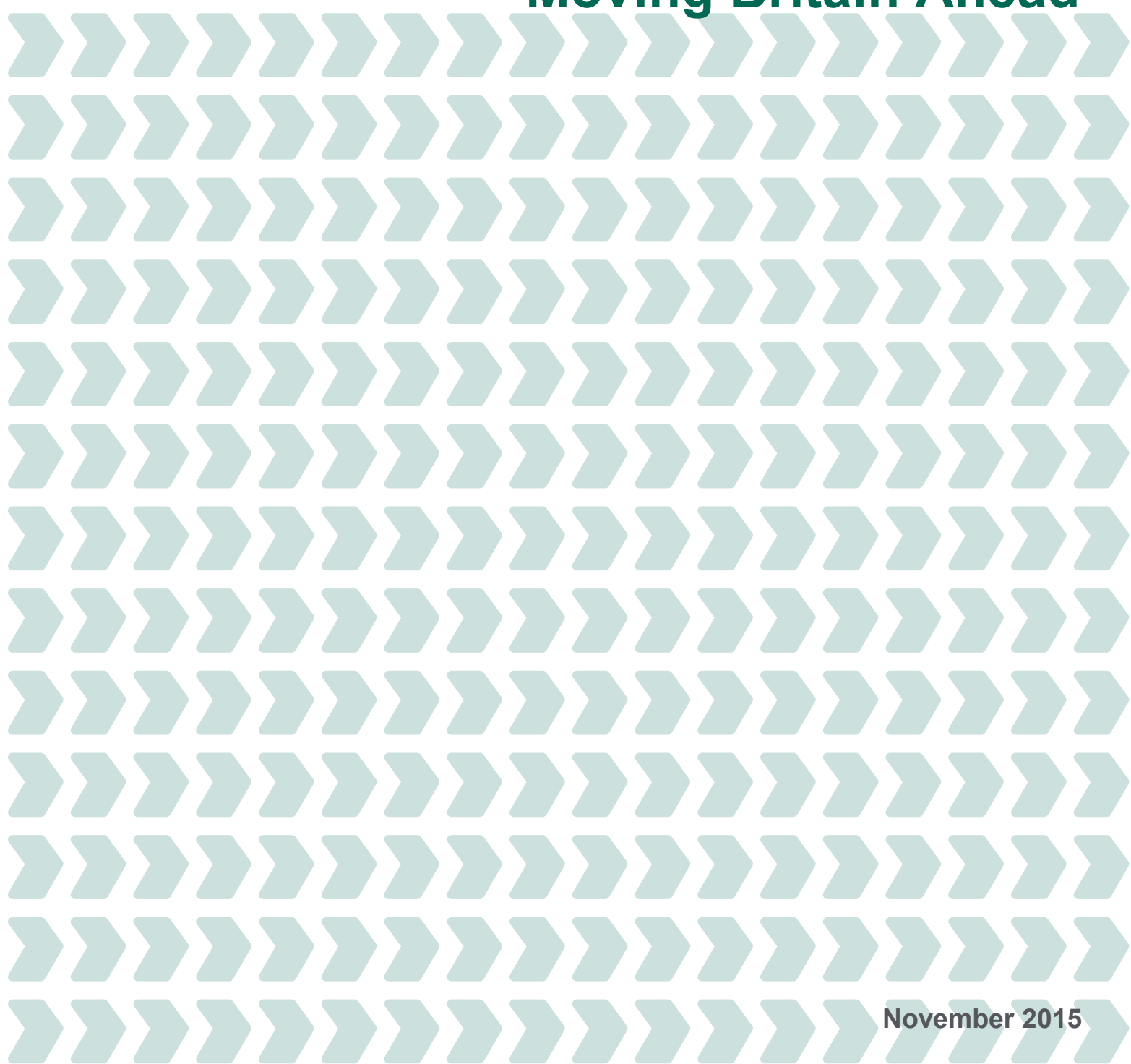




Department
for Transport

High Speed Rail (Preparation)
Act 2013 Expenditure Report
21 November 2013 - 31 March 2015

Moving Britain Ahead





Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 21 November 2013 – 31 March 2015

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



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Contents

Foreword	6
1. Background	8
2. Summary	9
3. Expenditure incurred on pre-construction activity	10
4. Expenditure incurred on acquiring property and providing discretionary compensation in respect of property likely to be affected	14
5. Impact of overspend and underspend on a total budget of £50.1 billion in 2011 prices	16
6. Account of Vocational Qualifications	17
Annex A	18

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(4)(a) of the High Speed Rail (Preparation) Act. It covers the period from 21 November 2013 to 31 March 2015, and sets out the expenditure incurred on pre-construction activity and the related cost categories which this expenditure is attributable to.

