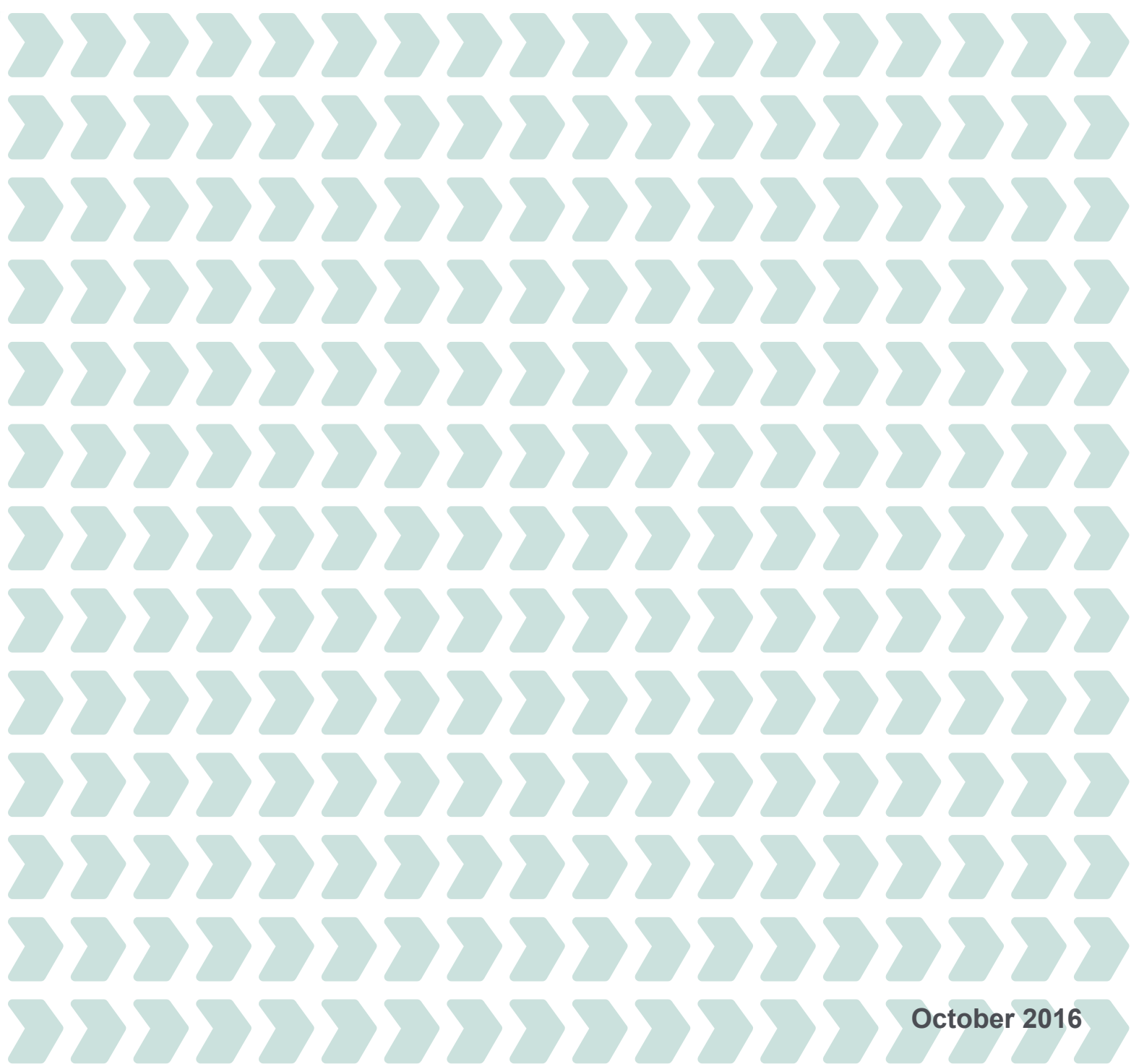




Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2015 - 31 March 2016

Moving Britain Ahead



October 2016

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2015 - 31 March 2016

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 2015 to 31 March 2016, 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 have made significant progress 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.

