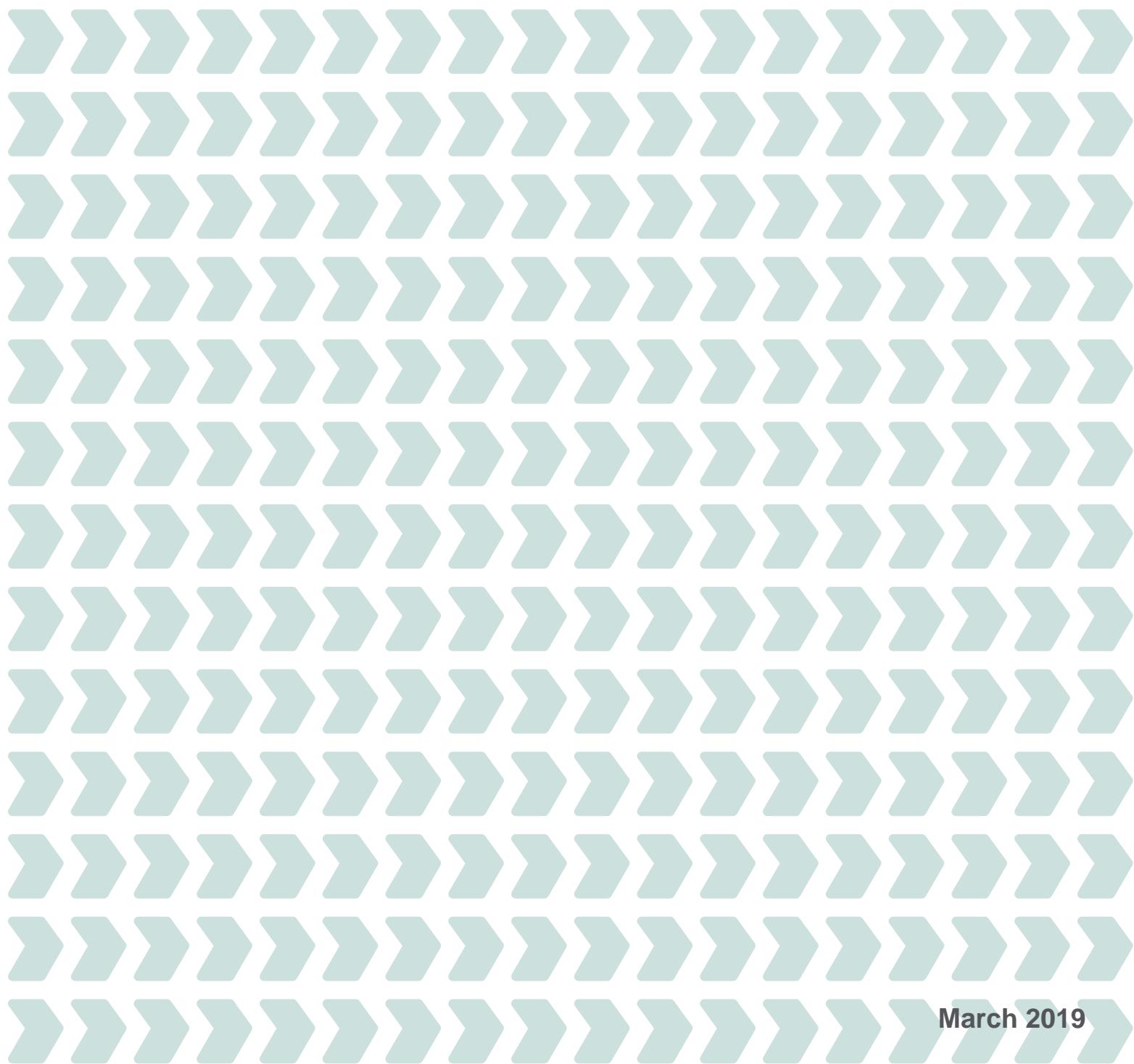




Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2017 - 31 March 2018

Moving Britain Ahead



High Speed Rail (Preparation) Act 2013 Expenditure Report

1 April 2017 - 31 March 2018

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



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1. Background

- 1.1 The High Speed Rail (Preparation) Act 2013 (the Preparation Act) received Royal Assent on 21 November 2013 and authorises the Secretary of State, with Her Majesty's Treasury (HMT) approval, to incur expenditure in preparation for a high speed railway transport network.
- 1.2 This annual report is prepared in accordance with section 2(1) of the Act. It details expenditure from 1 April 2017 to 31 March 2018 incurred under the Preparation Act powers.
- 1.3 With the High Speed Rail (London to West Midlands) Bill (Phase One) receiving Royal Assent in February 2017, the powers under that Act will be relied upon for Phase One activity covered by that Act going forward. The powers under the Preparation Act continue to be used for Phase 2a and 2b expenditure until Royal Assent is attained for the hybrid Bills for these phases.
- 1.4 The Preparation Act also permits expenditure by the Department for Transport on land and property acquisitions ahead of gaining Compulsory Purchase powers and for non-statutory property schemes. This expenditure is essential in preparation for a high speed network.
- 1.5 Expenditure in this report has been broken down by cost category in accordance with section 1(4), and by Resource/Capital in accordance with section 2(2).
- 1.6 The Preparation Act stipulates that this Report should contain details of the likely effect of any overspend or underspend on a total budget (for HS2) of £50.1bn in 2011 prices (which includes construction and the cost of rolling stock). Spending Review 2015 (SR15) revised the funding envelope to £55.7bn in 2015 prices. Reporting from 2016/17 is made against this 2015 price base.
- 1.7 The High Speed Two programme is sponsored by the Department for Transport. The Department is the sole shareholder of High Speed Two Ltd, which it supports through delegated annual funding to promote, design and deliver the proposed network.
- 1.8 HS2 Ltd's budget is set by the Department at the start of each financial year for the entirety of its activity, including expenditure covered by the Preparation Act powers.
- 1.9 Budget information in this report is based on the initial delegations set for activities at the beginning of the financial year. 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 2017 to 31 March 2018 was £115.5m against a budget of £134.7m, representing an underspend of £19.2m or 14%.
- 2.2 For the period, HS2 Ltd expenditure was £22.0m against the budget of £30.4m, an underspend of £8.4m or 28%. DfT spend on Land & Property acquisitions and compensations was £93.5m against a budget of £104.3m, an underspend of £10.8m or 10%.
