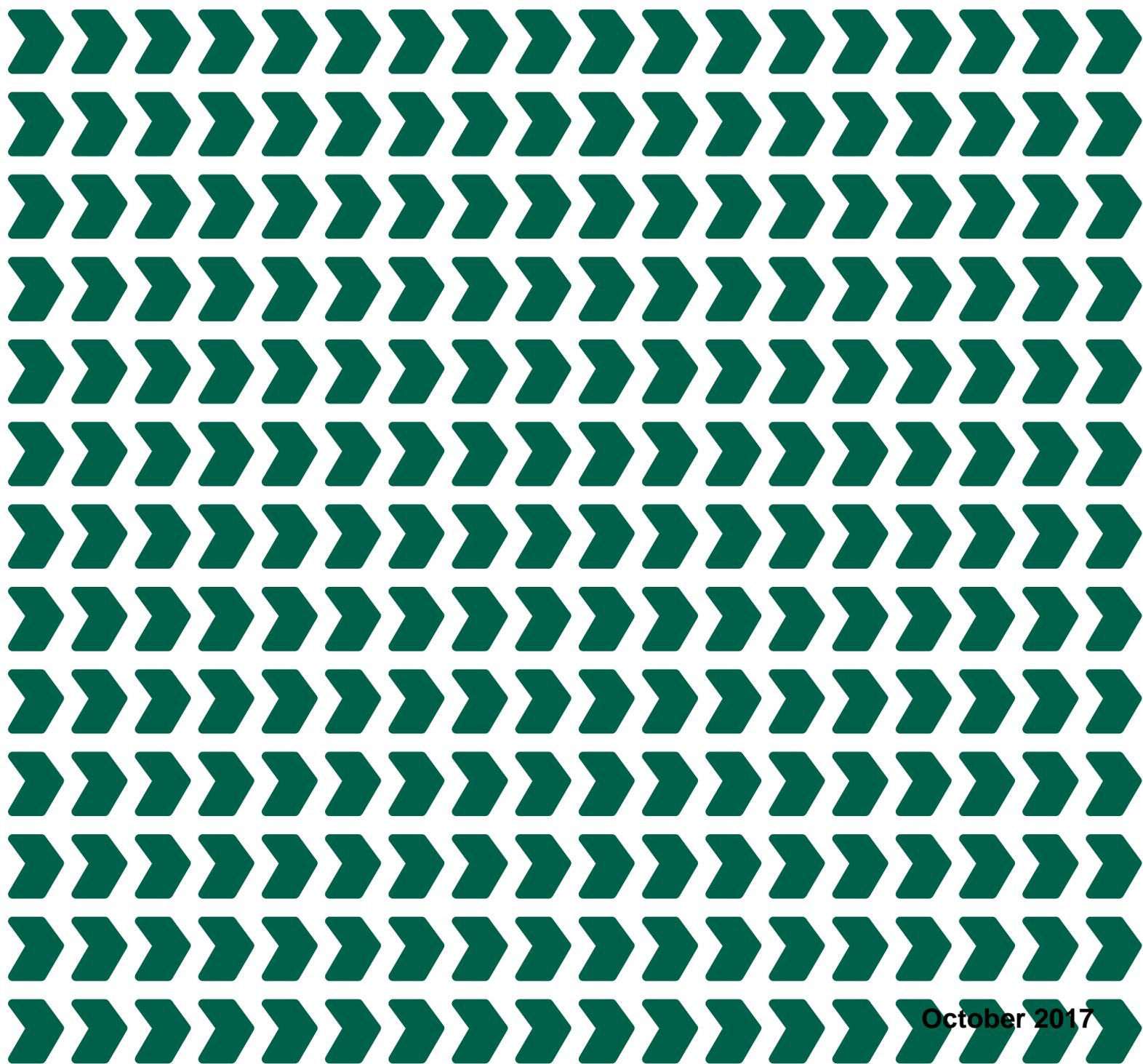




Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2016 - 31 March 2017

Moving Britain Ahead



High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2016 - 31 March 2017

Presented to Parliament pursuant to section 2 of the High
Speed Rail (Preparation) Act 2013



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Foreword



The High Speed Rail (Preparation) Act 2013 allows for expenditure to be incurred in preparation for a high speed railway transport network. The Act ensures that the development of the proposed railway may proceed without any delay, which is critical to HS2 Limited (HS2 Ltd) and the Department for Transport (DfT) delivering High Speed 2 on time and on budget.