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. Transport is key to achieving this.

While preparations for Phase One continue, the related hybrid Bill is expected to have completed its passage through Parliament by the end of 2016. The preparation for Phase 2a (West Midlands to Crewe) continues to progress with the hybrid Bill scheduled to be deposited in July 2017. The development of Phase 2b (Crewe to Greater Manchester and West Midlands to Yorkshire) moves forward with a route announcement planned for later in 2016.

The 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 Treasury 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 2015 to 31 March 2016.
- 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).
- 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 Her Majesty's Treasury. 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 expenditure under the Preparation Act for the period from 1 April 2015 to 31 March 2016 was £359.8m against a profiled budget of £583.0m, which represents an underspend of £223.2m or 38%.
- 2.2 This expenditure is comprised of HS2 Ltd expenditure and DfT expenditure. For the period, HS2 Ltd expenditure was £246.6m against a profiled budget of £277.1m, an underspend of £30.4m or 11%. DfT spend on Land & Property acquisitions was £113.2m against a profiled budget of £305.9m, an underspend of £192.7m or 63%.

3. Expenditure incurred on pre-construction activity

Design Activity

3.1 Design activity is the process of developing the overall design and specification of the railway to meet 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 year up to 31 March 2016 on design activity was £40.3m against a budget of £50.2m, an underspend of £9.9m or 20%. The underspend arose primarily due to delays in developing the technical specification design required ahead of the start of Main Works and lower headcount within the company's technical directorate than planned.

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) | Budget | Actual | Variance |
|-------------------------------------|--------|--------|----------|
| Capital (C-DEL) | 50.2 | 40.3 | 9.9 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 50.2 | 40.3 | 9.9 |

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 was £33.6m against a budget of £45.2m, representing an underspend of £11.6m (or 26%). 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 2016/17, ahead of the commencement of Main Works contracts post Royal Assent.

Surveys and Ground Investigations (£m)

| | Budget | Actual | Variance |
|------------------|--------|--------|----------|
| Capital (C-DEL) | 45.2 | 33.6 | 11.6 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 45.2 | 33.6 | 11.6 |

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 2015 to 31 March 2016 was £43.9m against a budget of £57.4m, an underspend of £13.5m (or 24%).
- 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. HS2 Ltd have already agreed design proposals with the relevant utility companies, which were included in the High Speed Rail (London - West Midlands) Bill (Phase One hybrid Bill) deposited in November 2013. Work continues on developing detailed design of the diversions required to enable construction.
- 3.10 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. Work undertaken during the period included further options development (GRIP stage 3) for Euston and Old Oak Common enabling works and the start of single option development (GRIP stage 4). Underspend occurred due to delay to the start of single option development and delays with completion of works relating to relocation of First Great Western depot at Old Oak Common.

| Enabling Works (£m) | Budget | Actual | Variance |
|---------------------|--------|--------|----------|
| Capital (C-DEL) | 57.4 | 43.9 | 13.5 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 57.4 | 43.9 | 13.5 |

Project Management

- 3.11 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.

- 3.12 Expenditure for the period from 1 April 2015 to 31 March 2016 was £32.4m against a budget of £30.7m, an overspend of £1.7m (or 5%).

- 3.13 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 contracts.
 - Contract management costs incurred as part of managing the delivery of the design 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.

- 3.14 This overspend has been caused by a higher than average cost per person and incentive payments based on the assessed performance of the company's Development Partner and Professional Services Contractors exceeding the budgeted average performance rating.

| Project Management (£m) | Budget | Actual | Variance |
|-------------------------|--------|--------|----------|
| Capital (C-DEL) | 30.7 | 32.4 | 1.7 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 30.7 | 32.4 | 1.7 |

Corporate Support

3.15 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.

3.16 Expenditure for the period from 1 April 2015 to 31 March 2016 was £96.4m against a budget of £108.9m, an underspend of £12.5m (or 11%).

3.17 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.

