting all types of criminality that the company may face. We have continued to invest in our Counter Fraud and Business Ethics team by increasing its resource.

Underpinning our counter fraud strategy, we adopt a risk-based approach in which we target our resources in a proportionate and effective manner, against the highest priority risks and threats that the company faces. This is fluid and subject to change over the lifecycle of the project.

Fraud, corruption and performance of the HS2 Ltd 'Speak Out' whistleblowing line is reviewed regularly and overseen by the company's Audit and Risk Assurance Committee (a sub-committee of the HS2 Board, chaired by a non-executive Director). We regularly review our policies and procedures to ensure they are fit for purpose. In addition, the company has designed and delivered bespoke mandatory training to all employees on fraud awareness, the 'red flags' of fraud, bribery and corruption, and how to report any concerns. Furthermore, as an arm's length body (ALB) that reports into the DfT, we regularly exchange emerging threats and lessons learnt between HS2 Ltd and our counter fraud colleagues in other ALB's, the DfT and the HS2 supply chain.

### Community Engagement report

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

We publish six-monthly reports to demonstrate our progress against our 10 commitments, to provide transparency about our performance across a range of indicators and to demonstrate how we are continuously learning. The reports draw on case studies, along with data (such as figures from the helpdesk on the numbers of complaints and enquiries we received and managed, and the numbers of people we reached through funding awards and events).

We have published four reports. These are available via the links below:

#### July – December 2019

[www.hs2.org.uk/documents/community-engagement-progress-report-july-to-december-2019/](http://www.hs2.org.uk/documents/community-engagement-progress-report-july-to-december-2019/)

#### January – June 2019

[www.hs2.org.uk/documents/community-engagement-progress-report-january-to-june-2019](http://www.hs2.org.uk/documents/community-engagement-progress-report-january-to-june-2019/)

#### July – December 2018

[www.hs2.org.uk/documents/community-engagement-progress-report-july-to-december-2018/](http://www.hs2.org.uk/documents/community-engagement-progress-report-july-to-december-2018/)

#### January – June 2018

[www.hs2.org.uk/documents/community-engagement-progress-report-january-to-june-2018](http://www.hs2.org.uk/documents/community-engagement-progress-report-january-to-june-2018/)

## Residents' Charter and Commissioner

The Residents' Charter is our promise to communicate as clearly as we possibly can with people who live along or near the HS2 route. This is available via the link below:

[www.gov.uk/government/publications/hs2-residents-charter](http://www.gov.uk/government/publications/hs2-residents-charter)

The independent Residents' Commissioner ensures we keep to the promises we make in the Charter (including to keep the Charter under review).

You can access the Residents' Commissioner's reports at:

[www.gov.uk/government/collections/hs2-ltd-residents-commissioner](http://www.gov.uk/government/collections/hs2-ltd-residents-commissioner)

## Construction Commissioner

The Construction Commissioner's role is to mediate and monitor the way in which HS2 Ltd manages and responds to construction complaints.

## Information requests

HS2 Ltd's performance in meeting its obligations under the Freedom of Information (FOI) Act 2000 and Environmental Information Regulations (EIR) during 2019/20, is set out in the table below.

	FOI	EIR	FOI and EIR (combined)	Grand total
Total number of requests received	276	82	13	371
of which:				
Requests responded to on time	186	48	10	244
Requests responded to outside of statutory timeframes	75	30	2	107
Requests received in 2019/20 that remained open at the end of the financial year	15	4	1	20

66% of requests were responded to within the statutory timeframe in 2019/20. HS2 Ltd has recruited additional staff and reviewed ways of working to improve performance in this area. Of the requests received in March 2020, 91% were responded to within the statutory timeframe. HS2 Ltd continues to monitor performance and improve its processes to continue to meet the Information Commissioner's Office standard of 90% in the 2020/21 year.

Approved by the Board on 8 July 2020 and signed on its behalf by:



**Mark Thurston**

Chief Executive and Accounting Officer





## Corporate Governance Report





Heave monitoring site, Boddington, Northamptonshire

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# Directors' Report

The Directors present their report together with the financial statements of the Company for the year ended 31 March 2020. 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 2019 and 31 March 2020 are:

- Michael Bradley, Chief Financial Officer, Executive Director;
- Richard Brown, Non-Executive Director (until 1 July 2019);
- Allan Cook, Non-Executive Chairman;
- Melvyn Ewell, Non-Executive Director;
- Dame Judith Hackitt, Non-Executive Director;
- Stephen Hughes, Non-Executive Director;
- Roger Mountford, Non-Executive Director;
- Richard Robinson, Chief Operating Officer, Executive Director (until 25 September 2019);
- Ed Smith, Non-Executive Director;
- Mark Thurston, Chief Executive Officer, Executive Director; and
- Andrew Wolstenholme, Non-Executive Director (until 1 April 2019).

## Conflicts of interest – Board

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

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/890945/HS2\\_Ltd\\_Register\\_of\\_Business\\_Interests\\_200608.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/890945/HS2_Ltd_Register_of_Business_Interests_200608.pdf)

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

## Principal activities

The principal activities of HS2 Ltd are set out in the Strategic Report under the Remit and Scope section on page 20.

## Dividends

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

## Directors' third party indemnity provisions

For 2019/20, the Company has appropriate Directors' and officers' liability insurance in place in respect of legal action against, among others, its Executive and Non-Executive Directors. Managing Public Money, Annex 5.4, sets out the Government's standard indemnity for Board members. It states, "The government has indicated that an individual board member who has acted honestly and in good faith will not have to meet out of his or her personal resources any personal civil liability, including costs, which is incurred in the execution or the purported execution of his or her board functions, save where the board member has acted recklessly".

## Company policy on payment of creditors

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

Monitoring of payments made during the year ended 31 March 2020 shows that 92% of approved invoices were paid within 30 days of invoice date (2018/19: 70%). No claims were made against HS2 Ltd in 2019/20 (2018/19: one) for the late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

## Charitable and political contributions

During the year, HS2 Ltd made no political contributions. We have two charity partners that the company works with and promotes to staff. Staff may use their volunteering day to support these charities. The Company provides no financial contributions to either partner.

## Likely future developments

Likely future developments are included in the Remit and Scope section on page 20.

## Disclosure of information to auditors

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

Approved by the Board on 8 July 2020.



### Mark Thurston

Chief Executive and Accounting Officer



# 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

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

The DfT's Principal Accounting Officer, acting on behalf of HM Treasury, has designated the Chief Executive Officer 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 Officer and designated Accounting Officer (AO) of HS2 Ltd, I am personally responsible for safeguarding the public funds under my control, for ensuring propriety, regularity and value for money in the handling of those public funds, for keeping proper records, for safeguarding the company's assets, and for the day-to-day operations and management of HS2 Ltd. I am required to ensure that HS2 Ltd as a whole is run on the basis of the governance, decision-making and financial management standards that are set out in HM Treasury's Managing Public Money. This Governance Statement sets out how I have discharged my responsibilities during 2019/20.

### Role of the Accounting Officer

The AO's role is set out in the Framework Document. The AO signs the financial statements, supported by the HS2 Board and Audit and Risk Assurance Committee, 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 HS2 Board following Board approval. The AO ensures that HS2 Ltd has effective complaints procedures. These are available through the following link:

[www.hs2.org.uk/how-to-complain](http://www.hs2.org.uk/how-to-complain)

The Audit and Risk Assurance Panel (a sub-committee of the Executive Committee chaired by the Chief Financial Officer) oversees the effective management of Risk and Assurance using 'fit for purpose' regimes that reflect an appropriate and proportionate level of audit and assurance activities. It makes a number of decisions on behalf of the HS2 Ltd Executive Committee (as expressly described in its Terms of Reference) and monitors the performance/effectiveness of HS2 Ltd's controls environment.

In addition, six-monthly Accounting Officer meetings are held to discuss any matters that are not discussed at the Panel. Such meetings are diarised to follow the Audit and Risk Assurance Committee to avoid duplication of topics and add an extra opportunity for discussion of dischargeable Accounting Officer duties.

### The HS2 Ltd Board

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

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

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

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

# Corporate Governance Report

## Governance Statement *continued*

### Attendance at the HS2 Ltd Board and Committees

Board Member	HS2 Ltd Board	Audit and Risk Assurance Committee	Remuneration Committee	Commercial and Investment Committee	Health, Safety and Environment Committee
Michael Bradley CB Executive Director	13/14				
Richard Brown* Non-Executive Director	3/3		1/1		1/1
Allan Cook CBE Chairman	14/14				3/3
Mel Ewell Non-Executive Director	12/14		4/4	7/7	
Dame Judith Hackitt Non-Executive Director	11/14		3/3**		1/2**
Stephen Hughes Non-Executive Director	12/14	5/6***		4/5***	
Roger Mountford Non-Executive Director	14/14	7/8		7/7	
Richard Robinson* Executive Director	6/6				
Ed Smith Non-Executive Director	13/14	8/8			
Mark Thurston Executive Director	14/14				

\* denotes Member now left the Company

\*\* Member of Remuneration Committee 31 July 2019 onwards

\*\* Member of Health, Safety and Environment Committee 22 July 2019 onwards

\*\*\* Member of Audit and Risk Assurance Committee 13 August 2019 onwards

\*\*\* Member of Commercial and Investment Committee 19 July 2019 onwards

### 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 62 to 71.

### Changes to Board membership

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

- Richard Brown ceased to be a Non-Executive Director on 1 July 2019;

- Dame Judith Hackitt was appointed as Non-Executive Director on 1 April 2019;
- Stephen Hughes was appointed as Non-Executive Director on 1 April 2019;
- Richard Robinson resigned as Executive Director on 25 September 2019; and
- Andrew Wolstenholme resigned as Non-Executive Director on 1 April 2019.

### Personal data related incidents

In the 2019/20 period, no incidents met the criteria for reporting to the Information Commissioner's Office (ICO).

## 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://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/609903/PU2077\\_code\\_of\\_practice\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf)

In summary and in line with the Code of Good Practice and the UK Corporate Governance Code 2018:

- The Board seeks to uphold the seven key principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership in order to deliver the long-term success of the Company.
- The composition of the Board at 31 March 2020 is two Executive Directors and six independent Non-Executive members who have a range of appropriate skills and experience, with the DfT responsible for the appointment of the Board Chair and Non-Executive Board members.
- As identified in the Framework Document, the Secretary of State has delegated authority to the HS2 Ltd Board to appoint up to three Executive Directors (in addition to the Chief Executive) to sit on the Board. There is currently one Executive Director, in addition to the Chief Executive, on the Board.
- The remit of the Board and the roles and responsibilities of its members have been clearly defined, including the role and responsibilities of the Accounting Officer.
- An induction process is in place for any new Board members (in line with Cabinet Office and UK Corporate Governance Code guidance), which includes introductory meetings with the Chairman followed by briefings with the Chief Executive and other members of the Executive team.
- The Chairman continues to review Board membership, composition and effectiveness, to ensure it has the appropriate level of skills and experience for the programme, including actively seeking to improve diversity at Board level.
- The Board receives and reviews actions and recommendations received from Stakeholders including:
  - Infrastructure and Projects Authority;
  - National Audit Office; and
  - Major Projects Review Group.

## Board decision making

Effective, structured decision making is crucial as the Company progresses construction of the railway. In 2019/20, the Board of Directors covered a number of regular agenda items including:

- updates from each meeting of Board Sub-Committees, health and safety, finance, HR, corporate affairs and strategic and stakeholder engagement;
- investment approvals;
- approval of the 2019/20 Supplementary Estimate, the 2020/21 Business Plan and the Outlook to 2024/25 for onward submission to the Department for Transport;
- approval of the 2018/19 Annual Report and Accounts; and
- approval of the 2019–2022 Corporate Plan.