This financial report has been prepared in accordance with section 2 of the High Speed Rail (Preparation) Act. It covers the period from 1 April 2016 to 31 March 2017, and sets out the expenditure incurred on pre-construction activity and the related cost categories which this expenditure is attributable to.

HS2 Ltd and DfT achieved a major milestone on 23 February 2017 when, after three years of intense parliamentary scrutiny, the High Speed Rail (London - West Midlands) Bill (Phase One hybrid Bill) was awarded Royal Assent.

Significant progress has been made in developing the civil engineering and railway systems design specifications, carrying out surveys and ground investigations, and proceeding with the acquisition of critical path properties while providing compensation for property that is likely to be affected. All these preparatory works are crucial to fulfilling the Government's commitment to have the necessary infrastructure in place to enable economic growth for this country in the future and transport is key to achieving this.

The preparations for Phase 2a (West Midlands to Crewe) continue to progress with the hybrid Bill deposited with Parliament in July 2017. On 15 November 2016, the government announced the preferred route for the majority of the remainder of the Phase Two route, known as Phase 2b. Following this announcement, HS2 Ltd undertook a consultation on a number of elements of this route - holding 30 events and meeting with over 20,000 members of the public along the length of the Phase 2b route. The results of these consultation events informed Government's decision on the Phase 2b route in summer 2017.

A handwritten signature in black ink, appearing to read 'Chris Grayling'.

Rt Hon Chris Grayling MP

Secretary of State for Transport

1. Background

1.1 The High Speed Rail (Preparation) Act 2013 received Royal Assent on 21 November 2013 and authorises the Secretary of State, with Her Majesty's Treasury (HMT) approval, to incur expenditure in preparation for a high speed railway transport network.

1.2 The High Speed Two programme is sponsored by the Department for Transport. The Department is the sole High Speed Two Ltd shareholder which it supports through delegated annual funding to promote and design the proposed network.

1.3 This annual report is prepared in accordance with section 2(1) regarding expenditure incurred under the Preparation Act powers and covers the period from 1 April 2016 to 31 March 2017.

1.4 HS2 Ltd's funding is agreed with the Department before the start of each financial year for the entirety of its activity and expenditure covered by Preparation Act powers.

1.5 The Act also permits expenditure on the HS2 programme by the Department for Transport (DfT) for Land and Property acquisitions ahead of gaining Compulsory Purchase Order powers. This expenditure is essential in preparation for a high speed network.

1.6 Expenditure, both Capital (C-Del) and Resource (R-Del), has been included in this report for each HS2 cost category in accordance with Section 2(2)(a). R-Del shows as zero in the report.

1.7 Budget information in this report is based on the initial delegations set for activities at the beginning of the financial year. Reports on HS2 expenditure under the Preparation Act have been issued quarterly to HMT. In accordance with section 1(1) of the Preparation Act, HMT have approved all expenditure incurred under the Preparation Act.

2. Summary

2.1 Total HS2 expenditure under the Preparation Act for the period from 1 April 2016 to 31 March 2017 was £537m against an annual budget of £770.1m, which represents an underspend of £233.1m or 30%.¹

2.2 This expenditure is comprised of HS2 Ltd expenditure and DfT expenditure, and includes Phase One expenditure until 28 February 2017 and Phase 2 Land and Property expenditure until 31 March 2017. This is because, following the Phase One hybrid Bill achieving Royal Assent in February 2017, Phase One expenditure came outside the scope of the Preparation Act. Phase 2 Land and Property expenditure continues to rely on the powers of the Preparation Act and the reporting period for it runs until 31 March 2017.

2.3 For the period, HS2 Ltd expenditure was £345.5m against an annual budget of £376.1m, an underspend of £30.6m or 8%. DfT spend on Land & Property acquisitions was £191.5m against an annual budget of £394m, an underspend of £202.5m or 51%.