- 2.3 With Phase One receiving Royal Assent on 23 February 2017, the majority of expenditure now falls outside of the scope of the Preparation Act, with the principal exception of the non-statutory property schemes, where the Preparation Act will continue to apply. The report therefore predominantly covers expenditure under Phases 2a and 2b.
- 2.4 The overall underspend referenced within this report is predominately driven by Land & Property, due to the slow take up on compensation available to property owners. This does not have any programme implications, and the smaller factors contributing to the underspend are also not considered to have an impact on schedule.
- 2.5 The report also provides a statement on vocational qualifications, providing an update on apprenticeship schemes and the successful opening of the National College for High Speed Rail.

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 the following HS2 Ltd objectives:
 - Design, build and operate to the highest safety standards;
 - Build and operate sustainably, responsibly and respectfully of the communities, wildlife and places it affects;
 - Reliable, seamless and easy to use for all passengers and well-integrated with existing transport systems;
- 3.2 HS2 Ltd utilises professional services contractors to support its civil and systems design specifications, environmental assessments and land referencing.
- 3.3 Expenditure incurred for the period from 1 April 2017 to 31 March 2018 on design activity was £12.6m against an annual budget of £6.6m, an overspend of 91%.
- 3.4 A £6.0m overspend from the original design budget is due to accelerated work on the design activity including Ground Investigations design and additional works added to Additional Provision (AP) 2 previously planned for AP3, as well as parallel work on the Whitmore tunnel design options and more detailed parliamentary design.
- 3.5 Spend is incurred on ongoing specification and design led by the HS2 Ltd Technical Directorate. They set the standards and provide assurance against which the Employer's Requirement Design and construction information is being based upon.
- 3.6 Further design work will be completed by the HS2 Ltd Phase 2a non-technical directorate teams, who will be finalising the detailed Employer's Requirement Design ahead of the start of early works.
- 3.7 Work has commenced on the design of the required operations of the HS2 rail network. Activity will include market research and development of designs and visualisations for the proxy operator, development of infrastructure and asset management strategies and the strategy for rolling stock and depot management.
- 3.8 A material part of the accelerated works were to inform the ground investigation programme to ensure that everything was in place for mobilisation.

Design Activity (£m)	Actual	Budget	Variance
Capital (C-DEL)	2.8	1.4	-1.4
Resource (R-DEL)	9.8	5.2	-4.6
Total (T-DEL)	12.6	6.6	-6.0

C-DEL is Capital Departmental Expenditure Limit. R-DEL is Resource Department Expenditure Limit. T-DEL is Total DEL, being the sum of C-DEL and R-DEL.