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

- Chairman’s Stocktake Recommendations;
- The Oakervee Review;
- NAO Progress Update;
- review and endorsed revisions to the HS2 Ltd functional response for onward submission to the Department for Transport;
- Operational Cost baseline for adoption into the Development Agreement;



# Corporate Governance Report

## Governance Statement *continued*

- Baseline 7.0 for Phase One including scope, schedule cost and risk;
- Phase One Benefits Baseline V2.0, a HS2 Ltd deliverable under the Development Agreement;
- HS2 Improvement Programme (to demonstrate Enterprise Capability);
- Main Works Civils Commercial Models and Contracts;
- Phase 2a Select Committee and progress of the hybrid Bill;
- Phase 2a Delivery Strategy and Market Engagement;
- Phase 2b Control Point 2.1 capital cost estimate;
- Strategic Risks for the organisation;
- Project Evolve reorganisation in support of the establishment of Integrated Project Teams; and
- Project Atlas: a review of the Management Information produced by the organisation to support and inform Board discussions.

Copies of the minutes of HS2 Ltd Board meetings for 2019/20 are available on the Gov.uk website:

[www.gov.uk/government/organisations/high-speed-two-limited/about/our-governance](http://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 schedule and cost control across the programme. The Board has received refined management information (informed by Project Atlas), together with a comprehensive forward look of topics. HS2 Ltd's management information and reporting arrangements remain under active review.

In addition to the Board meetings, the Board has attended a number of informal briefings, giving Board Members the opportunity to participate in 'deep dives' into aspects of the programme, sufficiently in advance of decisions being required.

### Board effectiveness

In the financial year 2019/20, an independent Board effectiveness review was undertaken. The review focussed on: Board Capability; Cost and Schedule; and the HS2 Business Case. In addition, the review looked to identify themes and suggestions to further enhance Board performance and ultimately the quality of Board discussions and decisions.

The Review generated a number of observations and considerations. The Chair and Board agreed actions in response to these, which are periodically reviewed.

### Board sub-committees

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

### Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) provides assurance to the Board and Accounting Officer that effective arrangements are in place throughout the Company for risk management, assurance and internal controls. The Committee meets every two months or as matters arise and its Members are Non-Executive Directors (Ed Smith, Committee Chair, Roger Mountford and Stephen Hughes).

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

The Chair of the Committee reports to the Board and the Accounting Officer after each meeting, and provides them with an annual report. This is timed to support the finalisation of the annual accounts and the Governance Statement, summarising its conclusions from the work it has done during the financial year.

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

- review and challenge to actions arising from audit and assurance activity;
- regular Counter-Fraud and Senior Information Risk Owner reports;
- review and endorsement of the Management Assurance Statement;
- review and challenge of the risk, control and assurance reporting;
- review of the assurance approach to the Phase One Baseline 7.0 cost estimate (and the estimated delivery dates that accompanied this estimate).

During the year, ARAC has met as a Challenge Panel, with wider attendance invited from Project Representative (P-Rep) and the DfT in order to conduct 'deep dives' on behalf of the Board, sufficiently in advance of decisions being required. The National Audit Office attended to observe the Challenge Panel.

A Self Effectiveness Review of the Committee took place during the year, with themes identified that the Committee will review and focus on over the coming year, covering:

- membership, independence, objectivity and understanding;
- skills;
- the role and scope of the Committee;
- communication and reporting; and
- forward Look topics.

### Remuneration Committee

The Remuneration Committee reviews the Company's pay policy and advises on matters concerning the remuneration of senior executives. The Committee determines and agrees with the Board, within the guidelines delegated by HM Treasury and the Department for Transport, the framework and broad policy for the remuneration of the Company's employees. The remuneration of

Non-Executive Directors is a reserved matter for the Board Chairman and the Department for Transport.

The Committee meets quarterly or as matters arise. Members of the Remuneration Committee are both Non-Executive Directors (Mel Ewell, Committee Chair, and Dame Judith Hackitt). The Terms of Reference of this Committee allow for an Observer from the Department for Transport to attend meetings. The DfT Observer is currently Nick Joyce, Director General, Resources and Strategy.

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

- regular review of the Human Resources dashboard;
- endorsement of and progress against CEO and CFO objectives;
- endorsement of Executive and Employee performance-related pay awards;
- Review pay budgets for financial year;
- review of Gender Pay Gap reporting;
- review Remuneration Annex (being an Annex to the Framework Document); and
- review of talent and succession planning.

### Commercial and Investment Committee

The Commercial and Investment Committee (CIC) was established in 2016 to enhance the Board's scrutiny of major investment decisions. Its function is to review procurement and investment proposals in detail and at an earlier stage than the Board, to assess the readiness of that decision for consideration by the Board. This ensures that the Board is presented with clear and well-evidenced proposals and, where appropriate, alternative choices for decision. During 2019/20, the Board agreed that it was optimal for this Committee to hold certain authority on behalf of the Board, to support more optimal decision-making (see below).

The CIC meets monthly and its Members are Non-Executive Directors (Roger Mountford, Committee Chair, Mel Ewell and Stephen Hughes).

# Corporate Governance Report

## Governance Statement *continued*

The CIC reports to the Board on all matters it considers and identifies key issues for consideration by the Board when proposals for investment/ procurement or change are presented for the Board's approval.

During this financial period, the following changes were made to the Committee's Terms of Reference:

- the HS2 Ltd Board delegated its authority to the Committee for all decisions valued between £20 million and £100 million for Phase 2a and Phase 2b (for onward submission to DfT).
- The HS2 Ltd Board delegated its authority to the Committee for all Change decisions on awarded contracts for Phase One.

### Health, Safety, Security and Environment Committee

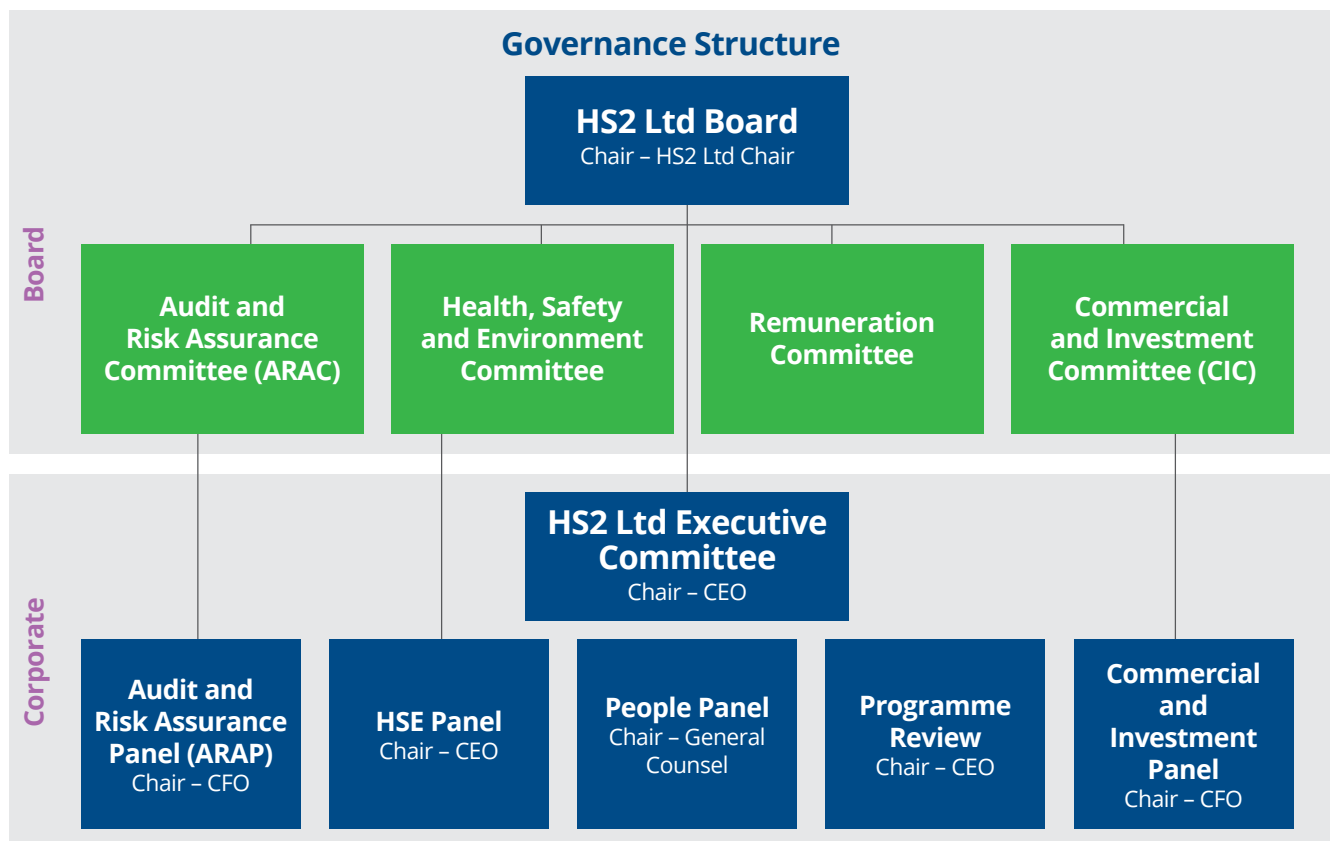
The Health, Safety, Security and Environment (HSSE) Committee provides independent assurance to the Board that effective arrangements are in place for the management of Health, Safety, Security and

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

The Committee meets bi-monthly and as matters arise. Both Committee Members are Non-Executive Directors (Allan Cook and Dame Judith Hackitt).

### Governance Structure

The diagram below shows the HS2 Ltd Governance Structure at 31 March 2020.



## Executive Team

The Executive Team manages the day-to-day management and operations of HS2 Ltd and in 2019/20 comprised the personnel listed in the table below (unless otherwise stated, the relevant Executive member served throughout the year).

Position	Executive	Started	Ceased to be an Executive member
Chief Executive Officer	Mark Thurston		
Chief Financial Officer	Michael Bradley		
Delivery Director (interim)	David Bennett	2/09/2019	
Safety and Assurance Director	Emma Head		
HR Director	Neil Hayward		
General Counsel	Nicole Geoghegan		
Managing Director Phase One	Jim Crawford		16/12/2019*
Managing Director Phase Two	Tim Smart		
Infrastructure Director	Chris Rayner		
Strategic Director of Stakeholder Engagement	Tom Kelly		31/08/2019
Chief Operating Officer	Richard Robinson		25/09/2019
Strategic Director of Stakeholder Engagement	Aileen Thompson	19/08/2019	

\* denotes contractual end date

## Risk Management

HS2 Ltd's enterprise risk management (ERM) framework aligns with HM Treasury Guidance, the Cabinet Office Framework for the Management of Risk in Government and ISO31000:2018 Risk Management.

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

*HS2 Ltd aspires to have a best in class approach to risk management, and to be a high-performing, innovative organisation, delivering value for money by applying the best in worldwide design and construction techniques, while deploying exemplar practices in health, safety and security, equality, diversity and inclusion, community relations and environmental control.*

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

*In pursuit of excellence the Company is, however, prepared to accept commercial and operational risks which stimulate innovation both within the Company and its supply chain to test established norms and introduce best practice which may accelerate programme delivery, reduce cost or enhance the passenger experience. In doing so, the Company will carefully monitor and assess the individual and compound implications of this approach, both for HS2 and for our stakeholders, to minimise their exposure to risk.*

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

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



# Corporate Governance Report

## Governance Statement *continued*

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

Our 'Risk-Control-Assure' (RCA) approach integrates risk management with the corporate control framework and assurance/audit activities.

Under RCA, a set of 'Core Risks', to which all other risks are linked, are directly correlated with our Control Framework which has seen further development as we move into the delivery stage of the project.

