

HS2 Ltd Corporate Plan 2015 to 2018





Department for Transport

High Speed Two (HS2) Limited has been tasked by the Department for Transport (DfT) with managing the delivery of a new national high speed rail network. It is a non-departmental public body wholly owned by the DfT.

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"Transport, both national and regional, is intrinsic to economic success."

Sir David Higgins, Chairman

Foreword

From industrial-age transport connections made on our waterways in the 18th century, via the laying of the West Coast Mainline in the 19th, to the nation's motorway network in the 20th, Britain has inherited a rich transport legacy. The conclusion we can draw from this proud history is obvious and pertinent: transport, both national and regional, is intrinsic to this country and its economic success.

Since the completion of the motorways, we have stood back. Apart from the Channel Tunnel Rail Link, or HS1, there have been few additions to the railway network. The roads and railways are improved piecemeal, at high cost. No major railway line has been built north of London in over a century.

However, the world's major global economies are pouring funds into infrastructure investment. Dubai is investing in a hub airport. China is investing nearly 40% of its stimulus package in infrastructure, including high speed rail. Singapore, Hong Kong and the Gulf states are also investing in improved connectivity. They all recognise – as we should – that infrastructure and connectivity are the essential enablers of growth and productivity, of jobs and of prosperity in what is now a global economy. They are not standing back.

In these countries, the investment is strategic and the infrastructure is ahead of current demand. In Britain, our transport investment is too often reactive. As demand soars on the railways, we need to apply the foresight shown by previous generations.

The problems on our rail network are twofold. Firstly, an overheated network is under increasing and competing demand. Space for passenger services and rail freight will be completely used up if we do not take action.

Secondly, our networks are overwhelmingly London-centric; the need to improve connectivity beyond the capital is stark. Our cities must be connected with each other as well as with London; not just north to south, but east to west.

The lack of connections between cities is hampering their prosperity. We must take note of the developments further afield, and ensure that we approach these problems with a solution that addresses them all at once, not bit by bit. It must anticipate demand and integrate the local with the national; it must encourage action and ownership, and benefit the whole country.

I firmly believe HS2 is a catalyst for, and a crucial part of, this universal approach. It must be a significant step towards a transport strategy that benefits the whole country. HS2 should be the spark for better connections everywhere. Existing services will improve as space is released. Better regional connections – developed in conjunction with HS2, and with its associated benefits in mind – will boost productivity and prosperity. A faster, more reliable, less congested rail network will bring cities and regions closer to markets, whether local, national or international, making them more attractive places for businesses and people to locate.

The UK's future is as a knowledge economy, where technology and talent are the drivers of high-value industries. Businesses succeed when they have ready access to information, services and a skilled workforce. New industries grow when they are linked to sources of financing and innovation.

HS2 will help create the conditions and the context in which cities can thrive. It will be a focus for regeneration and investment, a supporter of new professional skills and opportunities, and an enabler of growth across the country.

In the 18 months since I became chairman, we have driven home the key principle that HS2 represents a unique opportunity to unlock potential in our regions, and to collectively invest our time and effort in getting HS2 right so that we can get the balance of Britain right.

This principle has been embraced. The Government recognises the need for extra capacity and better connectivity. It recognises the huge difference HS2 will make to the Midlands, the North West and Manchester, South Yorkshire, Leeds, and the North East. So do the regions themselves – the past year has seen civic leaders and councils begin to address the strategic implications of HS2 in their cities, and begin to engage with us at HS2 Ltd.

This engagement is essential if we are to succeed. The principle I have alluded to must guide the conversations we have: not just with politicians or with regions, but with communities. We have to be open and transparent in communicating the benefits of HS2 as we see them, and in working at a national and regional level to understand how we can maximise those benefits.

HS2 will be shaped accordingly: not by those at the top deciding what is best, but by reflecting the communities it will serve. It has to bring people together in more ways than just railway journeys, and it is vital that we keep these conversations going.



The challenge facing HS2 Ltd now is to set new standards in everything we do.

This, necessarily, begins with building the railway. Crucially, it is a new railway: the issues that make maintaining the current network so complex and expensive – its age, congestion and limited time for access – do not apply. We are effectively starting from scratch. There are lessons to learn from the construction of high speed rail all over the world, and we need to demonstrate that they can be applied here. We must innovate, and challenge others to do so. We must make people confident that we can build HS2 to budget and on schedule.

This inevitably invites scrutiny, particularly as we near the first tangible stages of construction, when the hard work undertaken by teams across HS2 Ltd will be realised for the first time. We will continue to respond to this scrutiny, not least over the clarity and effectiveness of our work with communities and residents.

I fully acknowledge the often disruptive impact the construction and operation of HS2 will have on some communities. The company is committed to working in a fair, respectful and transparent way with the people who are affected. The HS2 Residents' Commissioner, appointed this year, will listen to those who will lose their property, and challenge the company to reach a fair and fast resolution. Similarly, we will look to appoint a Construction Commissioner in the coming year to work with communities adjacent to construction sites for HS2, so that we can be as good a neighbour as possible. Living up to this aspiration is critical to the success of the project.

As the company delivering the project, it is our wider responsibility to plan, design, operate and communicate to a high standard.

In *Rebalancing Britain*, I recognised the commitment the country is making to the project, a commitment we take seriously. By encouraging civic leaders and councils, advocates for skills and education, and businesses of all sizes to work alongside us, and to make the project their own, we can repay that commitment and make HS2 the best it can be. To do this, we need to share a strategic view of the future of transport in this country, and its importance for our economic future.



David Higgins
Chairman

1

Programme



DfT and HS2 Ltd
are working to deliver
a nationally important
infrastructure project.
Passing the Review
Points is a priority
for success.

In the Corporate Plan, the term 'Programme' is used to mean the set of activities for the design, procurement, construction, commissioning, operation and maintenance of the new high speed railway. It is also used to mean High Speed Two Ltd's deliverables in response to the Sponsor's Requirements.

1.1 Purpose

The Corporate Plan covers the three-year planning period from 2015/2016 to 2017/2018. It reviews performance in 2014/2015 and sets out our key objectives and a high-level delivery plan for the next three years.

1.2 Remit

HS2 Ltd is responsible for developing and promoting the UK's new high speed rail network. It works to the remit set by the Secretary of State for Transport, which was clarified in June and November 2013.

In December 2014, HS2 Ltd signed a Development Agreement with the Department for Transport (DfT). The agreement sets out:

- the roles and responsibilities for the DfT as Project Sponsor and for HS2 Ltd as a delivery organisation; and
- a contractual relationship between the DfT and HS2 Ltd that clarifies their roles in delivering the HS2 Programme.

Combined with the Delivery Strategy (see section 3.2), the Development Agreement outlines how the DfT will set the scope of the project and how HS2 Ltd will deliver it.

The agreement provides the capability for HS2 Ltd to be more autonomous, with decision-making powers to take the Programme forward. It sets out a number of requirements for both HS2 Ltd and the DfT. As part of the agreement, HS2 Ltd will:

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

The agreement is an important step in creating the right framework under which the DfT and HS2 Ltd can work together to deliver a nationally important infrastructure project.

1.3 Review Points

The Development Agreement establishes the requirements for HS2 Ltd to pass Review Points 1, 2 and 3, whereby the DfT assesses whether HS2 Ltd has the capabilities, plans and controls it needs. As HS2 Ltd passes the Review Points, the DfT will progressively release the powers and authority to undertake procurement and construction activities. Passing these Review Points is a priority for the success of the Programme.