2.4 HS2 Ltd's £30.6m underspend is principally driven by Royal Assent being awarded in February and the budget being until March.

¹ HS2 Ltd's full in year expenditure is set out in the 2016/17 Annual Reports & Accounts:
<https://www.gov.uk/government/publications/hs2-ltd-annual-report-and-accounts-2016-to-2017>

3. Expenditure Incurred on Preconstruction Activity

Design Activity

3.1 Design activity is the process of developing the overall design and specification of the railway to meet the following HS2 Ltd objectives:

- Design, build and operate to the highest safety standards
- Build and operate sustainably, responsibly and respectfully of the communities, wildlife and places it affects
- Reliable, seamless and easy to use for all passengers and well-integrated with existing transport systems

3.2 HS2 uses professional services contractors to support its civil engineering and technical railway systems design work, the necessary environmental assessments and land referencing, which is a key element of the programme of Land and Property works.

3.3 Expenditure incurred for the period from 1 April 2016 to 28 February 2017 on design activity was £28.8m against an annual budget of £38.3m, an underspend of £9.5m or 25%. The underspend arose due to delays in commencing the Railway Systems reference design, led by the HS2 Ltd's Technical Directorate to support the commencement of the Phase One Main Works Civils Contracts. In addition, there were delays in the development of the company's Railway Operations Strategy (including infrastructure management, Rolling Stock & Depots Strategy, Proxy Operator Strategy and Commercial Strategy).

3.4 Actual expenditure incurred on design activity includes:

- Studies and design work undertaken by HS2 Ltd's Technical Directorate to set the engineering specifications, assurance standards and environmental impact assessments which the detailed design and construction of the high speed rail network will be required to comply with.
- HS2 Ltd's Technical Directorate staff and technical support provided by their development partner, CH2M Hill.
- Development of the Employers' Requirement Design which will be issued to contractors setting out the basis and key requirements for construction of the Phase One network.

Design Activity

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	28.8	38.3	9.5
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	28.8	38.3	9.5

Surveying and Ground Investigations

3.5 Surveys and ground investigation works are carried out to understand the potential impact on environmental and ground conditions ahead of the start of construction. These are undertaken so that conditions are considered and incorporated as part of the design to minimise risks ahead of construction.

3.6 Total expenditure for the period from 1 April 2016 to 28 February 2017 was £48m against an annual budget of £56.6m, representing an underspend of £8.6m (or 15%). This was due to being able to agree a lower number of access agreements than was required to conduct the planned environmental surveys. This had a consequential impact on the number of surveys completed during the period. The timetable for remaining surveys was therefore rescheduled to be completed in 2017/18.

Surveys and Ground Investigations

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	48.0	56.6	8.6
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	48.0	56.6	8.6

Enabling Works

3.7 Enabling works are the design and beginning of site preparation works prior to construction. HS2 Ltd have been designing the enabling works programme in order to ensure construction can be undertaken to its scheduled timetable and the impact on existing utilities is minimised.

3.8 Expenditure for the period from 1 April 2016 to 28 February 2017 was £83.6m against an annual budget of £83.9m, an underspend of £0.3m (or 0%).

3.9 Utility company assets need to be diverted as part of the programme's early works in preparation for the construction of the main Phase One civil engineering works. This year marks a step change in the programme as work transitions from completing design and transitioning to the commencement of long lead procurement and start of preparatory works for the required diversions.

3.10 HS2 has undertaken the first two utility diversions (the lining of Stamford Brook Sewer at Old Oak Common and of a major 42” water main in Euston).

3.11 HS2 Ltd have already agreed design proposals with the relevant utility companies, which were included in the (Phase One hybrid Bill) deposited in November 2013. Work continues on developing detailed design of the diversions required to enable construction.

3.12 The expenditure also includes design solutions for the way the new high speed rail network will interface with the existing network. This work has been undertaken in conjunction with the Network Rail Governance for Railway Investment Projects (GRIP) investment review process. The company has progressed its design of the future interface with the existing rail network. The company has completed its GRIP 4 Single Option Development and its GRIP 5 Detailed Design for Euston enabling works. GRIP 6 works (construction test and commission) and the existing 11kv electrification at Euston was relocated to allow for necessary early works to be completed at the site.