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

Risk description. There is a risk that...	Mitigation action
<p>Confidence in HS2 has suffered as a result of increased costs and delivery timescales. There is a risk that this confidence may not be rebuilt leading to an inability to establish stakeholder support and delivery momentum, increasing risk to delivery of strategic goals.</p>	<p>Operating in an open and transparent manner, HS2 Ltd will demonstrate behaviours and actions that warrant public and government confidence through:</p> <ul style="list-style-type: none"> <li>• transparent and timely reporting of our work that will support well-grounded understanding of HS2's progress;</li> <li>• strategic stakeholder engagement to maintain and further promote the benefits of HS2 (e.g. engagement with communities, local government and businesses HS2 will serve) and the wider benefits to society (e.g. in employment and training);</li> <li>• ongoing development of an effective delivery control environment and high-quality management information supporting proactive management; and</li> <li>• engagement with local communities and elected representatives along the line of route to build credibility and effectively deal with issues that arise.</li> </ul> <p>All the above will help to inform discussions with Government and help 'reset' the reputation of HS2 more widely.</p>
<p>The UK Supply Chain's total capacity for the delivery of Infrastructure Projects, including capacity, solvency, skills and other resource shortfalls may prevent HS2 Ltd from achieving its strategic goals.</p>	<p>HS2 Ltd is driving the industry-wide Infrastructure Client Group (ICG)'s approach to mitigating capacity issues. Our Collaborative Procurement Hub and Supply Chain Team are undertaking extensive capacity analyses to anticipate and manage market capacity constraints. Risk-based decision-making is being used to prioritise areas of concern and to implement opportunities.</p> <p>The emergence of COVID-19, and its potential economic impact, represent a new challenge facing HS2 Ltd. We have increased focus on Supply Chain financials and capacity. The Procurement and Supply Chain team undertake regular assessments of the status of key suppliers and where necessary prepare contingency plans in the event of supply chain distress.</p> <p>Our Skills, Employment and Education Strategy (SEES) focuses on securing the skills and labour to build the railway, adding to capacity in the UK and creating a legacy of a highly-skilled and diverse workforce.</p>

Risk description. There is a risk that...	Mitigation action
<p>The scale and complexity of the HS2 Programme increase the risk of a serious or catastrophic incident occurring on the Programme resulting in significant harm, delay to the Programme and loss of confidence in HS2 Ltd's ability to deliver the Programme safely.</p>	<p>Our Safe at Heart campaign remains a key enabler, and we will continue to engage with the supply chain to promote a culture which prioritises health, safety, security and environmental management. Safe at Heart's strategic goals, objectives and strategic principles underpin our approach to health, safety and wellbeing.</p>
<p>HS2 Ltd may be unable to build, develop and maintain the requisite organisational leadership, talent, capability and culture required to deliver our objectives because of inability to attract and retain the right skills and capabilities.</p>	<p>HS2 Ltd approved a People Strategy – Skilled for Success – in April 2018. This defined how capacity and capability would be built for HS2 Ltd over time linked to Key Transition states during the Programme lifecycle (defined by a Capability Roadmap). This ensures both delivery of the railway, and the expected legacy beyond the railway. The implementation of this strategy was accelerated in 2019 by the HS2 Improvement Programme and at the year-end, the maturity of the organisation was assessed (via three levels of assurance) with all the identified capabilities required to proceed to major construction.</p>
<p>Unexpected external events, or new political uncertainties, could hinder achieving the Programme's objectives.</p>	<p>HS2 Ltd, like the rest of the construction sector, continues to monitor the implications of COVID-19 and of EU Exit and will act on any impacts as these become known and understood. The Board and Management regularly consider other potential or emerging risks.</p>

Each strategic risk has both an Executive Risk Owner and Board Champion. We track the profile of each risk to gauge the effectiveness of its controls against our defined appetite, and to identify where management responses need to be strengthened: we do this through a strategic risk review cycle involving senior leadership committees, panels and the HS2 Board. As part of our overall governance we reviewed and updated our strategic risks in 2019/20. Although our risk exposure profile has remained largely in line with what it has been in previous years, the review process enabled us to refine the definitions of threats, and our mitigation strategies, as well as identify a number of opportunities.

The COVID-19 pandemic, which emerged towards the end of the financial year, has created significant challenges across the construction industry and its supply chain. This uncertainty is likely to continue well into financial year 2020/21. Work is ongoing to understand and quantify the impact to HS2 Ltd, the Project, and the wider supply chain – and to find new ways of working to meet these challenges.

Construction site activity has been impacted since March 2020 and HS2 Ltd continues to work with its supply chain to review works on all of its sites, in line with Public Health England (PHE) and Construction Leadership Council (CLC) advice on dealing with COVID-19. In May, to support the liquidity of all tiers of the supply chain, HS2 Ltd took steps to ensure that cash flow to suppliers is expedited during the pandemic, while protecting the interests of taxpayers.

# Corporate Governance Report

## Governance Statement *continued*

### Internal control

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

The HS2 Ltd Integrated Management System (IMS) defines our key control frameworks; each one sets out how we operate to achieve our overall objectives. 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.

The IMS helps to make sure that our activities are carried out in a consistent and efficient manner, complying with the DfT’s requirements under the Development Agreement, other requirements arising from the Parliamentary process, and legal and regulatory requirements. The Company maintains risk registers at corporate, programme, individual project and directorate levels.

### HS2 Ltd’s Three Lines of Defence Model

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

## Three Lines of Defence

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

## Governance

The Company’s governance regime includes the HS2 Ltd Board, Board sub-committees, the Executive Committee, Executive sub-committees and a regime of individual delegations (executed on a ‘2-key’ basis where there is a financial commitment) to ensure that the right decision is made at the right time with best available information. Individual delegations are clear and have been structured to align with role accountabilities (including as such role accountabilities have been changed as part of Project Evolve).

## Integrated assurance and 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 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 internal audits and corporate assurance activities, which are reported to the executive-level Audit Risk and Assurance Panel (ARAP) and ARAC.

## Analytical modelling

Economic and commercial modelling remains essential to the work of HS2 Ltd. It ensures that the costs, benefits and revenues included in the HS2 business case are based on best evidence, including estimates of future 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 an annual Management Assurance review, resulting in the production of a Management Assurance Statement (MAS) which is signed by the Accounting Officer and is submitted to the DfT. The purpose of the review is to provide a self-assessment of the effectiveness of our systems of internal control; to identify areas where controls may not be operating effectively; and to identify (where relevant) actions for improvement.

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

## Head of Internal Audit opinion

In his annual opinion, the independent Head of Internal Audit observed that HS2 Ltd has benefited from a largely stable management structure in 2019/20. Further developments to the Oracle ERP system in 2019 brought improvements to data control and reporting consistency. The HS2 Improvement Project drove significant improvement in capability levels over the 24 key areas needed for Notice to Proceed. Internal Audit work through the year has evidenced a much more mature control environment with a higher proportion of ‘substantial’ conclusions.

Based on his findings, it is his view that a ‘moderate’ assurance rating was appropriate, meaning that there were ‘some improvements required to enhance the adequacy and effectiveness of the framework of governance, risk management and control’. He noted that while HS2 Ltd has a structure to move into construction, major corporate change carries a risk of associated management and control failures in the time after their introduction. In addition, the disruption arising from the COVID-19 lockdown will present a challenge in maintaining the effective control environment. Plans are in place to mitigate the risks.



# Corporate Governance Report

## Governance Statement *continued*

### External certifications

The Company is certified to ISO 9001 (Quality Management), ISO 14001 (Environmental Management) and BS OHSAS 18001 (Occupational Health and Safety) standards and is accredited by the Chartered Institute of Purchasing and Supply (CIPS) and the Association for Project Management (APM).

HS2 Ltd works with a number of professional bodies, such as APM and the Institution of Civil Engineers (ICE), as well as a number of capital project delivery organisations, such as Heathrow Airports Ltd and Highways England. The work undertaken with these organisations enables HS2 Ltd to learn lessons from other major projects, collaborate and share good practice.

### External Reviews from the National Audit Office and Public Accounts Committee

The National Audit Office published its fourth report<sup>12</sup> on the HS2 Project in January 2020. This latest report on the Programme examined whether the Department and HS2 Ltd have protected value for money in their stewardship of the Programme so far, and the risks to value for money going forward.

The NAO recognised the scale and challenge of the HS2 Programme and found that the Department for Transport, HS2 Ltd and government more widely underestimated the task, leading to optimistic estimates being used to set budgets and delivery dates in 2015. It found that risks had not been recognised and managed early enough and welcomed the increased realism on the estimated cost and schedule for the programme arising from the work undertaken by the Chairman's Stocktake in 2019.

The NAO highlighted that significant risks remain, noting that while the estimated cost and schedule for Phase One are now on a stronger footing, the challenge of getting Phase One into construction, and of monitoring and managing the programme as it progresses, is considerable. HS2 recognises these risks and challenges and while we are pleased to have achieved Notice to Proceed, we are not complacent, with many huge challenges ahead.

The House of Commons' Public Accounts Committee (PAC) drew upon the NAO's work for its March inquiry<sup>13</sup> into the programme as well as their own evidence session. The Committee's subsequent report makes clear that members' expectations for transparency and accountability were not met. HS2 Ltd recognise these qualities play a significant role in building trust in programmes and their delivery bodies, and thereby helps enable successful delivery. HS2 Ltd will continue to support the Department for Transport with its current and future reporting regime under the Development Agreement and the commitment to six-monthly reports to Parliament.

While Phase 2b is at a much earlier stage, and undergoing a review as part of the Integrated Rail Plan for the Midlands and the North led by the National Infrastructure Commission, HS2 Ltd is applying learnings gained during the Phase One preparatory works and ground investigations to update cost estimates for Phases 2a and 2b. We have also embedded lessons learned from the DfT and Infrastructure and Projects Authority (IPA) 2019 report, Lessons from transport for the sponsorship of major projects<sup>14</sup>, which has been used by the HS2 Ltd Board's Audit and Risk Assurance Committee when assessing HS2 Ltd's capability and processes.

<sup>12</sup> [www.nao.org.uk/report/high-speed-two-a-progress-update/](http://www.nao.org.uk/report/high-speed-two-a-progress-update/)

<sup>13</sup> <https://committees.parliament.uk/work/34/high-speed-2-spring-2020-update/>

<sup>14</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/796294/dft-review-of-lessons.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/796294/dft-review-of-lessons.pdf)

HS2 Ltd recognises that oversight and scrutiny at different stages of a programme requires different capabilities and governance arrangements. This is particularly the case for something of the scale, complexity and ambition of HS2. To strengthen governance and oversight of the Project, a number of new Non-Executive Director appointments are also being pursued, which will bring a greater depth and range of experience and skills to the HS2 Ltd Board for the critical construction phase ahead.

## Conclusion

HS2 Ltd has, over the past year, undertaken a number of significant changes and improvements across the company. These changes have demonstrated to the DfT and HM Treasury that we have the right capability in place to move to the next stage of programme delivery. The maturity and the capability of the organisation will continue to grow in response to emerging challenges, and as the Phase 2a and Phase 2b programmes move through their different stages.

Throughout 2020/21 we will continue to respond to, and incorporate into our ways of working, the recommendations of external reviews such as those of the National Audit Office, Public Accounts Committee and Major Projects Review Group. At the same time we will focus on working with the DfT to ensure we respond to the call for continued and greater transparency around programme milestones, cost and schedule.

In arriving at my conclusion, I have taken into account the annual audit opinion of the Head of Internal Audit, the report of ARAC and the management letter of the NAO. As Accounting Officer, I am confident that there is a sound system of internal control that supports the achievement of the Company's policies, aims and objectives. This report is for the financial year 2019/20 and, in relation to significant balance sheet events, to the date of signing.

Approved by the Board on 8 July 2020 and signed on its behalf by:



**Mark Thurston**  
Chief Executive and Accounting Officer

# Remuneration and Staff Report

The Remuneration and Staff Report for HS2 Ltd includes the salaries of the Chair and other members of the Board. Changes in the composition of the Board and a summary of its members' attendance at scheduled meetings in 2019/20 are shown in the Governance Statement on page 50.