Surveying and Ground Investigations

- 3.9 The Ground Investigation (GI) programme is undertaken in order to inform the construction programme by obtaining information about the physical properties of the ground on which the proposed route will run, which can be factored into the design.
- 3.10 Survey activity (mainly on ecological matters) began post deposit of the Phase 2a hybrid Bill and will continue as planned to support further detailed development of environmental design considerations. Surveys generally need to be undertaken in the spring and summer when conditions are at their best in order to gain full analysis of the ecosystems that will be impacted.
- 3.11 Expenditure incurred for the period from 1 April 2017 to 31 March 2018 on surveying and ground investigation work was £2.0m against an annual budget of £13.5m, an underspend of 86%.
- 3.12 An £11.5m underspend was recorded against the original budget, which had allowed for GI works to commence in Q3. As design works for this activity were accelerated this resulted in the actual GI ground works commencing later in Q4. This had no impact on the delivery milestones for the overall GI programme.

Surveying & Ground Investigation Works (£m)	Actual	Budget	Variance
Capital (C-DEL)	0.4	2.5	2.1
Resource (R-DEL)	1.6	11.0	9.4
Total (T-DEL)	2.0	13.5	11.5

Enabling Works / Advance works

- 3.13 HS2 Ltd is conducting early preparatory works and continuing work on detailed design requirements that interface with the existing rail network and impact on utilities diversions, required for both pre-construction and construction periods.
- 3.14 HS2 Ltd will also begin progressing design of its future interface with the existing rail network. Activities will encompass the development of Network Rail's GRIP stages 1 & 2 for Stone and Crewe South Connections and interventions.
- 3.15 Expenditure for the period from 1 April 2017 to 31 March 2018 on enabling works was £0.8m against an annual budget of £5.4m, an underspend of 86%.
- 3.16 The £4.7m underspend reflects the continued delay to the works as set out in the Crewe Design Service Agreement with Network Rail, signed in Q3. Utility contracts are still progressing slower than originally anticipated and detailed design is planned to commence Q1 2018/19.

Enabling Works (£m)	Actual	Budget	Variance
Capital (C-DEL)	0.5	1.3	0.8
Resource (R-DEL)	0.3	4.2	3.9
Total (T-DEL)	0.8	5.5	4.7

Project Management

- 3.17 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 Ltd's design, preparatory works and construction programme are integrated, scheduled and resourced to meet the timetable.
- 3.18 Project Management comprises expenditure on Phase 2a workforce costs of the HS2 Ltd directorate who will be managing delivery of the activities set out in the preceding sections.
- 3.19 Expenditure incurred for the period from 1 April 2017 to 31 March 2018 on project management was £1.5m against an annual budget of £2.7m, an underspend of 43%.
- 3.20 A £1.2m underspend to the budget was recorded following the recruitment of the Phase 2a Pre-Construction team commencing in Q3, which took longer than originally planned due a lack of available skilled workers in the job market.
- 3.21 The Phase 2a hybrid Bill team is not included within the Project Management costs for the purpose of this Report as the activities of this team do not fall within the scope of the Preparation Act.

Project Management (£m)	Actual	Budget	Variance
Capital (C-DEL)	0.1	0.6	0.5
Resource (R-DEL)	1.4	2.1	0.7
Total (T-DEL)	1.5	2.7	1.2

Corporate Support

3.22 HS2 Ltd allocates a percentage of its corporate support costs (including finance and corporate services, procurement and accommodation) across all the phases' 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.

3.23 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.

3.24 Expenditure incurred for the period from 1 April 2017 to 31 March 2018 on corporate support was £5.2m against an annual budget of £2.3m, an overspend of 127%.

3.25 There is a £2.9m overspend to budget on the allocation of corporate support costs. This is an internal allocation of costs based on Phase 2a related spend and will be offset in other areas of the business.

Corporate Support (£m)	Actual	Budget	Variance
Capital (C-DEL)	1.6	0.5	-1.1
Resource (R-DEL)	3.6	1.8	-1.8
Total (T-DEL)	5.2	2.3	-2.9

Land & Property

- 3.26 Prior to Royal Assent of the three Hybrid Bills, acquisitions of land and property located on the construction path of the railway can be undertaken before Compulsory Purchase powers are acquired. Acquisition of this land and property ensures the construction plan fits within the overall programme schedule.
- 3.27 Scheme acquisitions are split into two parts.
- Statutory acquisitions - these relate to properties that fall within the safeguarded zone. Safeguarding enables owners whose property falls within the zoned area to request that the Secretary of State purchase their property at its unblighted value by issuing a blight notice (which can be countered on specific grounds). Any properties that fall within the safeguarding zone which do not serve a blight notice, or are not acquired by private agreement, prior to Royal Assent can be acquired via Compulsory Purchase once Royal Assent has been received.
 - Non-statutory schemes - there are a number of property schemes available for Phase One, Phase 2a and Phase 2b: Express Purchase, Cash Offer, Voluntary Purchase, Need to Sell and Rent Back. These schemes take into account the differing circumstances of those living along the line of route.
- 3.28 Homeowner Payment (HOP) scheme - HOP is available by phase following Royal Assent of the relevant Bill.
- 3.29 Other acquisitions or payments can be made where there are atypical properties or special circumstances, at the discretion of the Secretary of State, in order to ensure the right land is acquired at the right time for construction purposes.
- 3.30 Acquisitions of commercial properties can be difficult to accurately estimate completion dates due to the complexity of the deals and the need for negotiation.
- 3.31 Expenditure incurred for the period from 1 April 2017 to 31 March 2018 on land and property was £93.5m against an annual budget of £104.3m, an underspend of 10%.