The National College for High Speed Rail will open in 2017.

1.4 Some recent milestones

HS2 Ltd monitored its performance in 2014/2015 through the passing of key milestones in the Programme, as set out in its remit from the Secretary of State for Transport.

In 2014/15, we:

- made key decisions on how we will deliver the Programme by developing our Delivery Strategy;
- enabled the progression of the hybrid Bill through its Second Reading in Parliament, maintaining momentum on a demanding schedule;
- published our Residents' Charter and appointed a Residents' Commissioner to ensure fairness in property compensation;
- joined the Rail Safety and Standards Board, enabling HS2 Ltd to contribute to cross-industry collaboration to improve the rail system as a whole;
- supported the announcement of the two locations for the National College for High Speed Rail;
- launched *Rebalancing Britain*, Sir David Higgins's second report on the future of HS2, which set out conclusions for Phase Two of the route and proposed improvements in connectivity across the North of England and the Midlands;
- hosted two major Supply Chain Conferences, in London and Manchester, to continue early engagement with the market;
- signed up to the Public Health Responsibility Deal – part of a Department of Health programme that encourages companies and organisations to contribute to improving public health;
- signed the Development Agreement with the DfT;



Signing the Development Agreement between the DfT and HS2 Ltd.

- commissioned a study to benchmark Phase Two against international high speed rail comparators;
- awarded framework contracts for ground investigation works for Phase One;
- commenced the tendering process for enabling works contracts and an engineering delivery partner for Phase One infrastructure;
- began the tendering process to provide professional services contracts for design support to the route acceleration works for Phase Two;
- continued the development of baseline schedules for Phase One Infrastructure (baseline 5), outline schedules for Phase Two and associated cost models;
- began market soundings for Phase One rolling stock and depot requirements;
- published the Design Vision to show how we will use design to achieve HS2's ambitious social, economic and environmental goals;
- established the independent Design Panel to ensure that, through great design, HS2 is a catalyst for real economic, social and environmental benefits for the whole country;
- supported the Secretary of State's intention to prepare a hybrid Bill to accelerate the delivery of a route between the West Midlands and Crewe, subject to further analysis and decisions on the preferred route; and
- operated in line with its remit, and maintained expenditure within its agreed budget.

1.5 Board and Executive Team

The role of the Board is to:

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

Board

Sir David Higgins Chair

Simon Kirby HS2 Ltd Chief Executive Officer
and Executive Board Member

Mike Welton Former Non-Executive Board Member

Alison Munro HS2 Ltd Managing Director,
Development and Executive Board Member.

Richard Brown Deputy Chair and Non-Executive Board Member

Duncan Sutherland Non-Executive Board Member

Jo Valentine Non-Executive Board Member

Neil Masom Non-Executive Board Member

Christine Emmett Non-Executive Board Member

Roger Mountford Non-Executive Board Member

"Leadership is about making it easy for others to do their jobs... It's about empowering people."

Simon Kirby, Chief Executive Officer

**"There is a strong
collaborative culture...
HS2 is a fair and
diverse place to work."**

From employee survey findings, April 2015

Executive Team (March 2015)

Simon Kirby Chief Executive Officer

Alison Munro Managing Director, Development

Jim Crawford Managing Director, Phase One Infrastructure

Chris Rayner Managing Director, Business Operations
(joins April 2015)

Stuart Westgate Programme Development Director
(Internal Sponsor)

Andrew McNaughton Technical Director

Alistair Kirk Programme and Strategy Director

Beth West Commercial Director

Kieran Rix Finance and Corporate Services Director

Peter Gregory Human Resources Director

Janine Mantle Corporate Affairs Director

Gerard O'Brien Health and Safety Director

Giles Thomas Acting Technical Director

Nina Cope Organisational Effectiveness and Change Director

1.6 Governance framework

HS2 Ltd is sponsored and funded by grant-in-aid from the DfT.

The organisational governance framework within which HS2 Ltd operates and its relationship with the DfT are set out in the HS2 Ltd Framework Document.

HS2 Ltd is incorporated as a company limited by guarantee. The company has a single member: the Secretary of State for Transport. It is classified as a non-departmental public body by the Cabinet Office and is treated as part of the central government sector by the Office for National Statistics.

2

Strategic direction



"A value is something we live our daily activity by, how we work with our teams, colleagues, partners and stakeholders."

*Prof. Andrew McNaughton,
Technical Director*

2.1 Our vision, mission and values

Our vision is to be a catalyst for growth across Britain. This vision reaches far beyond the railway. It encompasses the jobs and educational opportunities created by our construction phase. It includes the outcomes of the strategic debate generated by our planning phase, such as the proposed National Transport Strategy, Transport for the North, and improved East-West connections. It includes the regeneration and long-term jobs supported by our operations when HS2 trains are running from 2026.

Our railway will better connect people across Britain. As a high-performing, innovative organisation, we will deliver value for money by applying the best in worldwide design and construction techniques. We will achieve new standards in infrastructure delivery, resilient operations and passenger experience. We will do this by:

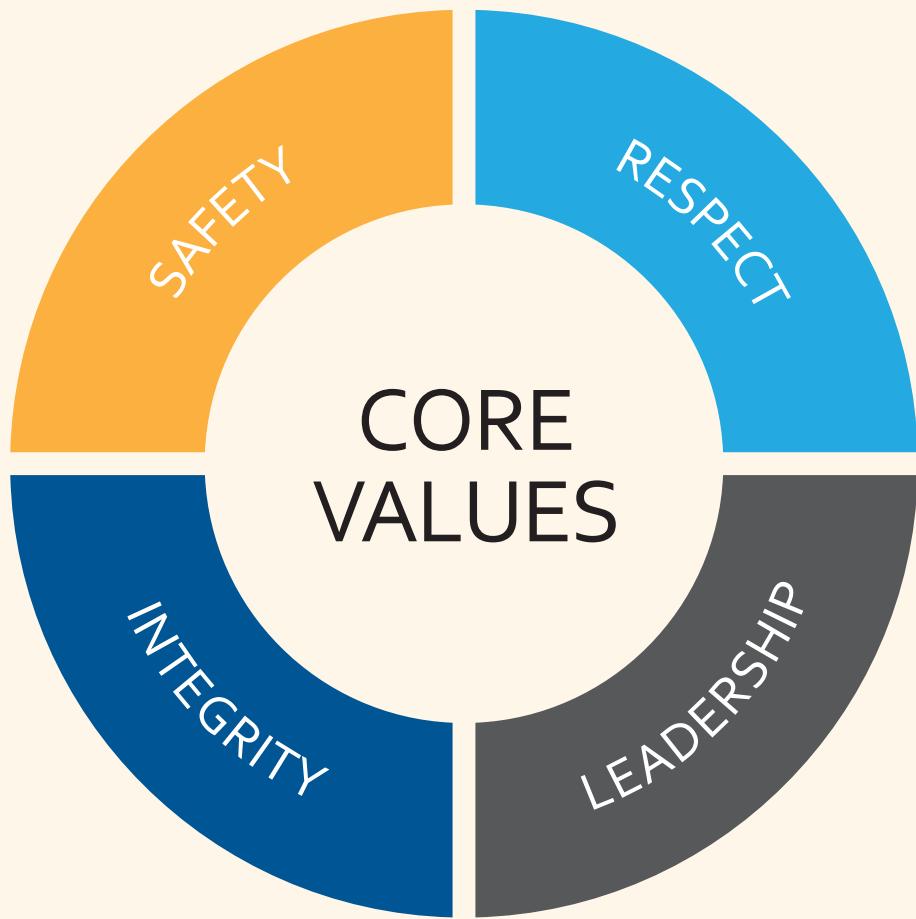
- adding capacity and connectivity that is integrated with other forms of transport;
- maximising opportunities for regeneration and growth;
- leading an agile, inclusive and safe operation with a diverse workforce;
- forging partnerships based on fairness and openness with all;
- being an exemplar project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

HS2 Ltd operates under the values of:

- Safety
- Respect
- Leadership
- Integrity

Our values will guide the way we work and the decisions we make. They will enable us to achieve our vision.