## Remuneration policy

As a Non-Departmental Public Body, HS2 Ltd is required to apply the Government's approach to public sector pay policy, to ensure that pay awards are fair to public sector workers and to the taxpayer. However, in recognition of the scale and complexity of the programme, HM Treasury has granted HS2 Ltd some limited flexibility to assist in the recruitment of a workforce with the skills and experience needed to manage the HS2 Programme, whilst specifying clear limits and controls and added disclosures.

In line with the Government's policy on transparency, HS2 Ltd publishes details of those staff with salaries of more than £150,000 per annum, most recently at 30 September 2019 on the Cabinet Office website at:

[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/866327/150k-2019-Master1\\_4\\_.csv/preview](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/866327/150k-2019-Master1_4_.csv/preview)

## Total Remuneration – Directors (Audited)

The Chair, Allan Cook, is contracted to work for an average time commitment of three days per week on a per annum fee. Non-Executive Board members are contracted to work an average of two days per calendar month as a minimum. They are engaged on service contracts and are paid a fixed fee per day worked (or pro rata). This fee is set by the DfT. The travel expenses of Board members are reimbursed in line with the rates allowed under HS2 Ltd's business expenses policy. All Non-Executive Board members have fixed-term appointments.

There are currently two Executive Directors on the HS2 Board. These Directors are salaried and have a bonus element as part of their remuneration package, which was approved by the Secretary of State (under which a maximum payment of 10% or 20% of salary, as applicable, may be paid subject to performance). The HS2 Remuneration Committee (which comprises two Non-Executive Directors) has the role of approving for the two Executive Directors:

- their performance objectives for the upcoming Financial Year;
- how each Director has performed against such objectives (and hence the bonus that such Director is entitled too); and
- any salary adjustment for each Director<sup>15</sup>.

Executive Directors are permanent employees of HS2 Ltd. Their contracts of employment have no fixed end date but certain termination provisions which may be exercised (in certain circumstances on specified notice) by the Director or HS2 Ltd respectively. Non-Executive Directors are engaged under service contracts for a defined period of no longer than four years, on initial appointment. Certain significant events entitle the Secretary of State to terminate the relevant service contract immediately (e.g. the Director becoming bankrupt). Otherwise, the Secretary of State is required to give three months' notice of termination of such service contract. Contract end dates for Non-Executive Directors on the HS2 Board as at 31 March 2020 are as follows:

<sup>15</sup> If the proposed adjustment is >9%, it must also be approved by the Secretary of State. This was not the case in 2019/20.

Board Member	Name	Title	Appointment	(Re) Appointment date / due date	Appointment end date
Non-Executive – Chair	Allan Edward Cook	Chairman	05/12/18	05/12/21	04/12/21
Non-Executive Director	Melvyn (Mel) Ewell	N/A	01/09/16	31/08/2019 Re-appointment 01/09/19 – 31/03/23	31/03/23
Non-Executive Director	Roger Mountford	N/A	19/02/15	18/02/2019 Re-appointment 19/02/19 – 18/05/22	18/05/22
Non-Executive Director	Ed Smith (John Edward Kitson Smith)	N/A	01/08/18	31/07/19 Re-appointment 01/08/19 – 31/07/22	31/07/22
Non-Executive Director	Dame Judith Elizabeth Hackitt	N/A	01/04/19	31/03/23	31/03/23
Non-Executive Director	Stephen Edward Hughes	N/A	01/04/19	31/03/23	31/03/23

The Executive Directors are senior managers. It is HS2 Ltd's policy for six-month notice provisions to apply in such circumstances. If any redundancies have to be made, HS2 Ltd may pay statutory redundancy terms only. Where appropriate, HS2 Ltd is also entitled to pay salary in lieu of the notice period<sup>16</sup>.

The fees or salaries of the Directors during the year are shown below:

Full name	Fees and salary (£)		Bonus payment (£)		Taxable benefit (£)		Pension benefit (£)		Total (£)		Board role
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	
Allan Cook	230,000	75,487	-	-	36,770	6,147	-	-	266,770	81,634	Non-Executive – Chair
Mel Ewell	22,800	22,800	-	-	755	172	-	-	23,555	22,972	NED – Non-Executive Director
Roger Mountford	33,275	35,387	-	-	3,179	3,683	-	-	36,454	39,070	NED – Non-Executive Director
Ed Smith	30,700	17,100	-	-	-	676	-	-	30,700	17,776	NED – Non-Executive Director
Dame Judith Hackitt	25,300	-	-	-	2,049	-	-	-	27,349	-	NED – Non-Executive Director
Stephen Hughes	22,800	-	-	-	-	-	-	-	22,800	-	NED – Non-Executive Director
Mark John Thurston	617,296	603,350	36,743	46,000	5,376	5,461	-	-	659,416	656,811	Chief Executive
Michael Bradley	274,500	110,769 (270,000)	15,975	-	31,629	3,326	32,940	12,046	355,044	126,141	Chief Financial Officer

The Chief Executive has reached the threshold for Pension Benefit and is therefore exempt from pension deductions. As compensation, he receives an additional £65,854 per annum as a payment in lieu of pension – which is included within Fees and Salary.

<sup>16</sup> If any proposed exit payment (including payment in lieu of notice) is greater than £95,000, it must be approved by the DfT and HM Treasury. No such payments were made in FY19/20.



# Remuneration and Staff Report *continued*

The 2019/20 bonus payments shown for Mark Thurston and Michael Bradley relate to their performance for the Financial Year 2018/19. They are included under 2019/20 as the payments were made in August 2019 and July 2019 respectively.

Both Mark Thurston and Michael Bradley have elected to forego payment of performance related bonuses for the Financial Year 2019/20, which would have otherwise been paid in the 2020/21 financial year.

## Directors who left the Board during 2019/20

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

Full name	Fees and salary (£)		Bonus payment (£)		Taxable benefit (£)		Pension benefit (£)		Total (£)	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Duncan Sutherland Non-Executive Director Left on 29/06/2018	-	5,700 (22,800)	-	-	-	5,720	-	-	-	11,420
Sir David Higgins Chairman Left on 31/07/2018	-	80,000 (240,000)	-	-	-	-	-	-	-	80,000
Sir Terry Morgan Chairman From 01/08/2018 to 04/12/2018	-	68,205 (200,000)	-	-	-	-	-	-	-	68,205
Andrew Wolstenholme Non-Executive Director From 01/06/2018 to 01/04/2019	-	15,200 (22,800)	-	-	-	240	-	-	-	15,440
Christine Emmett Non-Executive Director Left on 14/09/2018	-	16,150 (22,800)	-	-	-	1,032	-	-	-	17,182
Neil Masom, OBE Non-Executive Director Left on 14/09/2018	-	24,418 (28,693)	-	-	-	4,396	-	-	-	28,814
Baroness Jo Clare Valentine Non-Executive Director Left on 14/09/2018	-	10,450 (22,800)	-	-	-	1,206	-	-	-	11,656
Richard Robinson Chief Operating Officer Left on 31/10/2019	210,035 (360,060)	183,288 (353,000)	24,710	-	7,458	8,128	25,204	19,415	267,407	210,831
Richard Brown Non-Executive Director Left on 30/06/2019	5,700 (22,800)	22,800	-	-	292	313	-	-	5,992	23,113

Richard Robinson's last day of service was 25 September 2019 (per sections above) but contractual end date was 31 October 2019.

## 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 2020, employers' contributions were £10.1 million (2018/19: £8.7 million).

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

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

## Payments under compensation schemes (Audited)

In 2016, HS2 Ltd announced that it would relocate its head office to Birmingham as part of our commitment to ensure we are working with our communities along the route and bringing employment and skills to the heart of our network. In the process of concluding this relocation, HS2 Ltd incurred certain costs in the 2017/18 financial year and to a limited extent in 2018/19. Relocation and redundancy costs are disclosed in full in the year of relocation or departure respectively. In 2019/20, no relocation payments or enhanced redundancy payments were made. No further payments will be made under this compensation arrangement.

### Relocation payments

HS2 Ltd did not make any relocation payments to employees during 2019/20.

### Enhanced redundancy payments

Band	2019/20		2018/19		2017/18	
	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
Band	-	-	-	-	9	-
<£10,000	-	-	1	-	19	5
£10,000 – £25,000	-	-	-	-	4	6
£50,000 – £95,000	-	-	-	-	-	3
>£95,000	-	-	-	-	-	3
<b>Total payments</b>	-	-	<b>1</b>	-	<b>32</b>	<b>17</b>
<b>Total cost</b>	-	-	22,186	-	478,881	806,565

No enhanced redundancy payments were made during 2019/20.

# Remuneration and Staff Report *continued*

## Statutory redundancy payments 2019/20

Band	
<£10,000	14
>£10,000	0
Total number of payments	14
<b>Total cost</b>	<b>£36,750</b>

Payments were made as a result of restructuring activities within the delegations granted to HS2 Ltd. Although no external approval is required for redundancies made on statutory terms, HS2 Ltd notified the Department for Transport of its intention to run a redundancy scheme in line with the requirements set out in the HS2 Ltd Framework Document. One further member of staff was made redundant (15 redundancies in total) but was not eligible for a statutory payment, so therefore this is excluded from the table above.

## Fair pay disclosures (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in the organisation and the median remuneration of the Company's workforce. The total annualised remuneration of the highest paid Director of HS2 Ltd at 31 March 2020 was £659,416 (2018/19: £651,448), which was 9.8 times the median salary of the workforce. The median is determined as the mid-point of all salaries comprising employees, secondees and temporary staff.

Financial year	CEO	Median	CEO ratio
2019/20	£659,416	£67,072	<b>9.8</b>
2018/19	£651,448	£67,062	<b>9.7</b>
2017/18	£601,000	£66,400	<b>9.1</b>

Total remuneration includes annualised salary, performance-related pay and benefits-in-kind. It does not include employer pension contributions or the cash equivalent transfer value of pensions. No employees, secondees or temporary staff have received remuneration in excess of the highest-paid Director in the year (2018/19: none). Actual staff remuneration (on an annualised basis) for full-time work at 31 March 2020 (excluding the highest paid Director) ranges from £15,000 to £650,003 per annum.

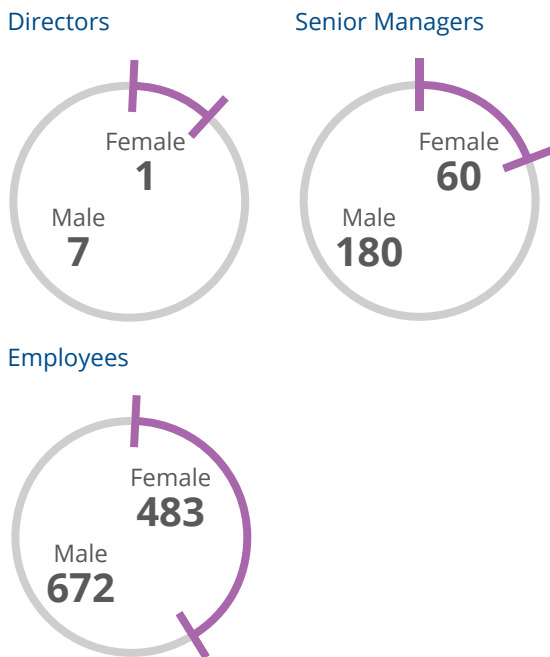
## Staff numbers and costs

Audited staff numbers and costs are in Note 5 of the Financial Statements on page 92.

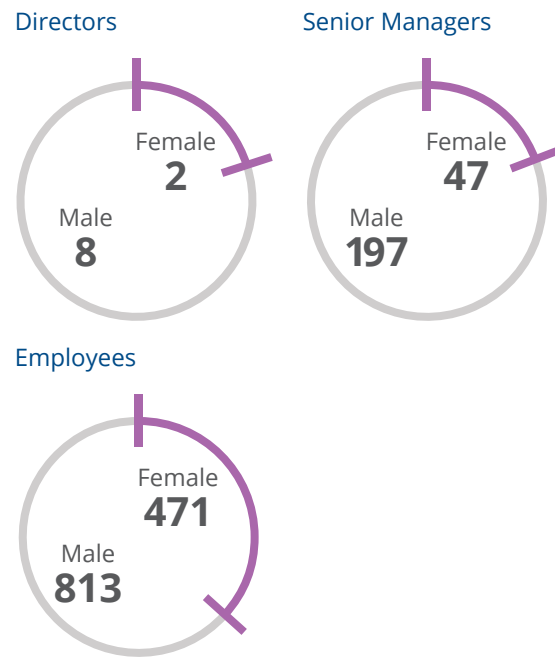
## Staff composition

The overall proportion of female HS2 Ltd employees at 31 March 2020 is 39% compared to 37% reported in 2018/19.