The next annual report will cover a 12 month period from 1 April 2015 to 31 March 2016 and will continue to set out the expenditure undertaken to prepare for this high speed railway transport network.

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.

These preparatory works are critical to fulfilling the Government's commitment to having the right infrastructure in place to enable economic growth for this country in the long term. Transport is key to achieving this.

With preparations for Phase One well underway and the related hybrid Bill expected to have completed its passage through Parliament in late 2016, the preparation for Phase Two must now progress with similar speed. The DfT and HS2 Ltd have been working closely with Northern towns and cities to agree how best to serve the North.

The 'High Speed East and West: The next steps to Crewe and beyond' command paper, also published today, sets out: the route decision on Phase 2a between the West Midlands and Crewe; the Government's latest thinking for the rest of the "Y" network; how HS2 will be part of our existing rail network; and how HS2 is an integral part of our plans for the Northern Powerhouse. The Government's aim is to announce a route decision for the rest of Phase 2 in autumn 2016.



The Rt. Hon Patrick McLoughlin MP Secretary of State for Transport

Patrick McLoughlin

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 is the first annual report prepared in accordance with section 2(1) regarding expenditure incurred under the Preparation Act powers and covers the period from 21 November 2013 to 31 March 2015, in accordance with section 2(4)(a) of the Preparation Act. All subsequent annual reports will cover 12 month periods from 1 April to 31 March.
- 1.4 HS2 Ltd.'s funding is agreed with the department ahead of the commencement of each financial year for the entirety of its activity (and so covers the funding of activities taken under the Preparation Act powers as well as its ongoing Bill development and support costs).
- 1.5 Additional capital expenditure on the HS2 programme is incurred by the Department, for Land and Property acquisitions ahead of gaining Compulsory Purchase Order powers under the Hybrid Bill. This expenditure is essential in preparation for a high speed network.
- 1.6 Information on expenditure in this report demonstrates actual costs incurred and therefore has not been adjusted for inflation. The information does not take account of VAT on expenditure incurred from 21 November 2013 to 31 March 2014. C-DEL and R-DEL expenditure information has also been included in this report for each HS2 cost category in accordance with Section 2(2)(a).
- 1.7 All budget information in this report is set out and based on the initial delegations set for activities at the beginning of each 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 Number 1 Total expenditure for the period from 21 November 2013 to 31 March 2015 was £396.1m against profiled budget of £396.7m, which represents an underspend of £0.6m or 0.1%. This expenditure is comprised of two elements, HS2 Ltd expenditure and DfT expenditure. For the period, HS2 Ltd expenditure was £123.7m against a profiled budget of £147.6m, an underspend of £23.3m or 9%. DfT spend on Land & Property acquisitions was £272.4m against a profiled budget of £249.1m, an overspend of £23.3m or 9%.

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 up to 31 March 2015 on design activity was £33.5m against an initial profiled budget of £50.1m, an underspend of £16.6m or 33%.
- 3.4 The 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 with which the detailed design and construction of the high speed rail network will be required to comply.
 - HS2 Ltd.'s technical directorate staff and technical support provided by their development partner, CH2M Hill.
 - Design solutions on 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 'GRIP'¹ investment review process. Work undertaken to the end of March '15 included feasibility studies and option selection (GRIP stages 2 and 3) for Euston and Old Oak Common enabling works.

¹ GRIP – Governance for Railway Investment Projects, Network Rail's management and control process for delivering projects on the operational railway.

Design Activity Expenditure (£m)	Budget	Actual	Variance
C-DEL	41.6	24.1	17.5
R-DEL	8.5	9.4	-0.9
T- DEL	50.1	33.5	16.6

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 design to minimise risks ahead of construction.
- 3.6 The total expenditure for the period of £6.6m against a profiled budget of £11.3m representing an underspend of £4.7m (or 41%) due to a lower than number of anticipated access agreements being required to conduct necessary environmental surveys. This had a consequential impact on the number of surveys completed during the period. The timetable for remaining surveys outstanding was therefore rescheduled for the spring and summer of 2015 (2015/16 financial year).

Surveys and Ground Investigations (£m)	Budget	Actual	Variance
C-DEL	8.0	5.3	2.7
R-DEL	3.3	1.3	2.0
T- DEL	11.3	6.6	4.7

Enabling Works

- 3.7 Enabling works are the design and commencement of site preparation works prior to construction. HS2 has 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 21 November 2013 to 31 March 2015 was £7.0m, representing a £5.1m (or 42%) underspend below the profiled budget of £12.1m.
- 3.9 Utility Company assets need to be diverted as part of HS2's early works in preparation for the construction of the main Phase One civil engineering works. HS2 has 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.
- 3.10 Additional expenditure has occurred due to additional scope requested by the DfT to support First Great Western sleeper stabling relocation to Penzance and Heathrow Airport Limited diversions required to mitigate interface pressure at Old Oak Common.