They are not 'top-down' values: they are being shaped and applied by colleagues at every level, working together. Our staff – from different locations and directorates, and from all backgrounds – have contributed their views in a series of workshops, exploring the relevance of these values to their work and how they can put them into practice. Using these views and experiences, we will develop definitions of the values to help embed them in everything we do.



“Our values will guide the way we work and the decisions we make. They will enable us to achieve our vision.”

Having a diverse, inclusive and skilled workforce creates a dynamic environment that enables us to communicate and deliver our objectives.

2.2 Sponsor's Requirements

The Development Agreement sets out the Sponsor's Requirements. These are the outcomes that our Sponsor, the DfT, requires us to deliver in the construction, commissioning and operation of the railway. There are 20 requirements, covering all aspects of the railway, that set out the minimum requirements for us to achieve against the requirement objectives. The themes for the requirements are set out below:

- Route and stations
- Safety
- Passenger capacity
- Journey time
- Infrastructure capability
- Reliability
- Passenger experience
- Revenue
- Operations and maintenance
- Integration with the existing network
- Wider benefits realisation
- Architectural design
- Integration with other transport modes
- Sustainability
- Minimising adverse impacts
- Security
- Compliance with standards
- Commercial and operational flexibility
- Cost
- Time

In response to the requirements, we have defined the Functional Response, which sets out, at the next level of detail, how we intend to deliver the requirements. Both the requirements and the response are enshrined in the Development Agreement as contractual requirements.

The full list of objectives, and the response, can be found in the Development Agreement.

2.3 Internal Sponsorship

Internal Sponsorship is our principal functional interface with the DfT: a coordinating hub for specifying delivery within HS2 Ltd. It acts as our business case authority, safeguarding benefits and objectives by ensuring appropriate delivery mandates are flowed down to the delivery sub-programmes and brought together as integrated outcomes.

This means that:

- all activity and change will be directly traceable and managed against the Sponsor's Requirements and the wider goals; and
- projected benefits of HS2 will be actively promoted and realised on behalf of our key stakeholders.



David Prout – DfT's Director General, High Speed Two Group – speaks to HS2 staff.

2.4 Our people

We believe that having a diverse, inclusive and skilled workforce creates a dynamic environment that enables us to communicate and deliver our objectives effectively. Employees are updated on the progress of the HS2 Programme and significant milestones through regular briefings and team meetings, as well as through numerous publications and events.

The Delivery Strategy is predicated on a significant proportion of client-side activity being undertaken by HS2 Ltd's own staff. Accordingly, the organisation is investing in recruiting, training and developing its own employees to manage the work over the lifecycle of the Programme. As of March 2015, over 900 people were engaged directly in the core organisation of the company. To validate our headcount, we have benchmarked HS2 Ltd against other major infrastructure programmes in the UK, Europe and Asia.

HS2 Ltd will be a multi-site operation, reflecting its geographic spread, with a significant presence in London and Birmingham and, over time, at sites along the route. HS2 Ltd can offer a wide range of career opportunities over a 20-year lifecycle.

We have developed a strategy for achieving organic growth, supplemented by a mix of interim, framework and professional services consultant resources.



Introducing the organisation
in a team workshop.

People Strategy

We are building a successful, modern and sustainable organisation. We have developed a People Strategy to encourage and facilitate collaboration. Its 10 strategic areas are:

- Resource – We define and deliver the resource requirements to meet our business goals at each phase of the Programme.
- Recruit, induct, equip – We get the right people at the right time, engaged and performing at high levels quickly.
- Leadership vision and values – Our vision and values guide the way we work; they help us to build effective leadership, which in turn drives the successful delivery of the organisation’s objectives.
- Equality and inclusion – We value each person’s contribution and will create a workforce from a broad base, including groups currently under-represented in construction, infrastructure and transportation.
- Health, safety and wellbeing – We create and sustain high levels of employee health, safety and wellbeing.
- Organisational and team effectiveness – We will create an environment for our organisation to flourish through organisation design, transition and business change, and embed a strong culture that supports the development of our employees and our ambition as an organisation. We will strive to continuously improve.
- Reward – We put in place competitive reward packages that attract, recruit, motivate and retain the best people to deliver our goals.
- Learning and development – We build the capabilities in our people needed to deliver the programme of work.
- Managing for high performance – We will create a high-performance environment: where people are clear about what is expected of them and receive regular feedback on how they are doing, and where poor performance is addressed.
- Sustaining the organisation – We will build a long-term, sustainable organisation by conducting regular talent and succession planning reviews to support people in career planning and development. We will identify and manage risk around critical roles to address retention and succession issues. We will build a pipeline of talent through apprenticeship, graduate and other entry-level programmes. We will maintain an effective employee engagement programme through surveys and follow-up actions, a workplace forum, internal communications and other channels.

2.5 Equality, diversity and inclusion

We are committed to developing, maintaining and supporting a culture of equality, diversity and inclusion (EDI) in our workforce and in the planning, design, construction and operation of the HS2 Programme. We see equality, diversity and inclusion as the key to getting the best people.

In delivering the railway, we will seek to embed EDI in all our activities.

We are committed to EDI in all aspects of recruitment and employment, and require contractors and suppliers of services to comply with our EDI policy.

Our first annual workforce report will be published by Summer 2015. This will provide an objective baseline on the diversity of our workforce. Staff workshops play a key role in developing our action plan, which is designed to address areas of under-representation. We have produced – and are consulting on – a draft EDI strategy, which will provide a framework for our work.

We have also developed a new process and guidance note for assessing the impact of our activities on EDI, as well as developing a process for including EDI implications in board papers.

EDI in the supply chain

EDI is already being embedded into our procurement activity, as we set out our expectations to our potential supply chain through pre-qualification questionnaires (PQQs), invitations to tender (ITTs) and contract requirements. We have developed a set of SMART (Specific, Measurable, Attainable, Relevant and Timebound) objectives to be embedded within the procurement balanced scorecard. These objectives are set around areas such as developing staff capacity on EDI, diversity monitoring and introducing fair methods of recruitment and selection. We have also started to implement mechanisms to monitor the diversity of our supply chain, which will enable us to track the diversity of our suppliers over the life of the project. Having reviewed our current approach to embedding EDI into our corporate function, our action plan will help us to build on existing practice.



Making the team's work visible is a key part of EDI.



Commercial Director Beth West
speaks to potential suppliers.

2.6 Procurement

Our procurement approach for Phase One infrastructure is one of our key decisions. It is a major part of our preparations for Review Point 1 (RP1) and will continue to be developed as we move toward RP1.