### 2019/20 staff composition



### 2018/19 staff composition



Notes:

Directors – Board Members – Inclusive of Executive Directors and Non-Executive Directors.  
 Senior Managers – Any staff member not on the board who is civil service grade: SCS 1 to SCS 4.  
 Employees – Any staff member below SCS1 (Grade 19 or below).

## Sickness absence data

Recorded staff absence due to sickness equated to an average of 4.3 days per employee during the year (2018/19: 4.4 days) for direct employees of HS2 Ltd.

## Staff policies for disabled persons

HS2 Ltd 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 made by disabled persons.

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



# Remuneration and Staff Report **continued**

## Other employee matters

HS2 Ltd is committed to equality, diversity and inclusion in all aspects of recruitment and employment. To achieve this we:

- develop and implement recruitment and selection processes that are open and fair and that enable the selection of the best talent (such as the use of blind auditions, where application process and assessments are anonymised);
- aim to build a workforce that reflects the communities it serves;
- promote an environment free from discrimination, harassment, bullying and victimisation and tackle any behaviour that breaches this;
- provide training, support and encouragement to employees and workers so that they can develop their careers and enhance their contribution to the organisation
- 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.

HS2 Ltd has been awarded Clear Assured Gold Standard for EDI accreditation – the only organisation in the UK to date to achieve this level of accreditation.

## Employee consultation

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

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

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

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

## Health and safety at work

Across the project, including all contractors on site, five RIDDOR reportable injuries occurred during 2019/20. While this is an increase on 2018/19, the reporting rate for RIDDORs per 100,000 hours worked remained the same as in 2018/19 at 0.02, which is well below other industry benchmarked companies.

2019/20 saw a 27% increase in hours worked compared to 2018/19 (which reflects the increasing engagement of the supply chain in the design and construction of HS2). The increase in lost time injuries and total injuries is broadly in line with 2018/19 taking account of the additional hours worked.

Although the level of reported “near misses” has not significantly increased, the level of observations has continued to increase. This demonstrates a continued improvement in engagement and reporting culture. The following table sets out the comparative statistics relating to health and safety:

	2019/20	2018/19
Total RIDDOR injuries	5	3
Total lost time injuries	18	15
Total injuries	108	116
Total near misses	293	279
Total observations	11689	8242
Total hours worked	20,621,818	16,158,367

## Trade union relationships

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

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

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

## Transport Salaried Staffs’ Association (TSSA)

HS2 Ltd has a single union recognition agreement with the Transport Salaried Staffs’ Association (TSSA). The National Collective Engagement Framework 2019 sets out joint commitments on:

- health, safety and wellbeing;
- respect at work;
- exemplary equality, diversity & inclusion policies;
- fair & decent terms and conditions;
- opportunities to develop skills, experience and qualifications to enhance employability; and
- consultation and negotiation at an early stage when there are proposals for change.

# Remuneration and Staff Report *continued*

## Managing our people

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

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

HS2 Ltd has identified a number of transition states, where the organisation and operating model will need to evolve to be ready for the next stage of the programme. In February 2019, HS2 Ltd commenced Project Evolve, to ensure that we would have the most optimal structure for the efficient and economic delivery of a project of the scale and complexity of HS2. Project Evolve concluded on 31 March 2020.

## 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, Public Sector bodies have been asked to report on their off-payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. The report does not include independent panel members. This data is shown in the following tables:

### Off-payroll engagements as of 31 March 2020 for more than £245 per day which have lasted or are expected to last for longer than six months

Table 1

31/03/2020

Number of existing engagements that have existed for:	
less than one year at the reporting date	40
between one and two years at the reporting date	16
between two and three years at the reporting date	3
between three and four years at the reporting date	0
more than four years at the reporting date	1
<b>Total engagements at the reporting date</b>	<b>60</b>

**New off-payroll engagements, or those that reached six months duration, between 1 April 2019 and 31 March 2020 during the reporting period, for more than £245 per day and lasting for longer than six months**

<b>Table 2</b>	<b>2019/20</b>
Number assessed in scope of IR35	65
Number assessed as out of scope of IR35	2
Number engaged directly (via a personal service company contracted to the organisation) and are on the organisation's payroll	0
Number of engagements reassessed for consistency/assurance purposes during the year	50
Number of engagements whose IR35 status changed following reassessment	2
<b>Number of new engagements, or those that reached six months duration, during the reporting period</b>	<b>67</b>

**Off-payroll engagements of board members and/or, senior officials with significant financial responsibility between 1 April 2019 and 31 March 2020**

<b>Table 3</b>	<b>2019/20</b>
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility during the financial year	2
Total number of individuals that have been deemed 'board members', and/or, 'senior officials with significant financial responsibility', during the financial year. This figure includes both on-payroll and off-payroll engagements.	41

Notes:

Phase Two Delivery Director (27/11/2018 – 26/06/2020) – The Manager Director of Phase Two and a senior member of that leadership team had resigned at the same time. This role was required to ensure that there was additional business resilience whilst a permanent Managing Director was recruited. The individual remains in post, providing stability and commercial leadership for Phase Two at the current time.

Interim Chief Information Officer (29/07/2019 – 31/12/2019) – the previous CIO left the organisation to pursue other opportunities. In order to enable the time to run a fair and transparent process an interim was engaged to cover the period. The interim was successful and transferred into the permanent role.

Approved by the Board on 8 July 2020 and signed on its behalf by:



**Mark Thurston**

Chief Executive and Accounting Officer

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

## Opinion on financial statements

I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2020 under the Government Resources and Acts Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayer's Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by European Union, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration and Staff Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

## Opinion on regularity

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

## Basis of opinions

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

## Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- High Speed Two (HS2) Limited's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- High Speed Two (HS2) Limited have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the High Speed Two (HS2) Limited's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



## Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- 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.

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

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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.
- 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.

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

- Conclude on the appropriateness of High Speed Two (HS2) Limited'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 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 report. However, future events or conditions may cause High Speed Two (HS2) Limited to cease to continue as a going concern.

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

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

## **Other Information**

Directors' are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Remuneration 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 prescribed by the Companies Act 2006**

In my opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared;
- in light of the knowledge and understanding of 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' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to 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 remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the company.

## Report

I have no observations to make on these financial statements.

### Gareth Davies

17 July 2020

Comptroller and Auditor General

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



## Financial statements





DB Cargo, the UK's largest rail freight company

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# Statement of comprehensive net expenditure

	Note	Year ended 31 Mar 2020 £'000	Year ended 31 Mar 2019 £'000
<b>Income</b>			
Interest income	3	(109)	(105)
<b>Total income for the year</b>		<b>(109)</b>	<b>(105)</b>
<b>Expenditure</b>			
Staff costs	5	14,453	14,966
Other expenditure	6	212,290	266,479
Non-cash items	6	3,223	(24,063)
<b>Total expenditure for the year</b>		<b>229,966</b>	<b>257,382</b>
<b>Net expenditure before taxation</b>		<b>229,857</b>	<b>257,277</b>
Taxation	7	21	20
<b>Net expenditure after taxation</b>		<b>229,878</b>	<b>257,297</b>
<b>Other comprehensive expenditure</b>			
Items which will not be reclassified to net operating costs:			
No other transactions to be recorded		-	-
<b>Total comprehensive net expenditure for the year</b>		<b>229,878</b>	<b>257,297</b>

The Accounting Policies and Notes on pages 82 to 104 form part of these financial statements.

# Statement of financial position

	Note	Year ended 31 Mar 2020 £'000	Year ended 31 Mar 2019 £'000
<b>Non-current assets</b>			
Intangible assets	8	18,723	9,865
Property, plant and equipment	9	5,891,122	3,601,856
Financial assets	10	3,087	2,978
<b>Total non-current assets</b>		<b>5,912,932</b>	3,614,699
<b>Current assets</b>			
Trade and other receivables	11	22,709	80,260
Cash and cash equivalents	12	63,097	66,505
<b>Total current assets</b>		<b>85,806</b>	146,765
<b>Total assets</b>		<b>5,998,738</b>	3,761,464
<b>Current liabilities</b>			
Trade and other payables	13	(306,417)	(909,299)
Provisions	14	(9,253)	(27,254)
<b>Total current liabilities</b>		<b>(315,670)</b>	(936,553)
<b>Non-current liabilities</b>			
Borrowings	15	(28,918)	–
<b>Total current liabilities</b>		<b>(28,918)</b>	–
<b>Total liabilities</b>		<b>(344,588)</b>	(936,553)
<b>Total net assets</b>		<b>5,654,150</b>	(2,824,911)
<b>Taxpayers' equity</b>			
Revaluation reserve		–	–
General reserve		5,654,150	2,824,911
		<b>5,654,150</b>	2,824,911

The general reserve represents the net investment by the Department for Transport in HS2 Ltd.

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

The Accounting Policies and Notes on pages 82 to 104 form part of these financial statements. The financial statements on pages 78 to 104 were approved by the Board on 8 July 2020 and were signed on its behalf by:



**Mark Thurston**  
Chief Executive and Accounting Officer

# Statement of cash flows

	Note	Year ended 31 Mar 2020 £'000	Year ended 31 Mar 2019 £'000
<b>Cash flows from operating activities</b>			
Net operating cost per Expenditure Statement		(229,878)	(257,297)
(Increase)/decrease in trade and other receivables	11	5,210	(4,486)
Increase/(decrease) in trade and other payables	13	(54,770)	78,218
Adjustment for non-cash transactions	6	3,223	(24,063)
<b>Net cash outflow from operating activities</b>		<b>(276,215)</b>	<b>(207,628)</b>
<b>Cash flows from investing activities</b>			
(Increase)/decrease in trade and other receivables	11	52,341	(34,682)
Increase/(decrease) in trade and other payables	13	(550,310)	604,710
Use of provisions	14	(16,844)	(4,512)
Deferred rent accrual adjustment		4,911	-
Purchase of property, plant and equipment	9	(2,237,244)	(1,826,254)
Lease payments not posted through SoCNE		(4,337)	-
Purchase of intangible assets	8	(10,678)	(149)
(Increase)/decrease in loan receivables	10	(109)	(105)
Adjustment for other non-cash transactions	14	6,413	(224,754)
<b>Net cash outflow from investing activities</b>		<b>(2,755,857)</b>	<b>(1,485,746)</b>
<b>Cash flows from financing activities</b>			
Capital contribution from DfT		3,028,664	1,730,211
<b>Net cash inflow from financing activities</b>		<b>3,028,664</b>	<b>1,730,211</b>
Net increase/(decrease) in cash and cash equivalents		(3,408)	36,837
Cash and cash equivalents at the beginning of the year	12	66,505	29,668
<b>Cash and cash equivalents at the end of the year</b>	12	<b>63,097</b>	<b>66,505</b>

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

The Accounting Policies and Notes on pages 82 to 104 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 2018</b>	1,351,997	-	1,351,997
<b>Changes in taxpayers' equity for 2018/19</b>			
Net operating cost for the year	(257,297)	-	(257,297)
Capital contribution from DfT	1,730,211	-	1,730,211
<b>Balance at 31 March 2019</b>	2,824,911	-	2,824,911
<b>Changes in taxpayers' equity for 2019/20</b>			
Net operating cost for the year	(229,878)	-	(229,878)
IFRS 16 opening balance adjustment	30,453		30,453
Capital contribution from DfT	3,028,664	-	3,028,664
<b>Balance at 31 March 2020</b>	<b>5,654,150</b>	<b>-</b>	<b>5,654,150</b>

The Accounting Policies and Notes on pages 82 to 104 form part of these financial statements.