Enabling Works (£m)	Budget	Actual	Variance
C-DEL	11.1	6.2	4.9
R-DEL	1.0	0.8	0.2
T- DEL	12.1	7.0	5.1

Project Management

- 3.11 Project Management relates to 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 21 November 2013 to 31 March 2015 was £26.6m demonstrating an overspend of £13.7m or 106% against the original budget of £12.7m
- 3.13 The profiled budget for the period was based on a transition plan for external support from HS2's Development Partner to be replaced with permanent employees from 1st July 2014. However, the company entered a phase of accelerated growth whilst developing its Phase One Infrastructure team (which required different skills to those already in the company's hybrid Bill development team).

Project Management (£m)	Budget	Actual	Variance
C-DEL	8.4	20.8	-12.4
R-DEL	4.5	5.7	-1.2
T- DEL	12.7	26.6	-13.7

Corporate Support

- 3.14 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 of direct Phase One activity under the Preparation Act against direct hybrid Bill and Phase Two route development costs.
- 3.15 Expenditure for the period from 21 November 2013 to 31 March 2015 was £50.0m. This was an underspend of £11.3m against the profiled budget of £61.3m, equating to 18%.

Expenditure is split by:

- Commercial and Programme & Strategy – Expenditure centres on 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 – promotion of HS2 and its pre-construction activity through the media, communications and stakeholder engagement.
- Corporate support functions – including of HR support, recruitment, learning and development, benefit packages and the company's design fees and fit out costs incurred in its office relocations.
- Overheads – rent, facilities charges and necessary expenses for audit, finance and legal fees.

3.16 This underspend had been caused by lower than originally anticipated expenditure on external procurement support, savings made on the fit out of and subsequent rental charges for the company's new offices at One Canada Square and Sanctuary Buildings and savings made against the company's anticipated recruitment costs for permanent employees.

Corporate Support (£m)	Budget	Actual	Variance
C-DEL	50.2	39.7	10.5
R-DEL	11.1	10.3	0.2
T- DEL	61.3	50.0	11.3

4. Expenditure incurred on acquiring property and providing discretionary compensation in respect of property likely to be affected

- 4.1 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, Treasury, with a view to acquiring the property or providing a design solution to relocate a company's operations. Successful acquisition of these strategic properties ensures the construction plan fits within the programme schedule.
- 4.2 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 as 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 purchased 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.
- 4.3 The budget for Land & Property capital acquisitions 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

- 4.4 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 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 acquisitions are generally of commercial properties which can be very complicated transactions that can take many years to exchange and complete.
- 4.5 Expenditure for the period from 21 November 2013 to 31 March 2015 of £272.4m exceeded the originally profiled budget of £249.1m by £23.3m or 9%. Savings made elsewhere on the programme were utilised to advance the acquisitions of a number of larger commercial properties in order to mitigate the risk of construction delays.

Land and Property (£m)	Budget	Actual	Variance
C-DEL	249.1	272.4	-23.3
R-DEL	0.0	0.0	0.0
T- DEL	249.1	272.4	-23.3

5. Impact of overspend and underspend on a total budget of £50.1 billion in 2011 prices

- 5.1 Spending Round 2013 (SR 2013) established a long-term funding envelope for HS2 of £42.6bn for construction costs and £7.5bn for rolling stock (all 2011 prices, excluding VAT). This included a high level of contingency of £16.1bn. The total allocated funding envelope for the HS2 programme remains at £50.1 billion (2011 prices). The variances outlined in this report do not have an impact on the funding envelope established at SR13.

6. Account of Vocational Qualifications

- 6.1 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.
- 6.2 The project is currently at Hybrid Bill Stage in its lifecycle and therefore new vocational qualifications have not been yet 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.
- 6.3 The National College for High Speed Rail was announced on 30 September 2014, and will be located in Birmingham and Doncaster and is due to open in 2017. The college 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.
- 6.4 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 to 31st March 2015	Actuals £'000	Budget £'000	Variance £'000	Variance %
A. Design Activity	33,526	50,082	16,556	33%
B. Survey & Ground investigation	6,640	11,297	4,657	41%
C. Enabling / advance	6,992	12,060	5,068	42%
D. Project management	26,552	12,860	-13,691	-106%
E. Corporate support costs:	50,027	61,296	11,268	18%
Total HS2 Ltd	123,737	147,595	23,858	16%
Land & Property capital acquisitions (DfT)	272,363	249,100	-23,263	-9%
Total HS2 Programme	396,100	396,695	594	0%

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