Phase One includes 140 miles of new infrastructure and four new stations. It will take up to eight years to build, at a cost of around £14 billion. A substantial number of high-calibre suppliers will be contracted to design and build the railway.

Transitional approach

At present, our Development Partner and professional services consultants (PSCs) provide the programme management and professional support necessary to prepare designs and documentation for procurement. We are undertaking a major recruitment campaign to grow and develop our in-house capability.

By 2017, we will have moved away from using management resource from the existing Development Partner. Instead, we will have a route-wide Engineering Delivery Partner, supported by regional area partner(s) who will provide delivery programme management for each area.

The PSC design resources used to prepare the Employer's Requirements Design will be demobilised once we have selected and deployed the Engineering Delivery Partner. We anticipate that their teams will then join an Early Contractor Involvement (ECI) contractor team.

Continued engagement

Engagement with the supply chain during 2013 and 2014 has shaped our approach to supplier relationships and procurement, and when we tender and award contracts for civil engineering works (and others, where appropriate), we will use an ECI approach.

We will begin issuing PQOs for enabling works and civils construction contracts in 2015 and will begin the process of approval of ITTs by the end of 2015.

We will also issue and approve the tender for our Engineering Delivery Partner in 2015.

We will continue to engage with the supply chain through market soundings, 'one-to-one's, roadshows, and – once Tier 1 contracts are awarded – 'meet the contractor' events. We will further collaborate with trade associations, business networks, local enterprise partnerships, chambers of commerce and national enterprise agencies in delivering this activity. We will also adopt a range of initiatives to open up contract opportunities to suppliers of all types and sizes across the UK and beyond, such as the use of CompeteFor or Contract Finder, providing maximum visibility of these opportunities as they emerge.

2.7 Technical and design

The Technical Directorate provides the design leadership, engineering and environmental specification, whole-railway capability analysis, technical system integration and technical assurance capability through a number of expert teams working collaboratively. It sets the design, technical specification, standards and policies that will allow the railway to achieve new standards in infrastructure delivery, resilient operations and passenger experience.

In 2015/16 the directorate will deliver a number of major workstreams necessary for RP1. It will complete the Project Requirement Specifications and designs to enable Phase One to progress the project requirements for the major civil engineering packages.

The Design Panel will be fully established to review and influence all aspects of the design impact of HS2.

We will expand our expertise in systems capability analysis to determine the specification of each major element of the railway and operational system, thus giving continued assurance that the design as specified will meet the future requirements of the HS2 service. This, in turn, will enable us to progress Phase One project requirements for the rolling stock and railway systems in line with the relevant contract strategies after 2015/16. Design assurance will be carried out on Additional Provisions to ensure the hybrid Bill progresses successfully and on schedule.

We will execute our Innovation Strategy with workstreams that deliver benefit, on cost and schedule, to construction delivery and increased quality to the operational phase, as well as research to enable further value engineering through the technical system specification. In 2015/16 we will complete the challenge of British Standards for critical civil engineering standards. We will develop our connections with high speed rail researchers worldwide to ensure that we are adopting the latest best practice.



The Technical Directorate builds on worldwide research into high speed rail.

The directorate will become known as the foremost centre of excellence on high speed rail systems, capability and technology.

Our work on initial upskilling of the supply industry on Business Information Modelling (BIM) will come to fruition in 2015/16, as will the BIM benefits realisation framework. This will enable us to support efficient delivery and meet the wider government expectation of acting as an exemplar in promoting British know-how abroad.

The directorate will:

- support the Development Directorate, specifically in modelling and evaluating train service options for Euston, options to accelerate the wider development of a route between the West Midlands and the wider development of Phase Two;
- provide technical expertise to support the timely development of Bill products; and
- give company assurance of work.

We will establish the framework for progressive system safety development and assurance methodologies so that, when constructed, HS2 will receive an operating licence.

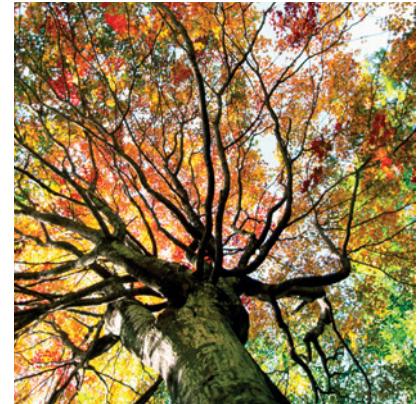
Beyond 2015/16 the directorate will, through development of its people, become known as the foremost centre of excellence on high speed rail systems, capability and technology and environmental management, so that it can have the greatest impact on the successful delivery of HS2.

2.8 Sustainability

Our vision is of a high speed railway network which changes the mode of choice for intercity journeys, reinvigorates the rail network, supports the economy, creates jobs, reduces carbon emissions and provides reliable travel in a changing climate for the 21st century and beyond.

Our Sustainability Policy sets out our commitment to be an exemplary programme that balances community, environmental and economic issues. We have identified key themes as a focus for our work in:

- supporting sustainable economic development and the localism agenda for regeneration;
- seeking to avoid significant adverse effects on communities, businesses and the natural, historic and built environments;
- reducing HS2's carbon footprint as far as practicable, and delivering low-carbon, long-distance journeys that are supported by low-carbon energy;
- building a network which is resilient for the long term and seeking to reduce the combined effect of the project and climate change on the environment;
- efficiently using sustainable materials, maximising the proportion of material diverted from landfill, and reducing waste; and
- engaging with stakeholders to create seamless transport links with other modes, while ensuring accessibility for all.



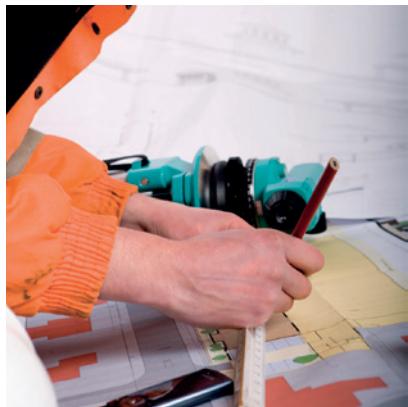
Reducing HS2's carbon footprint is a key focus of our work.

Establishing a sustainability culture

We will embed sustainability in our business at each phase of the project through establishing:

- a clear plan by setting goals relevant to the stage of the project for design, through development, construction, operation, maintenance and renewal which stimulate innovation and enable long-term enhancements. Our plan and this policy will be reviewed every two years.
- robust processes reinforcing sustainability so that it is integrated into our culture, procedures and processes. This will be managed through the implementation and continual improvement of an Environmental Management System to enhance environmental and sustainability performance. It will include the development of Sustainable Design and Delivery Principles which will form part of the process that enables us to balance the sometimes competing elements of sustainability and to understand whole-life cost.

We will comply with legal and other obligations.



HS2 Ltd is helping to develop a new environmental rating system for infrastructure.

This will be supported by:

- procurement – developing sustainability as an integral part of our procurement process and applying it to our entire supply chain.
- innovation – promoting sustainable construction practice, continually focusing ideas and technologies for improving sustainability.
- engagement – engaging in dialogue about the project and working with local communities, key stakeholders and our supply chain.
- reporting – openly and regularly reporting our progress in delivering the commitments we make on sustainability, and sharing what we learn.