The IFRS 16 opening balance adjustment is explained further in Note 2.3.

# Notes to the financial statements

## 1. General information

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

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

The registered office and principal place of business of the Company is Two Snowhill, Queensway, Birmingham B4 6GA, and the Company's principal activities are to develop proposals, design, build and operate a high speed rail network between London, Birmingham, Leeds and Manchester. The period covered by these accounts is 12 months to the 31 March 2020.

## 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 2019/20, 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 the Company for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Company are described below and have been applied consistently in dealing with matters considered material to the accounts.

### 2.2 Accounting convention

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

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

The Company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the period ending 31 March 2020 to determine the impact on the Company's financial statements.

#### IFRS 16 Leases

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

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

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



Consistent with the DfT, the Company has implemented IFRS 16 using the cumulative catch-up method permitted under IFRS 16. As a result, comparatives were not restated, and the measurement of the asset and liability balances recognised with effect from 1 April 2019 for the remaining lease term. The adjustment to net assets has been made with effect from 1 April 2019.

The Company uses the central internal rate of borrowing issued by HM Treasury of 1.99% for entities to apply, when they cannot obtain the rate implicit in the lease contract. This is considered to be a fair proxy for the Company's incremental rate of borrowing as a company that is controlled and funded by the UK government.

For building leases signed as at 1 April 2019 that were previously reported under the Operating lease arrangements note and charged as an expense as incurred under IAS 17, the impact of adopting the new standard has increased property, plant and equipment assets and the value of lease liabilities. Depreciation and finance costs are now charged to the Statement of Comprehensive Net Expenditure (SoCNE), which replace rental payments now charged to the lease liability.

Upon transition, the Company has reclassified material rent-free accruals to be reported against the right-of-use asset cost. The rent-free-period is recognised over the remaining lease term, which ultimately reduces the depreciation charge each month as the balance is released.

Peppercorn leases, where the lessee pays nil or nominal rent, are recognised at fair value under IFRS 16. Upon transition, the Company has recognised a right-of-use asset for one peppercorn lease clause active as at 1 April 2019. In accordance with IFRS 16 and the cumulative catch-up method; the difference between the right-of-use asset and the lease liability has been adjusted against the opening balance of taxpayers' equity.

The following disclosure is required by IFRS 16 paragraph C12 for first time adopters:

<b>Measurement of lease liabilities</b>	£'000
<b>Operating lease commitments disclosed as at 31 March 2019</b>	<b>36,455</b>
Less: short-term leases not recognised as a liability	<b>(311)</b>
Less: deduction of services charges and rates	<b>(15,859)</b>
Add: rental payments to lease to end date	<b>19,840</b>
Less: prepaid rent as at March 2018/19	<b>(938)</b>
Less: finance costs not recognised under IAS 17	<b>(6,779)</b>
<b>Lease liability recognised as at 1 April 2019</b>	<b>32,408</b>
Current	<b>2,879</b>
Non-current	<b>29,529</b>
<b>Total liabilities</b>	<b>32,408</b>

As at 1 April 2019, the total value of assets recognised was £61.0 million, which included opening balance adjustments for rent-free accruals reclassified and peppercorn leases adopted as explained earlier in this section. The total impact on opening taxpayers' equity was £30.5 million.

#### Transition

The Company has elected to take a practical approach by not reassessing contracts identified as a lease under IAS 17.

# Notes to the financial statements **continued**

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

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

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

## 2.5 Going concern

The development and delivery of HS2 as part of the Government's wider high speed rail agenda is in accordance with the aims of the DfT as our sponsor and is funded entirely by the DfT as provided by Section 6 of the Railways Act 2005 and the High Speed Rail (Preparation) Act 2013. The Development Agreement, outlined further in the Strategic Report on pages 18 to 43, remains in force and details the Company's current and future role in developing, building and operating the new railway. In November 2015, following a Government-wide spending review, the level of resources available for HS2 Ltd for 2019/20 to fund its planned expenditure was confirmed, together with an indicative funding allocation to the DfT for the HS2 Ltd for the period to 2021. As is the case for all capital projects funded by central government, future funding allocations for the period after 2021 are expected to be confirmed in future Spending Reviews.

HS2 Ltd was granted permission by the DfT on 14 April 2020 to issue Notice to Proceed for Phase One to its Main Works Civils Contractors following the statement from the Prime Minister on 11 February 2020 to give "high speed rail the green signal". Progress continues towards Royal Assent for Phase 2a and on development of the Phase 2b hybrid Bill. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

The Statement of Financial Position (SoFP) as at 31 March 2020 shows net assets of £5,654.2 million.

## 2.6 Estimation techniques used and changes in accounting estimates

The Company applies the following significant estimation techniques:

- the recognition and valuation of accrued liabilities for work done by its professional service contractors is based on the Company's best estimates of the work done at the balance sheet date. The value of work done is certified, invoiced and paid only when all issues regarding the valuation of work done have been resolved to the Company's satisfaction. Accruals are based on the Company's view of application for payment and other information provided by the contractors leading up to certification. When accruing the Company takes a view of any disputed amounts;
- estimates of the contribution of each business unit are used to allocate costs to the phases of the HS2 programme. Allocation drivers include headcount and expenditure. Refer to Note 2.11 as to whether costs are expensed or capitalised; and
- estimates relating to classifying undertakings and assurances as either a contingent liability or a provision is based on applying IAS 37. Each undertaking and assurance is considered on a case by case basis and involves some degree of judgement and estimation of the potential liability and appropriate classification.

## 2.7 Financing

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

## 2.8 Leases (the Company as a lessee)

### Low value and short-term leases

IFRS 16 includes recognition exemptions for lessees – leases of 'low value' assets and 'short-term' leases (i.e. leases with a lease term of 12 months or less). Low value is not defined under the standard so is assessed on a lease-by-lease basis. The costs for these types of operating leases are charged as an expense as incurred. No leased asset or lease liability is recognised for these leases.

### 2.9 Leased assets (classified as right-of-use assets) and lease liabilities (classified as borrowings)

#### Recognition – identification of leases

IFRS 16 defines a lease as a contract that 'conveys the right to control the use of an identified asset for a period of time in exchange for consideration'. This definition applies both to lessees and lessors.

For peppercorn leases, where the consideration paid is nil or nominal, the lessee shall still account for the right-of-use asset and the lease liability in accordance with IFRS 16.

There are two aspects of the definition of a lease for which IFRS 16 provides guidance:

- whether a contract depends on the use of an identified asset; or
- whether a customer has the right to control the use of that identified asset.

The Company has identified that building leases previously disclosed as Operating lease arrangements under IAS 17 fall within the scope of IFRS 16, except for low value or short-term leases. This is because the Company, under the terms of the contracts, has the right to substantially all of the economic benefits from the use of the asset, and the right to direct the use of the asset for the space it occupies. The Company does not have any other leases aside from building leases.

#### Recognition – lease term

IFRS 16 defines the lease term as the non-cancellable period for which a lessee has the right to use an underlying asset, together with both

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

For building leases, the lease end date is used when setting the lease term. This is because, in management's view at the reporting date, any break clauses are unlikely to be exercised.

#### Recognition – lease payments

IFRS 16 requires the right-of-use asset, and the lease liability, to be initially measured at the present value of unavoidable future lease payments. The following payments are included in the initial measurement of the right-of-use asset and lease liability:

- fixed payments (including in-substance fixed payments);
- variable lease payments that depend on an index or a rate (for example, payments linked to a consumer price index or market rental rates);
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising a termination option.

Rent payments for building leases fall within the scope of IFRS 16 and are classified as fixed payments. Consistent with the DfT, for the Company building leases, service charges and rates payable do not fall within the scope of IFRS 16 and so are expensed as incurred.

# Notes to the financial statements *continued*

## Recognition – discount rate

IFRS 16 requires the lease liability to be discounted using the rate implicit in the lease, or where this is not readily determined, the lessee's incremental rate of borrowing at the point of lease commencement. The incremental rate of borrowing is defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The implicit discount rate cannot be determined for any of the leases adopted on 1 April 2019, therefore, the Company have used the central internal rate of borrowing issued by HM Treasury of 1.99% as the discount rate for leases adopted on 1 April 2019. The discount rate adjustment is classified as finance costs in the financial statements.

## Subsequent measurement – lease liability

After the commencement date (the date that the lessor makes the underlying asset available for use by the lessee), a lessee shall measure the liability by:

- increasing the carrying amount to reflect interest (referred to as finance costs);
- reducing the carrying amount to reflect lease payments made; and/or
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in substance fixed lease payments.

The Company measures lease liabilities in accordance with the treatment above.

## Subsequent measurement – right-of-use asset

After initial recognition, right-of-use assets are valued using the cost model as an appropriate proxy for fair value. Depreciation is charged on a straight-line basis over the remaining lease term. Remeasurement of the lease liability for any lease modifications or reassessments will be reflected in the right-of-use asset under the cost model.

## Peppercorn leases – recognition and subsequent measurement

The Company applies the principles of IFRS 16 when recognising and measuring peppercorn leases where right-of-use is identified.

When a right-of-use asset is recognised, it is initially measured at its current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential. The Company values peppercorn leases initially at fair value.

The lessee recognises a lease liability in accordance with IFRS 16.

The Company recognises any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted in the FReM.

Subsequent measurement of the right-of-use asset then follows the principles of IFRS 16 as adapted and interpreted in the FReM.

## 2.10 Interest Income and financial assets

### Recognition and measurement

Financial assets are covered by the standard IFRS 9 Financial Instruments.

The Company currently has one financial asset valued at amortised cost; being a loan receivable from The National College for Advanced Transport & Infrastructure (NCATI), formerly known as National College for High Speed Rail (NCHSR). The loan is interest bearing at 3.6% per annum and repayments are scheduled to start in the 2021/22 financial year.

Financial assets are valued at amortised cost if:

- it is the objective of the Company to hold the asset in order to collect contractual cash flows; and
- the contractual terms give rise to cash flows, which are solely repayments of a principle value and interest thereon.

For the loan, amortised cost is defined as principle amounts plus accrued interest less any impairment charges.

Interest income is accrued annually and recognised in the SoCNE.

### Impairment

At each reporting date, the Company assesses whether the credit risk on a financial asset has increased significantly since initial recognition and subsequently measures an expected credit loss allowance. If the credit risk is deemed low then the 12-month expected credit loss allowance is applied. If a significant increase in credit risk is foreseen, then the lifetime expected credit loss allowance is applied.

For the loan, the credit risk has been assessed as low and the 12-month expected credit loss allowance has been measured for the portion of the loan commitment that will be drawn down within 12 months of the reporting date.

No credit loss allowance has been charged in 2019/20 (2018/19: nil).

## 2.11 Intangible assets

### Recognition

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

### Measurement

Intangible assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

All intangible assets are valued on the basis of amortised historic cost as an approximation of fair value.

### Impairment

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

Where impairment indications exist 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 intangible 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. The typical UEL for intangible assets is in the range of three to five years or for the length of the license.

### Disposals

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



# Notes to the financial statements **continued**

## 2.12 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 economic benefits 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 economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The trigger point at which these criteria are satisfied is considered separately for each phase of the railway, and is taken to be met at the point when key enabling legislation is substantively enacted. This is defined as the second reading of the hybrid Bill for a Phase of the HS2 Project.

For the recognition treatment of right-of-use assets, refer to Note 2.8.

Note that land and property acquisitions and compensation schemes are required to bring the railway asset into operational condition. This is an expense that the Secretary of State (DfT) incurs directly and recognises and is therefore not listed in these accounts. Please refer to Note 2.13.