3.18 This underspend has been caused by lower than originally anticipated expenditure on external procurement support, IT costs (the company transitioned to using cloud-based technologies instead of buying capital assets and a lower non-cash depreciation charge incurred against the company’s asset base.

| Corporate Support (£m) | Budget | Actual | Variance |
|------------------------|--------|--------|----------|
| Capital (C-DEL) | 108.9 | 96.3 | 12.5 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 108.9 | 96.3 | 12.5 |

4. Central Adjustment

- 4.1 In recognition of historic underspends, HS2 Ltd applied a central reduction adjustment to the overall budget set for 2015/16. An adjustment factor of £15.3m was applied, which HS2 Ltd considered to be appropriate in determining a realistic and achievable overall budget. This adjustment factor was allocated on a proportionate basis to Preparation Act expenditure, on the same basis as the corporate indirect costs.

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, HM Treasury; 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: 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 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: Express Purchase, Cash Offer, Voluntary Purchase and the Need to Sell scheme. After Royal Assent a further scheme will come into effect - the Home Owner Payment. These schemes have been designed to take into account the different circumstances of those living along the proposed line route.
- 5.3 The budget for Land Assembly is currently administered by the department. The Preparation Act allows the Secretary of State to incur expenditure for the discretionary schemes as well as statutory acquisitions. Determining precise annual expenditure in advance of Royal Assent is difficult as both blight notices and applications to the discretionary schemes are applicant led.

- 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 an early enough 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 complexity of the deals.
- 5.5 Expenditure for the period from 1 April 2015 to 31 March 2016 was £113.2m against a budget of £305.9m, an underspend of £192.7m (or 63%). This arose primarily due to a delay in completing the acquisition of large scale commercial properties ahead of the commencement of Main Works post Royal Assent.

| Land and Property (£m) | Budget | Actual | Variance |
|------------------------|--------|--------|----------|
| Capital (C-DEL) | 305.9 | 113.2 | 192.7 |
| Resource (R-DEL) | 0.0 | 0.0 | 0.0 |
| Total (T- DEL) | 305.9 | 113.2 | 192.7 |

6. Impact of overspend and underspend on a total budget of £55.7 billion 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 £50.1 billion 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. The variances outlined in this report do not have an impact on the funding envelope established at SR13 and updated at SR15. Future reporting from 2016/17 will report against this revised price base.

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 is currently at 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 is due to open to the first learners at the end of September 2017, with two campuses; one in Birmingham, which will have a digital learning focus, and one in Doncaster, which will have an engineering focus. The buildings have been designed and construction is underway, with ground works in progress from May 2016.
- 7.4 The college is being set up to offer industry-focused higher technical skills development which will enable a UK workforce to deliver HS2. It will provide vocational training to the next generation of engineers working on HS2. Developing and securing the workers with the necessary skills is critical to delivering HS2 on time and on budget.
- 7.5 The college will deliver the specialised training and qualifications needed for high speed rail, which will benefit HS2 and other future infrastructure projects across the country. It will offer the necessary technical training to make HS2 a success and ensure it can be built by skilled British workers including rail engineering, environmental skills and construction.

Annex A

| HS2 Expenditure under Preparation Act Year to 31st March 2016 | Actuals £'000 | Budget £'000 | Variance £'000 | Variance % |
|--|--------------------------|-------------------------|---------------------------|-----------------------|
| A. Design Activity (inc PSC spend) | 40,348 | 50,214 | 9,867 | 20% |
| B. Survey & Ground investigation | 33,647 | 45,219 | 11,571 | 26% |
| C. Enabling / advance | 43,919 | 57,410 | 13,491 | 24% |
| D. Project management | 32,353 | 30,694 | -1,658 | -5% |
| E. Corporate support costs: | 96,377 | 108,854 | 12,477 | 11% |
| F: Central Adjustment | - | -15,307 | -15,307 | n/a |
| Total HS2 Ltd | 246,644 | 277,085 | 30,441 | 11% |
| Land & Property capital acquisitions (DfT) | 113,179 | 305,900 | 192,722 | 63% |
| Total HS2 Programme | 359,822 | 582,985 | 223,162 | 38% |

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

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