New building standards and certification

We will set high standards for all stations and depots to ensure they are sustainable in their design, construction and use. We will achieve this in conjunction with the Building Research Establishment Environmental Assessment Method (BREEAM). This is a leading assessment and rating system for buildings which encourages low-carbon, low-impact design and reduces the energy demands that buildings create. We are committed to achieving a rating of 'excellent' for stations and depots, using a bespoke BREEAM assessment methodology. We are working with the Building Research Establishment and other organisations on piloting a new BREEAM standard and certification scheme for infrastructure on Phase One of the Programme.

Infrastructure Carbon Review

Through our endorsement of the Infrastructure Carbon Review, we have committed to play our part in the value chain and lower carbon through Leadership, Innovation and Procurement. We are already engaging with our supply chain and embedding carbon into our procurement mechanisms. We are in the process of developing our carbon management strategy, which will shape our activities over the design, construction and operation of the railway.

2.9 Transparency

As a public body, we take our responsibilities for transparency and communication seriously, and believe in going beyond the basic legal requirements. We are subject to the Freedom of Information Act 2000 (FOI) and the Environmental Information Regulations 2004 (EIR), which allow individuals and companies to request a wide variety of information. We measure our performance in responding to statutory requests under the FOI and EIR within the relevant statutory limits of 20 working days, with a permitted extension of 20 days for more complex EIR requests. In addition, requests under FOI can be subject to further extensions, if necessary, to carry out public interest tests. Statutory requirements for the Data Protection Act require a response within 40 calendar days.

In addition, we are committed to providing Parliament with the information it needs to ensure oversight of the Programme. We are also subject to the Government's transparency policy, and publish the upcoming procurement pipeline, details of contracts awarded and expenditure.

Ultimately, we are most often judged by our ability to maintain trust and transparency with the general public, particularly with local residents who are most affected by the plans for HS2. In January 2015, we published our Residents' Charter to make sure that residents affected by the railway are treated in a fair, clear, competent and reasonable manner. We also appointed an independent Residents' Commissioner to oversee communication standards in regard to both statutory and discretionary property measures and to monitor performance against the commitments in the Charter. The Commissioner will report directly to the Chairman and will produce quarterly reports to the Board, addressing how we deal with communities and individuals who are affected by property issues.

"HS2 wants to ensure that we deal with residents in a fair, clear, competent and reasonable manner."

HS2 Residents' Charter

3

Activity planned for
2015/16 to 2017/18



3.1 Overview

2015/2016 will be a fundamental year in the HS2 Programme as we:

- prepare to pass Review Point One;
- start main works procurements for Phase One; and
- complete the Third Reading of the hybrid Bill.

These are only a few of our priorities for the year.

As HS2 Ltd transitions from an advisory and planning organisation to a delivery body that will design, build and operate HS2, we must grow our capabilities so that we can be an integrated, high-performing rail business.

We are developing a Delivery Strategy to articulate how we will achieve this. It will outline the associated sub-strategies and the approach to developing our organisational maturity, to provide confidence that we will be fit to meet all of the obligations in the Development Agreement. The Delivery Strategy will be implemented across the organisation within a Programme Management Framework (PMF). This will govern the progressive development and operation of the Delivery Strategy and enable us to achieve our obligations at the Review Points over the next two or more years.

A critical component of the PMF is the focus on developing our organisational effectiveness and people. Section 4 explains this in more detail.

To track our progress and performance this year, we have published our key programme milestones for 2015/2016. These are represented on an integrated 'plan on a page'. Our performance will be measured through trending milestone completion dates each month throughout the year.

"We must grow our capabilities so that we can be an integrated, high-performing rail business."



HS2 Ltd is planning around the operational requirements of the railway.

3.2 Delivery Strategy

We will need exceptional programme and project management skills and systems, based on best practice, to fulfil our commitments effectively.

During 2015, we will continue the transition to a delivery-focused organisational structure to support Phase One, while maintaining an emphasis on supporting and enhancing our development activities in both Hybrid Bill and Phase Two.

The Delivery Strategy sets out our overall approach to delivering the Programme: what systems and processes will be established to deliver the Programme on time and on budget, and how we will address key issues such as operating model and design, procurement and commissioning.

In 2015 we will publish the initial elements of our Delivery Strategy. It applies not just to the delivery of Phase One and initial elements of Phase Two, but also to our obligations in delivering the benefits of the wider Programme – such as city regeneration, the development of the UK's skills base, and the National College for High Speed Rail – and providing advice and guidance on high speed rail to the Secretary of State.

We expect to pass Review Point 1 toward the end of 2015 and demonstrate that we have the organisational maturity required to move onto the next stage of the Programme, specifically gaining the powers necessary to commence tendering for Phase One delivery contracts.

Over the next two to three years, as we progress through Review Points 2 and 3, the Delivery Strategy will be updated to reflect the development of the organisation.

Programme management framework

The successful implementation of the PMF will help to provide the structure for developing the organisation's management capabilities and effectiveness. All of our delivery strategies, management plans and other enabling activities will be deployed and developed within it.

The PMF will provide a structured approach to developing our process and people skills. It will also integrate a 'best in class' business systems platform; our plans and concepts are well advanced (see 'Systems transformation' below).

The PMF will provide a consistent approach to managing and controlling our work effectively. It will outline the way of working for the Programme, based on the adoption of best practice and a philosophy of continuous improvement.

It will be deployed across the HS2 Programme, extending into the DfT through the Integrated Programme Management Office.

Accreditation and capability

The PMF will enable us to achieve international accreditation standards. In 2015/2016 we will seek to achieve the Health and Safety Contractors and Industry Partners Standard, as well as the Lloyd's Register Quality Assurance ISO9001 accreditation.

We are also seeking appraisal against the CMMI best practice framework. We will commence a series of Capability Maturity Model (CMM) assessments, which will provide the organisation with a level of assurance over its approach to delivery and its progress in terms of maturing organisational effectiveness and capability. The first assessment will take place in Spring 2015.

Systems transformation

It is important that we establish an integrated business systems platform that ensures our management systems are fit for purpose. During 2015/2016, through a project called 'HERMES', we will introduce the most innovative and world-class systems, robust enough to meet future business requirements. We will have the requisite processes and supporting system capability to manage complex supply chain contracts based on centralised design data linked to cost, schedule and risk, with links to business reporting and stakeholder management systems. The systems platform will be fully embedded across the organisation by March 2016.

The Delivery Strategy sets out our overall approach to delivering the Programme.

2015/2016 promises to be a challenging and busy time for the Hybrid Bill Directorate.

3.3 Phase One

Hybrid Bill

The High Speed Rail (London-West Midlands) Bill is in the House of Commons Select Committee process. It seeks the necessary powers to build and operate Phase One.

Following the overwhelming Second Reading majority in favour of the Bill, the Hybrid Bill Directorate has supported the Select Committee process, which began hearing petitions against the Bill in July 2014.

To date, over 500 petitions have been taken through the Select Committee process. The demanding programme required to achieve Royal Assent in December 2016 is on track. Achieving Royal Assent will see the Programme passing Review Point 3, which will enable us to issue Notices to Proceed, so that contractors can commence construction.

2015/2016 promises to be a challenging and busy time for the directorate. It will continue to work with petitioners and stakeholders to understand their views of the Programme and, where possible, to address the concerns they raise.