### 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 and right-of-use assets, are considered to be relatively short-life or low-value assets and are valued on the basis of depreciated historic cost as an approximation of fair value;

- railway infrastructure assets, when complete and available for their intended purpose, will be valued in accordance with IFRS and any compatible interpretations in the FReM. During the construction period, such assets are valued at cost because they are not fully complete and ready for use. The hybrid Bill second readings are the recognition point when costs are classified as railway infrastructure assets and so are capitalised from this point onwards. For Phase One the second reading took place in April 2014 and for Phase 2a this took place in January 2018. As Phase 2b has not yet reached this stage, the costs are expensed as incurred; and
- for the subsequent measurement of right-of-use assets, refer to Note 2.8.

### Impairment

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

Where impairment indications exist 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. The typical UEL for the different assets is detailed below:

Asset Type	Typical UEL
IT equipment	3 years
Plant and equipment	3 years
Leasehold improvements	Up to the expected date of exit (either lease break or end date)

### 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.

### 2.13 Land and Property

Properties acquired to bring the railway asset into operational condition are purchased on behalf of the Secretary of State for Transport and are recognised as assets in the DfT's financial statements. Consequently, the Company does not accrue or make provision for the acquisition of property. Activity undertaken on behalf of the Secretary of State for Transport include Compulsory Purchase Orders (CPO's), Compensation Schemes and Safeguarding Schemes. Cash is held by HS2 Ltd on behalf of the DfT to fulfil CPO payments. These purchases belong to and are accounted for by the DfT so the cash held is offset by short-term creditors included in Trade Payables. As at 1 April 2020 full delegation authority related to CPO's has been transferred to HS2 Ltd.

The Company 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. The Company 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.

# Notes to the financial statements **continued**

## 2.14 Cash and cash equivalents

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

## 2.15 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.

## 2.16 Provisions

The Company makes provision for liabilities and charges in accordance with IAS 37 where a legal or constructive liability (i.e. a present obligation arising from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value

of money is material, the estimated risk-adjusted cash flows are discounted using the rates set by HM Treasury. When the discount is unwound, the adjustment is recognised as an interest expense.

## 2.17 Contingent liabilities

In accordance with IAS 37, the Company 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.

## 3. Income

	Year ended 31 Mar 2020 Capital £'000	Year ended 31 Mar 2020 Resource £'000	Year ended 31 Mar 2019 Capital £'000	Year ended 31 Mar 2019 Resource £'000
<b>Income includes:</b>				
Interest income	-	109	-	105
Total income	-	109	-	105

The income receivable relates to interest chargeable from a working capital loan to the National College for Advanced Transport and Infrastructure (NCATI). 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 the Company and the HS2 Programme and reflects the way in which the programme is managed.

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

Year ended 31 Mar 2020	Capital Expenditure £'000	Resource Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	2,142,281	-	2,142,281
Phase Two: between Birmingham and Leeds and Manchester	91,712	225,269	316,981
Other capital	75,637	-	75,637
Provision for interest on VAT	-	(8,570)	(8,570)
Depreciation and Amortisation	-	10,793	10,793
Finance costs	-	351	351
Administration	-	2,035	2,035
<b>Total net expenditure</b>	<b>2,309,630</b>	<b>229,878</b>	<b>2,539,508</b>

Analysed as to:	£'000	£'000	£'000
Programme costs	2,309,630	227,843	2,537,473
Administration costs	-	2,035	2,035
<b>Total net expenditure</b>	<b>2,309,630</b>	<b>229,878</b>	<b>2,539,508</b>

Year ended 31 Mar 2019	Capital Expenditure £'000	Resource Expenditure £'000	Total £'000
Phase One: between London and the West Midlands	1,747,571	-	1,747,571
Phase Two: between Birmingham and Leeds and Manchester	71,638	229,876	301,514
Other capital	7,194	-	7,194
Provision for interest on VAT	-	21,056	21,056
Depreciation and amortisation	-	4,700	4,700
Finance costs	-	-	-
Administration	-	1,665	1,665
<b>Total net expenditure</b>	<b>1,826,403</b>	<b>257,297</b>	<b>2,083,700</b>

Analysed as to:	£'000	£'000	£'000
Programme costs	1,826,403	255,162	2,081,565
Administration costs	-	2,135	2,135
<b>Total net expenditure</b>	<b>1,826,403</b>	<b>257,297</b>	<b>2,083,700</b>

# Notes to the financial statements *continued*

## 5. Staff numbers and costs

	Direct employees 2020	Other personnel 2020	Year ended 31 Mar 2020 Total	Year ended 31 Mar 2019 Total
<b>Whole time equivalent persons employed – average for the year</b>	<b>1,313</b>	<b>102</b>	<b>1,415</b>	1,389
<b>Staff costs comprise:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	£'000
Wages and salaries	95,594	17,874	113,468	109,475
Social security costs	10,340	–	10,340	9,866
Other pension costs	10,044	–	10,044	8,651
Chairman and Non-Executives fees	324	–	324	472
<b>Total staff costs</b>	<b>116,302</b>	<b>17,874</b>	<b>134,176</b>	128,464
<b>Non-cash items include:</b>			£'000	£'000
Capitalised expenses (Staff costs)			(119,723)	(113,498)
<b>Total non-cash costs</b>			<b>(119,723)</b>	<b>(113,498)</b>
<b>Total staff costs in statement of net expenditure</b>			<b>14,453</b>	<b>14,966</b>

Fees and salaries paid to the Directors are set out in the Remuneration Report pages 62 to 71.

The Remuneration Report also details pension entitlements in a specific section, which covers both direct employees and other personnel.

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



## 6. Other expenditure

	Year ended 31 Mar 2020 Capital £'000	Year ended 31 Mar 2020 Resource £'000	Year ended 31 Mar 2019 Capital £'000	Year ended 31 Mar 2019 Resource £'000
<b>Non-staff expenditure includes:</b>				
Professional services	1,612,149	153,227	1,247,822	151,461
Environmental services	5,453	403	4,303	5,262
Design – utilities	63,414	3,302	125,834	3,747
Licences and surveys	2,289	2,439	4,427	3,271
Communication and Information Technology	20,290	4,522	24,408	5,552
Accommodation costs	12,656	1,181	7,883	1,044
Property advice and valuation	21,515	8,834	25,307	9,849
Legal costs	4,395	70	4,466	368
Travel and subsistence	2,807	537	3,065	534
Auditors' remuneration and expenses	-	195	-	190
Recruitment fees	648	154	1,099	242
VAT costs	364,214	35,300	485,113	84,029
Finance costs	-	351	-	-
Other costs	2,385	1,775	1,252	930
	<b>2,112,215</b>	<b>212,290</b>	1,934,979	266,479
<b>Non-cash items include:</b>				
Depreciation of tangible assets	-	8,973	-	4,118
Provisions	2,055	(7,570)	(229,266)	(28,763)
Amortisation of intangible assets	-	1,820	-	582
<b>Total non-cash costs</b>	<b>2,055</b>	<b>3,223</b>	(229,266)	(24,063)
<b>Total other expenditure</b>	<b>2,114,270</b>	<b>215,513</b>	1,705,713	242,416

Included in the above is expenditure in relation to short-term leases of £1.4 million (2018/19: £0.9 million) and low value leases of £0.04 million (2018/19: nil). These leases do fall within the scope of IFRS 16, but practical exemption has been applied.

Irrecoverable VAT is dealt with in the table above within the 'VAT costs' and 'Provisions' lines, to preserve comparability in light of the circumstances described in Note 14.

'Finance costs' included above are in respect of the leases identified under IFRS 16.

# Notes to the financial statements *continued*

## 7. Taxation

	Year ended 31 Mar 2020 £'000	Year ended 31 Mar 2019 £'000
<b>Current taxation</b>		
UK corporation tax	21	20
<b>Total UK corporation tax</b>	<b>21</b>	<b>20</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 before taxation	(229,857)	(257,277)
Tax at the standard rate of Corporation tax in the UK 19% (2019: 19%)	(43,673)	(48,883)
Income and expenditure not subject to Corporation tax	43,694	48,903
<b>Total taxation charge</b>	<b>21</b>	<b>20</b>

Capital contributions receivable from the DfT are not chargeable to corporation tax and the expenditure therefore is not deductible for corporation tax purposes. 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 remain at 19% from 1 April 2020.

## 8. Intangible assets

	Website £'000	Software and development £'000	Total £'000
<b>Cost or valuation</b>			
At 1 April 2019	164	17,743	17,907
Additions	-	10,678	10,678
Disposals	-	-	-
Reclassification	-	-	-
<b>At 31 March 2020</b>	<b>164</b>	<b>28,421</b>	<b>28,585</b>
<b>Depreciation</b>			
At 1 April 2019	-	1,820	1,820
Charged in year	-	-	-
Disposals	-	-	-
Reclassification	-	-	-
<b>At 31 March 2020</b>	<b>164</b>	<b>9,698</b>	<b>9,862</b>
<b>Net book value at 31 March 2020</b>	<b>-</b>	<b>18,723</b>	<b>18,723</b>
<b>Net book value at 31 March 2019</b>	<b>-</b>	<b>9,865</b>	<b>9,865</b>

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

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

# Notes to the financial statements *continued*

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

	Assets under construction railway £'000	Right-of-use £'000	Leasehold improvements, plant and equipment £'000	IT equipment £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2019	3,578,922	-	27,401	14,620	3,620,943
IFRS16 opening balance adjustment	-	60,995	-	-	60,995
Additions	2,233,993	-	69	3,182	2,237,244
Disposals	-	-	(5,390)	-	(5,390)
Reclassification	-	-	-	-	-
<b>At 31 March 2020</b>	<b>5,812,915</b>	<b>60,995</b>	<b>22,080</b>	<b>17,802</b>	<b>5,913,792</b>
<b>Depreciation</b>					
At 1 April 2019	-	-	9,556	9,531	19,087
Charged in year	-	5,692	1,783	1,498	8,973
Disposals	-	-	(5,390)	-	(5,390)
Reclassification	-	-	-	-	-
<b>At 31 March 2020</b>	<b>-</b>	<b>5,692</b>	<b>5,949</b>	<b>11,029</b>	<b>22,670</b>
<b>Net book value at 31 March 2020</b>	<b>5,812,915</b>	<b>55,303</b>	<b>16,131</b>	<b>6,773</b>	<b>5,891,122</b>
<b>Net book value at 31 March 2019</b>	3,578,922	-	17,845	5,089	3,601,856

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

All assets aside from the right-of-use assets are owned. The right-of-use assets have been acquired as leased assets that fall within the scope of IFRS 16 Leased Assets which has been adopted as at 1 April 2019. The IT equipment headings include assets under construction amounting £5.4 million which are not available for use at the year end, and therefore have not yet been depreciated (2018/19: £3.5 million).

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, is valued at historic cost and is analysed within Capital Expenditure in Note 4 and Note 6.

## 10. Financial assets

	31 Mar 2020 £'000	31 Mar 2019 £'000
<b>Amounts falling due after more than one year:</b>		
Loan to National College for Advanced Transport and Infrastructure	3,087	2,978
	<b>3,087</b>	<b>2,978</b>

The loan receivable relates to a working capital loan to the National College for Advanced Transport and Infrastructure (NCATI). 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. In line with the Company's accounting policy, the asset was assessed for impairment on this basis and no charge was recognised in the current financial year.

## 11. Trade receivables and other current assets

	31 Mar 2020 £'000	31 Mar 2019 £'000
<b>Amounts falling due within one year:</b>		
VAT receivable	-	56,595
Other receivables	16,708	16,491
Prepayments	6,001	7,174
	<b>22,709</b>	<b>80,260</b>

The VAT receivable figure for 2018/19 was in relation to the VAT returns for February and March 2019 submitted before the reimbursement of VAT for non-business activity was put on stop, which were settled early in the 2019/20 financial year and so cleared the balance to nil. Further details on the Company's VAT status are outlined in Note 14.