Land & property (£m)	Actual	Budget	Variance
Capital (C-DEL)	93.5	104.3	10.8
Resource (R-DEL)	0.0	0.0	0.0
Total (T-DEL)	93.5	104.3	10.8

4. Application of the Preparation Act on non-statutory property schemes

- 4.1 The Department has reassessed the application of the High Speed Rail (Preparation) Act 2013, and now considers that expenditure related to non-statutory property schemes across all phases should continue to be reported as expenditure under the Preparation Act. This is in contrast to the previous report which for the 2016/17 financial year attributed expenditure on property schemes relating to Phase One to the Phase One Act (the High Speed Rail (London-West Midlands) Act 2017) once it received Royal Assent on 23 February 2017. A correction is therefore made to cover the spend for March 2017, the rest of the expenditure for that year having been given as coming under the Preparation Act.
- 4.2 For March 2017 only, there was a total of £150m spent on Land & Property of which £149.4m related to Phase One and £0.6m related to Phase Two. The £149.4m for Phase One was not previously reported in the 2016/17 Preparation Act Report.
- 4.3 The budget for Phase One Land and Property (non-statutory property schemes) was not allocated against the Preparation Act, however an actual spend of £51.2m has been recorded against this cost category.

5. Account of Vocational Qualifications

- 5.1 During the period covered by this Report, Phase One of the HS2 programme began to move towards construction stage. The Enabling Works Contract was awarded in November 2016, and the Main Works Civil Contract was awarded in July 2017.
- 5.2 The Enabling Works Contract and the Main Works Civil Contract included a requirement for the provision of apprenticeship opportunities. Once these contract awards were made, the successful contractors began to take on apprentices in line with the contractual requirement that a percentage of their workforces signed up for apprenticeships. During the period covered by this Report, 94 apprenticeships were created and filled within HS2 Ltd and its contractors.
- 5.3 Typically, these apprenticeships have a duration of one or two years. Many, but not all of these, will culminate in a vocational qualification at the end of the apprenticeship period. The cost of this training and subsequent qualifications is covered by the contractor concerned.
- 5.4 Meanwhile, the National College for High Speed Rail¹ opened in October 2017 and took in its first in-take of students. The college has two campuses: one in Birmingham, which has a digital learning focus, and one in Doncaster, which has an engineering focus.
- 5.5 The National College has been set up to offer industry-focused higher technical skills development which will enable a UK workforce to deliver HS2. It provides vocational training to the next generation of engineers working on HS2.
- 5.6 The National College delivers the specialised training and qualifications needed for high speed rail, which will benefit HS2 and other future infrastructure projects across the country. It offers the necessary technical training to make HS2 a success and ensures it can be built by skilled British workers including rail engineering, environmental skills and construction.
- 5.7 The National College currently has 208 students enrolled in a variety of courses. The first cohort (17 learners) from the College graduated in a Level 4 High Speed Rail and Infrastructure CertHE in July 2018, outside the reporting period.
- 5.8 Given that no apprenticeships had concluded, and that no students had graduated from the National College, during the period covered by this report, there is no account of vocational qualifications to set out in this report at this stage.
- 5.9 Given that no equivalent Phase Two contracts have been let to date, the details under this section currently relate to Phase One and are provided for information.

¹ <https://www.nchsr.ac.uk/>

6. Annex A

Quarterly Forecast of HS2 Expenditure under Preparation Act Budget	Financial Year 17/18 Budget			
	Actual £'000	Budget £'000	Variance £'000	%
A. Design Activity (inc PSC spend)	12,564	6,568	-5,996	-91%
B. Survey & Ground investigation	1,950	13,464	11,514	86%
C. Enabling / advance	757	5,442	4,685	86%
D. Project management	1,513	2,658	1,145	43%
E. Corporate support costs:	5,214	2,301	-2,913	-127%
Total HS2 Ltd	21,998	30,433	8,435	28%
Land & Property capital acquisitions (DfT)				
Phase 1	51,235	0	-51,235	N/A
Phase 2a	19,225	17,417	-1,808	-10%
Phase 2b	23,067	86,883	63,816	73%
Total DfT L&P	93,527	104,300	10,773	10%
Total HS2 Programme	115,525	134,733	19,208	14%