The Select Committee plans to complete its work in early 2016 (although this depends on the progress of its business), and will then report to Parliament. The Bill will be considered by a Public Bill Committee before its Third Reading and will then be heard by a Select Committee in the House of Lords.

In the coming year, the directorate will continue to work with petitioners and support the Select Committee process. A number of changes have been identified: these will be included in Additional Provisions which will be deposited in Parliament.

Once the Select Committee has completed its work and reported to Parliament, it will be considered by a Public Bill Committee in advance of its Third Reading.

Planning for construction

The Phase One Infrastructure Directorate was established in October 2014 and its management team has been strengthened with a number of senior appointments. A strong focus has been placed on developing a people strategy to recruit an organisation that reflects the size and capabilities needed to deliver Phase One of the Programme.

Since becoming operational, the directorate has grown to around 140 people, many supplied through our Development Partner. Our plan is to transition the Development Partner staff back to their employer over the course of the year; we have robust resourcing plans and are recruiting to fill these and other roles. Over the next 12 months we expect the team to grow to around 300 people across a range of disciplines, including programme/project management, logistics, construction and discipline engineering, project controls, and procurement and commercial management.

As well as looking forward to how Phase One will be managed, controlled and delivered, best practice and lessons learned from other major infrastructure projects continue to be assessed in terms of design, construction and systems integration. Projects include Crossrail, HS1, the 2012 Olympics and other sources of international best practice. Working closely with the Technical Directorate, the directorate is establishing the level of client design that must be undertaken before Early Contractor Involvement stage 1 contracts are let for civil engineering works.

Integration and closer working continue with the hybrid Bill team as we prepare for the construction period, during which some land would be acquired and some early works contracts let.

Preparatory and enabling works are expected to begin in 2015; major construction would commence following Royal Assent, and take around eight years. The most complex construction activity would be at Euston, where works would be likely to continue throughout the whole period.

Ground investigation (GI) work and utilities protection and diversionary work are key to the early construction programme. The first eight of the 90 GI packages have been awarded and GI contractors began work in April 2015. The GI will take place along the route of Phase One and at the sites of proposed depots or highway/utility diversions. Work will take place at approximately 15,000 individual locations, spread across 800 different landowners.

We are continuing to talk to utility companies to ensure that the construction of the railway is not affected by their assets. Outline diversionary designs have already been produced and submitted along with the Bill. We are in the process of signing agreements with the main utility companies to undertake detailed designs.

The first utility diversion site works are programmed to start at Euston in July 2016 (ie, before Royal Assent). One of our PSCs is producing designs to ensure co-ordination across the affected utility companies. Discussions on acquiring the required powers and consents before Royal Assent are ongoing.



Ground investigation is key to the early construction programme.



Salford Quays: one of the UK's regeneration success stories.

3.4 Phase Two

We have continued to make progress in developing the Phase Two route. As well as considering the information gathered through consultation, we have undertaken further work to consider the strategic principles underpinning the project, which is reflected in the recommendations of the *Rebalancing Britain* report. This report concluded that Phase Two is the right strategic proposal to deliver improvements in connectivity and extra capacity, and made a number of recommendations for future development.

Building on these recommendations, the Secretary of State announced in March 2015 the intention to prepare a hybrid Bill to accelerate delivery of a route between the West Midlands and Crewe, subject to further analysis and decisions on the preferred route. In the coming months, we will undertake further work to support a decision on accelerating the delivery of part of Phase Two. If the Government makes a decision on this part of the proposed Phase Two route, we will work to prepare a Bill to secure the powers needed for construction and operation. The timescale for any Bill would depend on the scope of the decision.

Alongside the development of the Phase Two route, we are supporting the Government's agenda for improving transport in the North of England. This includes working with Network Rail and local partners to consider the station proposals for Leeds.

3.5 Operations

Established with the organisational restructure of 2014, the Operations Directorate will carry out the following activities over the next few years:

- Sign-off of design – Operations will be the final point of approval for the design of HS2, in particular its railway systems, to ensure the built railway meets its commercial objectives, as well as providing a passenger experience that is commensurate with the world's best high speed railway operations.
- Purchase of rolling stock – Operations will lead the Programme for the development and design of rolling stock in support of the passenger experience, ensuring that HS2 meets its capacity and commercial objectives. This work includes the design of the rolling stock depots, so that the whole-asset lifecycle of the rolling stock is managed effectively.
- Development of proxy operations – We will develop the operational capability of the railway within HS2 Ltd, ensuring that train operations are ready to take part in dynamic commissioning and trial operations. This work includes a review of the roles of infrastructure manager and train operator as they are currently defined in the UK, based (among other things) on the differing technologies that will be used for HS2. It will cover all aspects of railway operations, from asset and infrastructure management to the operation of the stations, trains and control centres.

We must grow our capabilities so that we can be an integrated, high-performing rail business.

4

People and organisational development



4.1 Organisational effectiveness

The Organisational Effectiveness and Change Directorate has been established to create the right environment for our organisation to flourish. We will take an enterprise view – ensuring that we have the right model, the right people and the right capability to meet the demands of the Programme.

We will focus on four areas:

- Getting the organisation's design, transition and business change right so we can adapt to the needs of the Programme as it matures. We will use our operating model to ensure we have the capabilities to deliver what is required. Our roadmap for the organisation will enable us to manage our workforce planning.
- Developing and embedding a strong culture that supports our ambition to take a lead in safety, quality and innovation. We will do this through defining, assessing and auditing our organisation. We will ensure we have the right values, behaviours and understanding throughout the organisation, the community and the supply chain.
- Supporting the development of our employees, so they can grow and develop as the organisation matures.
- Ensuring we have a clear approach to continuous improvement so that we can learn lessons to drive improvement and innovation.

We will build and embed organisational effectiveness over the next three years. Our focus in 2015 will be on defining the operating model and the 'roadmap' for the organisation, and supporting its implementation by developing our culture and leaders. In 2016 we will build a strong business change capability and continuous improvement approach to help the organisation to adapt and improve. In 2017 we will have embedded continuous improvement methodologies and will work to sustain a high-performing team.

We will build and embed organisational effectiveness over the next three years.

5

Key performance indicators



5.1 Monitoring internal performance

In the interest of transparency, we will record our performance in key areas and report against our Balanced Scorecard and the requirements in the Development Agreement. This section gives examples of how we record and review our internal aims and processes.

5.2 Health and safety

We aim to set a new benchmark for safety performance and workplace health in the delivery of a major project.

Our focus over the past 12 months has been on the creation and development of a robust, consistent and enduring safety culture. A new Health and Safety Policy Statement has been published, together with a personal commitment to health and safety from our Chief Executive. Both focus on our ambition to engineer out risks to health and safety (both occupational and systemic) through intelligent design.

Our health and safety performance, including the performance of all directly appointed organisations, is reported as an accident frequency rate: the number of reportable incidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) per 100,000 hours worked. As of March 2015, there were no RIDDOR-reportable accidents in over 4.74 million hours worked.

In 2014, we introduced 'AssessNET' as a tool to record and manage health and safety reporting incidents. AssessNET is used to report all hazards, near misses, accidents involving injury or loss, occupational diseases, dangerous occurrences and environmental incidents. All employees have access to this system, which produces monthly reports for the Board.