# Notes to the financial statements *continued*

## 12. Cash and cash equivalents

	31 Mar 2020 £'000	31 Mar 2019 £'000
Balance at 1 April	66,505	29,668
Net change in cash and cash equivalent balances	(3,408)	36,837
<b>Balance at 31 March</b>	<b>63,097</b>	<b>66,505</b>

<b>Analysis of cash and cash equivalents:</b>	31 Mar 2020 £'000	31 Mar 2019 £'000
Cash held with the Government Banking Service	55,765	58,801
Cash held in Commercial bank account	7,332	7,704
	<b>63,097</b>	<b>66,505</b>

Included in the cash held with Government Banking Service is land and property funding totalling £9.0 million transferred to the Company by the Department for Transport (DfT) for compulsory purchase orders (CPO's). These purchases belong to and are accounted for by the DfT for the reasons outlined in Note 2.13, so the cash held is offset by short-term creditors included in Trade Payables, Note 13.

## 13. Trade payables and other current liabilities

	31 Mar 2020 £'000	31 Mar 2019 £'000
<b>Amounts falling due within one year:</b>		
Trade payables	25,604	62,934
Taxation liability	19	20
Borrowings	2,198	-
Accruals	278,596	846,345
	<b>306,417</b>	<b>909,299</b>

The Company has fully utilised the 2018/19 accrual for VAT costs of £569.1 million (disclosed in the prior year Accruals balance above) during the current financial year. Further details are outlined in Note 14.

The adoption of IFRS 16, as documented in Note 16, has created lease liabilities that are classified as borrowings.

## 14. Provisions

	Petition undertakings and assurances £'000	VAT £'000	Other £'000	Total £'000
<b>Balance at 31 March 2019</b>	6,182	21,056	16	27,254
Provided in the year	6,413	-	1,000	7,413
Provisions utilised in the year	(4,342)	(12,486)	(16)	(16,844)
Provisions not required written back	-	(8,570)	-	(8,570)
Provisions reclassified to accruals	-	-	-	-
<b>Balance at 31 March 2020</b>	<b>8,253</b>	<b>-</b>	<b>1,000</b>	<b>9,253</b>

### At 31 March 2020

#### Analysis of expected timing of flows:

Not later than one year	8,253	-	1,000	9,253
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	8,253	-	1,000	9,253

### At 31 March 2019

#### Analysis of expected timing of flows:

Not later than one year	6,182	21,056	16	27,254
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	6,182	21,056	16	27,254

### Petition undertakings and assurances

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

As a result, a number of assurances were given to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, the Company 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 Company strategy, the Company aspires to be a 'good neighbour' and will continually seek to reduce the impact of the railway. Some of the commitments the Company 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.

# Notes to the financial statements *continued*

## VAT

The Company has fully released the provision made in 2018/19 for default interest on the VAT liability.

The initial assessment notice, received from HM Revenue & Customs (HMRC) in June 2019, was settled in July 2019 covering VAT on costs incurred in the design, build and delivery of the HS2 infrastructure to the DfT for the period April 2014 to April 2019. These had been accrued separately as disclosed in Note 13. The final assessment notice, received in February 2020, included a final figure for VAT costs covering the same period plus a final decision on default interest for the VAT liability. Irrecoverable VAT incurred during 2019/20 for the period May 2019 to March 2020 is also included in Note 6 under the sub-heading VAT costs.

The Company has successfully re-registered for VAT on non-business activity effective 1 April 2020. A Statutory Instrument is now in place to allow HS2 Ltd to reclaim VAT from 1 April 2020, initially under a HM Treasury Interim Direction as agreed with HMRC.

## 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.

## 15. Non-current liabilities

	31 Mar 2020 £'000	31 Mar 2019 £'000
<b>Amounts falling due after one year:</b>		
Borrowings	28,918	-
	<b>28,918</b>	<b>-</b>
<b>Analysis of expected timing of flows:</b>		
Later than one year and not later than five years	13,184	-
Later than five years	15,734	-
	<b>28,918</b>	<b>-</b>

The adoption of IFRS 16, as documented in Note 16, has created lease liabilities that are classified as borrowings.

The Company has no other borrowings and is solely funded by capital contribution from the DfT, hence using the HM Treasury discount rate is most appropriate when measuring lease liabilities. The Company aims to maintain minimal holdings of cash equivalents appropriate to its short-term needs and has only one significant third-party receivable being the loan to the National College for Advanced Transport and Infrastructure (NCATI), refer to Note 10. The Company is considered to have no material credit, liquidity, interest rate or market risk.

## 16. Lease arrangements

At the balance sheet date, the Company had outstanding commitments under non-cancellable leases, which fall due as follows:

	31 Mar 2020 £'000
Not later than one year	2,198
Later than one year and not later than five years	13,184
Later than five years	15,734
	<b>31,116</b>

The Company occupies business premises in Birmingham and London and these arrangements are treated as lease obligations as shown above, valued in accordance with IFRS 16. The maturity analysis above is consistent with the borrowings disclosed in Note 13 (current) and Note 15 (non-current).

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

The total cash outflow in respect of the leases for the current financial year was £3.8 million.

In the above table, a comparative to the prior year is not available as IFRS 16 was adopted as at 1 April 2019; refer to Note 2.3 for further information.

## 17. Financial commitments

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

	31 Mar 2020 £'000	31 Mar 2019 £'000
Financial commitments (excluding capital commitments)	103	14,967
Property, plant and equipment	179,582	236,060
Intangible assets	5	20
Contracted capital commitments	179,587	236,080

# Notes to the financial statements continued

## 18. Contingent liabilities

Contingent liabilities do not represent a current liability for the Company at 31 March 2020, but some will result in an obligation to transfer cash in the future, depending on one or more relevant events occurring. They are not recognised in the Statement of Financial Position, but are monitored to ensure that, where a possible obligation or a transfer of economic benefits has become probable, a provision will be made. As such, these are contingent liabilities within the definition of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Contingent liabilities arise from the following sources:

- As part of the legislative process for the High Speed Rail (London – West Midlands) Act 2017, individuals and organisations were able to raise their objections to the HS2 scheme as petitions. As a result, a number of assurances were given to petitioners which will inform the planning, design and future construction of Phase One. In certain cases, the Company is required as ‘nominated undertaker’ to meet these assurances. The Company has identified a number of undertakings and assurances which lead to contingent liabilities totalling £280.1 million (2018/19: £238.3 million). These are undertakings and assurances where there is uncertainty over whether a ‘present obligation’ (as defined by IAS 37) exists at year end which is likely to lead to expenditure by the Company. The increase year-on-year is primarily driven by progress in the design-led undertakings and assurances, which mature over time and become more certain.
- As part of its normal course of business, the Company has given indemnities to individuals and companies who could be impacted by the construction of HS2. In all cases, no claims have arisen. It is not possible to quantify the liabilities that may arise in the future with any reliability:
  - A Framework Asset Protection Agreement with Network Rail dated 13 January 2015. The agreement includes an uncapped indemnity in relation to all losses suffered by Network Rail because of the Company’s works.
  - A number of Protective Provisions Agreements (“PPA”) with either special status or utility companies that include indemnities in relation to the Company’s work as Nominated Undertaker for constructing HS2. These agreements go no further than the provisions made in the High Speed Rail (London – West Midlands) Act 2017 and the Phase 2a hybrid Bill that provide for protection, repair, compensation and indemnification for valid third party claims.
- Agreements providing for access to land and property owned by private individuals and businesses prior to the construction phase. Such agreements provide an indemnity to the property owners for loss or damage caused by the Company in the course of its work.
- Potential legal claims and disputed supplier costs where the likelihood of the Company making payments in the future is less than probable as at 31 March 2020.
- 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 2020 or where the assessment of payment is less than probable have not been provided for.
- A possible obligation to pay additional premium in relation to an Owners Controlled Insurance Programme (OCIP) contract dated July 2017, with the Company as policyholder.



As set out in Note 2.13, 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

HS2 Ltd is an Executive Non-Departmental Public Body sponsored by the DfT Core Department. The DfT is regarded as a controlling related party. The Company's primary source of funding is through the DfT, based on approved expenditure that is voted on by Parliament. The total amount of funding received from the DfT for the year ended 31 March 2020 amounted to £3,028.7 million (2018/19: £1,730.2 million).

During the year, the Company had a number of transactions with the DfT Core Department with the amount paid and payable at year end totalling £8.2 million (2018/19: £54.9 million) and receivable at year end totalling £14.5 million (2018/19: £13.6 million). Following adoption of IFRS16, the Company had a number of transactions with the DfT Core Department for leasehold assets between both parties. These included £38.3 million for recognition of new assets, £4.0 million for Depreciation and Finance cost charges, £6.8 million for the outstanding lease liability at the year end and a £30.5 million opening reserves adjustment. All of the transactions with the DfT Core Department are carried out on an arm's-length basis.

In total there were transactions with other central government bodies totalling £10.8 million (2018/19: £19.0 million) with all transactions also carried out on an arm's-length basis. Other than their remuneration and business-related expenses, none of the Board Members or Executive staff have undertaken any material transactions with the Company or its related parties during the year, except as disclosed below, and none has a financial interest in the activities of the Company such as to influence their work with the Company.

Mark Thurston, the Chief Executive Officer of the Company, was a Board Member of the National College for Advanced Transport & Infrastructure (NCATI) previously named National College for High Speed Rail for part of 2019/20 resigning the Board position in December 2019. Neil Hayward, the HR Director of the company, took up position on the NCATI Board in January 2020. The Company has in the past, when NCATI was started, provided funding in the form of a repayable loan for the value of £3.0 million.

The amounts paid to NCATI and loan interest charged to NCATI in 2019/20 was £nil and £0.1 million respectively (2018/19: £nil and £0.1 million respectively). Other transactions paid and payable at year end to NCATI were £0.02 million (2018/19: £0.06 million).

David Bennett was engaged on 2 September 2019 as the interim Delivery Director with a place on the HS2 Executive Committee. The engagement is in the form of a contract between CH2M and HS2 Ltd. Accordingly, Mr Bennett remains an employee of CH2M during the period of the contract. It is acknowledged that Mr Bennett has a conflict of interest with respect to contracts involving CH2M/Jacobs and his engagement was agreed on the basis that a suite of controls is in place to address the conflicts of interest. Other transactions paid and payable at year end to CH2M were £1.3 million (2018/19: £1.6 million).

Richard Brown, CBE, Non-Executive Director and Deputy Chair of the Company, is a Non-Executive Director of Network Rail Ltd and Network Rail Infrastructure Ltd. The Company is a related party of Network Rail with the total amount paid and payable at year end totalling £275.8 million (2018/19: £235.8 million).

Stephen Hughes, Non-Executive Director of the Company, holds the position of Non-Executive Director for the Valuation Office Agency (VOA). The VOA provide valuations and advice on land and property acquisitions to the Company. The amounts paid and payable at year end to VOA was £1.3 million (2018/19: £1.4 million).

# Notes to the financial statements *continued*

## 20. Losses and special payments

Managing Public Money requires the Company 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.

<b>Losses statement</b>	<b>31 Mar 2020</b>	31 Mar 2019
Total number of cases	<b>7</b>	6
Total amount (£'000)	<b>12,525</b>	78

<b>Special payments</b>	<b>31 Mar 2020</b>	31 Mar 2019
Total number of cases	<b>2</b>	6
Total amount (£'000)	<b>13</b>	1,126

There was one payment above £300,000 during the reporting period under Losses. The payment was made to HMRC for £12.5 million in relation to interest paid on VAT costs incurred during the current and previous financial years.

## 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 on page 72 to 75.

The uncertainty caused by the COVID-19 pandemic has raised a number of challenges for HS2 Ltd and across our supply chain more widely. Construction site activity has been impacted since March 2020 and HS2 Ltd continues to work with its supply chain to review works on all of its sites, in line with Public Health England (PHE) and Construction Leadership Council (CLC) advice. However, across Phase One we are now underway with Main Works Civils Construction and are continuing to deliver the new railway, with our sites operating safely.

## 22. Ultimate controlling party

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









# HS2

[www.hs2.org.uk](http://www.hs2.org.uk)

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