3.13 The company awarded its Early Works Contractors (in November 2016) with mobilisation and start of works taking place through the remainder of the year. By having these programme-critical work packages scoped and procured separately to the main construction contract packages is considered to be a significant factor in reducing risk to the overall programme.

Enabling Works

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	83.6	83.9	0.3
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	83.6	83.9	0.3

Project Management

3.14 Project management is the discipline of planning, organising and controlling the deployment of available resources to deliver necessary objectives. Its purpose is to ensure all HS2's design, preparatory works and construction programme are integrated, scheduled and resourced to meet the timetable.

3.15 Expenditure for the period from 1 April 2016 to 28 February 2017 was £58.9m against an annual budget of £63.9m, an underspend of £5m (or 8%).

3.16 Associated costs include:

- The Phase One Infrastructure team which has been developed to manage the delivery of early preparatory works and the preparation for Main Works Civils contracts.
- Contract management costs incurred as part of managing the delivery of the design of the company’s professional services contractors.

- Incentive payments made to the company's Development Partner and Professional Services Contractors as per the legal terms of their contracts.

3.17 Underspend is mainly due to cost being reported to February as a result of Royal Assent and the budget to March.

Project Management

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	58.9	63.9	5
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	58.9	63.9	5

Corporate Support

3.18 HS2 allocates a percentage of its corporate support costs (including finance and corporate services, procurement and accommodation) to Phase One activity under the Preparation Act. This calculation is based on a comparison of expenditure on direct Phase One activity under the Preparation Act against its total costs.

3.19 Expenditure for the period from 1 April 2016 to 31 March 2017 was £126.3m against an annual budget of £128.9m, an underspend of £2.5m (or 2%).

3.20 Expenditure is split by:

- Commercial and Programme & Strategy – including IT, benchmarking, risk and assurance studies in support of developing the company's long-term strategy, procurement initiatives, economic analysis and costs incurred in support of land & property acquisitions.
- Communications – including promotion of HS2 and its pre-construction activity through the media, communications and stakeholder engagement.
- Corporate support functions – including HR support, recruitment, learning and development, benefit packages and the company's design fees and fit-out costs incurred in its office relocations.
- Other overheads – including rent, facilities charges and necessary expenses for audit, finance and legal fees.

3.21 Underspend is detailed below further compounded by Phase One cost being reported to February and budget to March.

- Delay to the appointment of a delivery partner to support Learning & Development
- Lower than anticipated expenditure on upgrade of ICT capabilities
- Delay to undertaking further work on Benefits Management

Corporate Support

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	126.3	128.9	2.5
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	126.3	128.9	2.5

4. Contingency

4.1 Contingency was not required due to the underspend across the programme.

Contingency

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	0.0	4.6	4.6
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	0.0	4.6	4.6

5. Expenditure Incurred on Acquiring Property and Providing Discretionary Compensation in Respect of Property Likely to be Affected

5.1 Strategic non-scheme land and property acquisitions are acquisitions prior to Royal Assent, which are critical to the construction path of the railway. As such, business cases for each acquisition go through an approval process that includes HS2 Ltd, DfT and, where necessary, HMT; with a view to acquiring the property or providing a design solution to relocate an affected company's operations. Successful acquisition of these strategic properties ensures the construction plan fits within the programme schedule.

5.2 Scheme acquisitions are split into two parts –

- Statutory acquisitions. These relate to properties that fall within the safeguarded zone. Safeguarding enables owners whose property falls within the safeguarded area to request that the Secretary of State purchase their property at its unblighted value by serving him with a blight notice (which can be countered on specific grounds). Any properties that fall within safeguarding and do not serve a blight notice prior to Royal Assent will be acquired via Compulsory Purchase.
- Discretionary property schemes. There are currently a number of residential property schemes available for Phase One and Phase 2a: Express Purchase, Cash Offer, Voluntary Purchase and the Need to Sell scheme. The Need to Sell and Express Purchase scheme was launched in November 2016 for Phase 2b on an interim basis. These schemes have been designed to take into account the different circumstances of those living along the proposed line route. We intend to confirm the remaining discretionary schemes (with the exception of Homeowner Payment scheme) to the residents along the Phase 2b route following consultation.