In 2014 a risk-mapping exercise was commissioned with a view to understanding the health and safety risks facing the business, and its readiness in managing the risks. The exercise covers all phases of the Programme (design, construction, manufacturing, commissioning and operation), with reports to the Board at regular intervals. It is a three-phase process: the first two phases were completed in the 2014/2015 financial year and the third will progress into 2015.

We are running an initial two-year pilot programme with Construction for Better Health (CBH) for the ground investigation (GI) works. We have mandated that principal contractors must join CBH and use the health standards for all workers involved in GI work. After the pilot is complete, we will assess feedback from PSCs to determine whether the programme has been beneficial and, if so, incorporate CBH membership further.

Together with our existing health and safety programme – Safe and Fit Every Time and Everywhere (SAFE) – this provides our staff with a clear direction to make health and safety their first consideration in everything they do.

Our focus over the past 12 months has been on the creation and development of a robust, consistent and enduring safety culture.



Our Programme Assurance Framework has three 'lines of defence'.

5.3 Quality and assurance

We define 'quality' as 'delivering a high speed rail network in compliance with the stated requirements, in an effective and efficient manner'.

This will be achieved through our Programme Assurance Framework, in which we have identified a 'three lines of defence' assurance model. Level 1 represents the internal controls, Level 2 represents internal assurance and Level 3 independent assurance.

- Level 1 assurance is achieved through the development and implementation of the HS2 management system, containing the policies, processes, procedures and forms which in turn provide the controlled environment. It is planned that this management system will be independently certified by a UKAS accredited organisation against the International Standard BS EN ISO 9001 – Quality Management Systems – Requirements during 2015.
- Level 2 internal assurances are primarily achieved through a series of audits carried out by personnel independent of the activity being reviewed. These audits determine whether the controlled environment is suitable and sufficient and has been adequately implemented.
- Level 3 independent assurance is primarily achieved by internal audit carried out by external staff, who provide an independent opinion on the controls in place.

Our management controls include reports on performance, progress against milestones and financial progress on a monthly basis. The Audit and Risk Assurance Committee sits quarterly to provide oversight of the programme assurance framework, including performance reported through audit, and to report accordingly to the Board. These reports and oversight are the primary mechanism for checking the Programme's progress; they also help to develop controls where necessary.

The audits described are developed in a co-ordinated manner to ensure that key risks are subject to review. The programme of audits is itself regularly reviewed to ensure that they remain relevant and appropriate for the HS2 Programme.

In addition, our work will be subject to peer reviews by experts in relevant technical fields. As with all key Government infrastructure projects, our work is subject to technical progress review by the Cabinet Office's Major Projects Authority and Her Majesty's Treasury's Major Project Review Group. This provides the Government with independent assurance that we have adequate controls in place to deliver the HS2 Programme on time, on budget and in compliance with the stated requirements.

5.4 Time

We track our delivery to schedule against detailed project plans. Our Board will monitor performance against key project milestones.

The integrated HS2 Programme contains the agreed high-level scope and deliverables as outlined in the Delivery Agreement to be reviewed at Review Point 1. Performance against these deliverables will be through trending milestone completion dates.

5.5 Costs and financial control

Overall, scheme costs are monitored monthly. The process for cost control and access to project contingencies is formally agreed with the Department for Transport.

We undertake normal in-year budget monitoring. On a monthly basis, we also track our forecast overall spend against the revised Spending Review allocation of funding for the development phase.

The Government's aim is for suppliers to be paid within 30 working days. During 2014/2015, 84% were paid within 30 working days.

For further financial information, see Section 6.

Our work is subject to technical progress review by the Major Projects Authority and the Major Project Review Group.



Meeting residents near London Euston.

5.6 Communication and engagement

We measure our performance in responding to general correspondence within 20 working days, in line with the DfT's internal target, and to statutory requests under the Freedom of Information Act 2000, Data Protection Act or Environmental Information Regulations 2004 within the relevant statutory limits of 20 working days (plus, in some cases, a permitted extension of 20 days for more complex requests).

5.7 Land and property

Discretionary schemes

HS2 Ltd acts as an agent for the DfT in providing the secretariat for the Government's discretionary schemes. The final decision on applications under the current schemes is made by the Secretary of State for Transport. In January 2015, following a consultation period, the Government announced the following package of property purchase and assistance measures:

- A need to sell scheme which replaced the Phase One exceptional hardship scheme;
- A cash offer scheme, available in the rural support zone (RSZ);
- A voluntary purchase scheme, available in the RSZ;
- A homeowner payment scheme (available when the HS2 Phase One hybrid Bill becomes law); and
- A Phase Two exceptional hardship scheme.

We will acknowledge 100% of all applications within 20 working days and we will measure the time we take to deal with applications against our internal target. Both the need to sell and exceptional hardship scheme guidance sets an aim of three months from application to decision, which is followed by a further period to complete the purchase.

Properties purchased under Blight Notice procedures

We also act as an agent in the process for considering and carrying out property purchases under statutory blight notice and express purchase procedures. We will complete the entire process – from receipt and acknowledgement to decision and despatch of outcome letter – within 60 days.

Management of property

In partnership with our property management supplier, we oversee the day-to-day property management of the 280+ acquired properties. We record 100% of all properties on the Government's ePIMS database within 10 working days of completing and registering a property acquisition or disposal. We will also conduct inspections of all rented properties at least every 12 months and of vacant properties every 14 days.

Residents' Charter

We have published a Residents' Charter to ensure that residents affected by the railway are treated in a fair, clear, competent and reasonable manner. An independent Residents' Commissioner reports directly to the Chairman and monitors our performance of the Charter standards.

We will complete the entire process – from receipt and acknowledgement to decision and despatch of outcome letter – within 60 days.

6

Finance



6.1 Funding overview

HS2 has been set a target cost of £19.3 billion to deliver Phase One of the railway, including costs of rolling stock. This is within a wider funding envelope of £24.4 billion, including rolling stock. To deliver within this envelope will require rigorous control of costs. This emphasises both the importance of affordability and the need for HS2 Ltd and the DfT to work together in managing project costs.

The Phase One cost estimate of £21.4 billion was announced as part of Spending Round 2013 (SR13) (at 2011 price levels, including £5.8 billion contingency and risk at a P95 probability level – i.e. within a scenario with 95% likelihood). It provides a baseline against which costs can be controlled.

Phase Two costs are less mature. However, the SR13 process included agreement on a funding envelope of £21.2 billion at P95 probability level. This provides sufficient resources for us to advance the scheme through its next phases.

The following funding envelope was established for HS2 in SR13:

	HS2 funding envelope	Phase One	Phase Two
Phase One infrastructure	£21.4bn	£21.4bn	
Phase Two infrastructure			£21.2bn
Rolling stock	£7.5bn	£3.0bn	£4.5bn
Total	£50.1bn	£24.4bn	£25.7bn

Phase One: London to Birmingham
 Phase Two: Birmingham to Manchester & Leeds
 Costs are reflected in 2011 prices, excluding VAT, and at P95 contingency level
 (high confidence that the forecast is adequate)

The *HS2 Plus* review by Sir David Higgins followed an exhaustive review of the costs of Phase One. It concluded that, overall, the £21.4 billion allocated for Phase One infrastructure, together with the £3 billion allocated for Phase One trains, is sufficient to deliver Phase One.

The current uncertainty over the legislative timetable and the inherent risks associated with a project at this stage of development mean that the contingency remains appropriate.

To deliver within the funding envelope will require a rigorous control of costs.