At Royal Assent for Phase One hybrid Bill a further scheme came into effect for that phase only - the Homeowner Payment (HOP) scheme. HOP is paid following Royal Assent of the relevant hybrid Bill and is not included in this report which applies to Preparation Act expenditure only.

5.3 The budget for Land Assembly is administered by the Department. The Preparation Act allows the Secretary of State to incur expenditure for the discretionary schemes as well as statutory acquisitions.

5.4 Acquisitions can also be made under negotiated schemes which are undertaken at the discretion of the Secretary of State in order to ensure timely acquisition of properties that are key to meeting the critical path of the construction timetable. Failure to acquire at a sufficiently early stage could lead to delays in

construction and an escalation of costs. These are generally acquisitions of commercial properties and it is hard to accurately estimate completion dates due to the complexity of the deals and the need for negotiation.

5.5 Expenditure for the period from 1 April 2016 to 31 March 2017 was £191.5m against an annual budget of £394m, an underspend of £202.5m (or 51%). This arose primarily due to a delay in completing the acquisition of large-scale commercial properties ahead of Royal Assent.

Land and Property

Expenditure (£m)	Actual	Budget	Variance
Capital (C-Del)	191.5	394.0	202.5
Resource (R-Del)	0.0	0.0	0.0
Total (T-Del)	191.5	394.0	202.5

6. Impact of Overspend and Underspend on a Total Budget of £55.7bn in 2015 Prices

6.1 The Preparation Act stipulates that this report contain details of the likely effect of any overspend or underspend on a total budget (for HS2) of £50.1bn in 2011 prices (which includes construction and the cost of rolling stock). This budget was set at Spending Review 2013 (SR13). Spending Review 2015 (SR15) updated the funding envelope to £55.7bn in 2015 prices. Reporting from 2016/17 is done against the 2015 price base. The variances outlined in this report do not have an impact on the funding envelope established at SR13 and updated at SR15.

7. Account of Vocational Qualifications

7.1 HS2 Ltd is committed to delivering up to 2,000 apprenticeship opportunities, and there will be approximately 25,000 people employed during the programme's construction phase. HS2 will support growth in the wider economy- the most recent prediction suggests that the project could lead to an additional 400,000 jobs across the country.

7.2 Phase One of the project for the period was in hybrid Bill stage and, therefore, no new vocational qualifications have been gained by HS2 Ltd employees. The next 5-10 years will see an increase in vocational qualifications gained by HS2 Ltd employees, allowing HS2 Ltd to meet their objective over the life of the project.

7.3 The National College for High Speed Rail was announced in 2014, and has opened its doors to students in October 2017, with two campuses; one in Birmingham, which will have a digital learning focus, and one in Doncaster, which will have an engineering focus.

7.4 The college has been set up to offer industry-focused higher technical skills development which will enable a UK workforce to deliver HS2. It provides vocational training to the next generation of engineers working on HS2.

7.5 The college delivers the specialised training and qualifications needed for high speed rail, which will benefit HS2 and other future infrastructure projects across the country. It offers the necessary technical training to make HS2 a success and ensures it can be built by skilled British workers including rail engineering, environmental skills and construction. Developing and securing the workers with the necessary skills is critical to delivering HS2 on time and on budget.

Annex A

HS2 Expenditure under Preparation Act Year to 31st March 2017	Actual £'000	Budget £'000	Variance £'000 %	
A. Design Activity (inc PSC spend)	28,756	38,272	9,516	25%
B. Survey & Ground investigation	47,981	56,587	8,606	15%
C. Enabling / advance	83,564	83,885	322	0%
D. Project management	58,873	63,947	5,074	8%
E. Corporate support costs:	126,320	128,862	2,542	2%
F: Contingency	0	4,588	4,588	100%
Total HS2 Ltd	345,494	376,141	30,648	8%
Land & Property capital acquisitions (DfT)	191,500	394,000	202,500	51%
Total HS2 Programme	536,994	770,141	233,148	30%

Note: The numbers in Annex A do not always sum due to rounding

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