"HS2 must maximise the value added to local and national economies."

Rebalancing Britain

6.2 Proposed expenditure

HS2's initial expenditure profile was set by SR13 based on a P50 probability level (i.e. within a scenario with 50% likelihood). The following expenditure limits apply for the three years and they include inflation and VAT.

HS2 short-term expenditure

	2014/15 £m	2015/16 £m	2016/17 £m
Phase One	339.8	791.5	1,618.7
Phase Two	80.2	188.5	267.6
Total	420.0*	980.0	1,886.3

Costs are reflected in outturn prices, and at P50 contingency level (balanced level of confidence).

* This figure includes an allowance of £40m for VAT. HS2 Ltd was registered for VAT by 2014/2015 and this amount was subsequently reduced from the budget.

Since 2013, we have successfully registered for VAT and this element of funding will be deducted each year.

This funding level also includes payments under land compensation schemes and the early acquisition of properties, needed to maintain the critical path.

Expenditure for 2014/15 now stands at £363 million (HS2 Ltd £188.5 million, plus £174 million DfT land and property acquisitions). The 2015/16 estimated cost is set out below. For 2016/17, an additional contingency of £147 million is held by Her Majesty's Treasury to provide coverage at the P95 level.

6.3 Cost of work to date

The cost of work done by HS2 Ltd to date is shown below.

HS2 budget

2009/2010	£9.4m
2010/2011	£14.6m
2011/2012	£33.9m
2012/2013	£176.4m
2013/2014	£208.4m
2014/2015	£188.5m
Total	£631.2m

This excludes expenditure incurred by the DfT on land and property.

6.4 2015/2016 budget

HS2 Ltd's budget for 2015/16 is set at £404 million, derived from SR13 but aligned to in-year delivery programme and consequential activities. This funding compares with a like-for-like forecast (i.e. excluding land and property) at SR13 of £553.5 million – an in-year reduction of funding required of £149.4 million.

The overall requirement for funds in 2015/16 is lower than anticipated at SR13, mainly due to Royal Assent now being assumed as December 2016, not March 2015, resulting in programme delays, and a reduction in direct construction activity and delays in announcing the Phase Two route.

Assumptions & exclusions are now consistent with Baseline 4 and emerging Baseline 5. (SR13 was based on Baseline 3 assumptions and exclusions.)

A funding requirement of £305.1 million for land and property will be owned and controlled by the DfT, with HS2 Ltd providing advisory and management functions on behalf of the DfT.

The focus of activity for 2015/16 is expected to be:

- significant progress on ground investigations, design of utility diversions, early enabling works and on-network works, accelerating as permitted under the High Speed Rail (Preparation) Act 2013;
- the development of Employer's Requirement design to support the procurement of the main construction contracts;
- Phase Two works to support engineering and environmental design, progressing route refinements ahead of a proposed preferred route announcement and consultations (including property along the decided Phase Two route, pre-announcement route refinements and Phase One APs).
- IT expenditure to develop the necessary integrated programme controls and reporting structure, as well as benchmarking, risk and assurance studies in support of developing the company's long-term strategy.
- the fit-out of the Birmingham offices at Snow Hill; and
- a significant increase in workforce costs ahead of construction.

Budgets have been agreed with the DfT, and those related to Preparation Act expenditure will be agreed with HM Treasury. Using the Government classification of funding, the HS2 budget will be categorised as follows.

HS2 budget categorisation

	Expenditure £m
Capital DEL (mainly Phase One* & office assets)	365.9
Resource DEL (mainly Phase Two) – Programme	32.2
Resource DEL (mainly Phase Two) – Administration	6.0
Total HS2 Ltd	404.1

HS2 Ltd is registered for VAT with effect from 1 April 2014 and recovers VAT on its inputs

* The 2015/16 budget assumes that all Phase One costs will be capitalised.



HS2 Ltd headquarters
at Snow Hill, Birmingham.



Sir David Higgins presents the project.

6.5 Cost control and value for money

For the Programme as a whole, budgets have been set at a core cost level, together with contingency to ensure a high degree of confidence that delivery can be achieved within the funding envelope. The core budget provides a baseline against which costs can be controlled, and any changes to this baseline must be justified through the change control mechanism.

HS2 Ltd and the DfT will work together to:

- manage project costs and seek opportunities for cost reduction; and
- look critically at the value for money and affordability of any proposals which potentially add to costs.

HS2 Ltd applies the principles of 'Managing Public Money' and Efficiency Reform Group controls to its activities.

HS2 Ltd and the DfT have continued to progress a comprehensive Efficiency Challenge Programme. This is aimed at optimising all opportunities for cost savings within the remit of the scheme provided by the Secretary of State.

HS2 Plus identified a number of potential revisions to the HS2 scheme that require the Government's consideration. The report notes that the earlier a decision is taken – for instance, on extending the line to a station at Crewe – the more cost savings can be achieved. The report noted that it would be irresponsible at this early stage to reduce the substantial contingency included in the P95 estimates; however, it recognised that the shorter the timescale for the project, and the greater the certainty about the timescale, the lower the costs will be.

Each in-year annual budget is closely controlled within the pre-agreed expenditure limits, with contingency held centrally.

We will work with our audit team through the Internal Audit Programme to ensure that the quality of our financial control systems remains high and supports a rigorous cost control framework.

6.6 Review of performance in 2014/15

In financial terms, in 2014/15 HS2 Ltd was able to deliver its planned activities without calling on its core central contingency of £5.6m.

Total HS2 Ltd expenditure of £188.5m was delivered at an underspend of £41.6m (18%) against the £230.0m budget*.

	2014/15 Actual* £'m	2014/15 Budget £'m	Variance £'m
Contracts & services (including project delivery, design, environmental etc)	91.0	142.0	51.0
Staff & related costs (incl DP)	72.8	58.8	(14.1)
Operational & administrative costs	15.4	15.2	(0.3)
Corporate Capital	9.2	5.5	(0.7)
Allowance for further costs	-	5.6	5.6
Total expenditure incl. contingency	<hr/> <hr/> 188.5	<hr/> <hr/> 230.0	<hr/> <hr/> 41.6

*Due to HS2 Ltd registering for VAT, additional budget of £40.0m was not delegated to the company.

The table shows the financial performance in 2014/15 (subject to audit).

'Contracts & services' covers the work undertaken to engage external suppliers in promoting the Phase One hybrid Bill through the parliamentary process, further development of the engineering design and environmental assessments of the HS2 Phase One route, development of the Phase Two preferred route and corporate indirect expenditure (e.g. on setting programme delivery strategy). Expenditure was significantly underspent due to deferral of the Phase Two preferred route announcement and delays in commencing detailed utilities diversion design and further specification design.

Staff costs (including DP) were £14.1m (24%) overspent, as the company saw pressure on continued use of its development partner and interim resources to help grow the recently formed Phase One Infrastructure and Programme & Strategy Directorates.

Operational and administrative costs were £0.3m (2%) above budget, with additional costs being incurred for extra office space required in line with the company's workforce growth.

Corporate capital costs (IT capital spend and accommodation fit-out costs) were £0.7m (8%) overspent due to additional fit-out costs to extra office space obtained. These were partly offset by savings made against originally budgeted fit out costs for the company's move to its new offices at Sanctuary Buildings and One Canada Square.

**Total expenditure
of £188.5 million
was delivered at
an underspend of
£41.6 million**

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