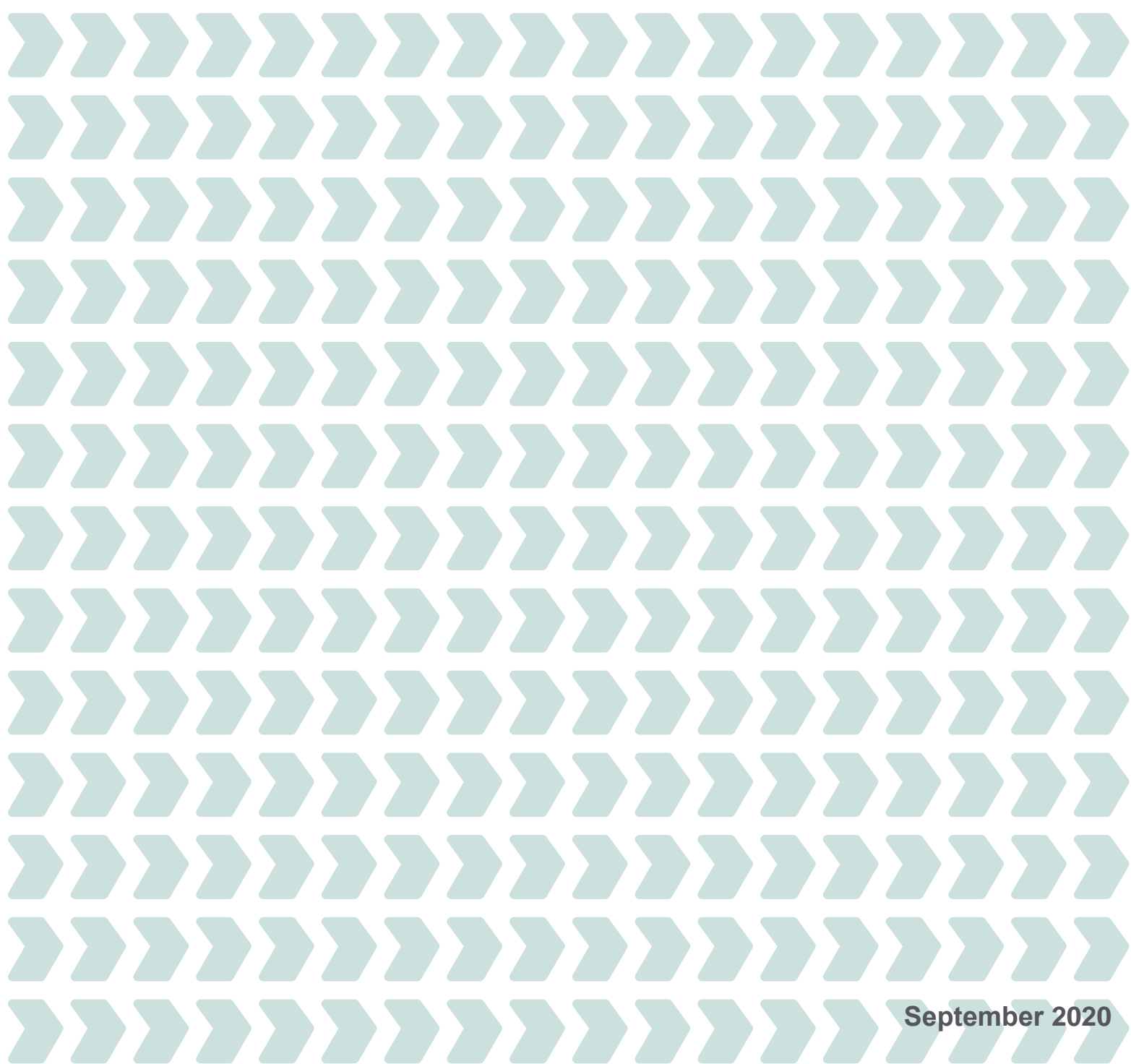




Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2018 - 31 March 2019

Moving Britain Ahead



September 2020

High Speed Rail (Preparation) Act 2013 Expenditure Report

1 April 2018 - 31 March 2019

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

September 2020



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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 2018 to 31 March 2019 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 most Phase One activity going forward. The powers under the Preparation Act continue to be used for some Phase One expenditure.
- 1.4 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).
- 1.5 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 since 2016/17 is made against this 2015 price base. However, the period covered in this report pre-dates the revised funding commitments against the overall programme established in 2020, which set out estimated cost ranges in 2019 prices.
- 1.6 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.
- 1.7 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.
- 1.8 The Preparation Act permits expenditure by the Department for Transport for land and property acquisitions and its associated compensation ahead of gaining Compulsory Purchase Order powers through primary legislation. This expenditure is essential in preparation for a high speed network. The Act also permits expenditure in relation to several non-statutory property compensation schemes which were established by the Secretary of State to support certain property owners meeting scheme requirements living close to the HS2 route and affected by the project.
- 1.9 In addition, expenditure may be incurred where the Secretary of States agrees - at his discretion - to acquire land and property by negotiation, or make a payment outside the statutory and non-statutory schemes in cases where a property owner has special circumstances or an atypical property, or where a property is strategically acquired.
- 1.10 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 2018 to 31 March 2019 was £461.7m against a budget of £451.6m, representing an overspend of £10m or around 2%.
- 2.2 Of the total expenditure, HS2 Ltd spent £233.8m against the budget of £259.3m, an underspend of £25.5m or 10%. DfT spent £227.9m on the acquisition of land and property and associated compensation schemes against a budget of £192.3m, an overspend of £35.6m or 18%. This was due to a re-profiling of expenditure on land on property across future years, which has been offset by an underspend in works. The breakdown of this expenditure is shown at Annex A.
- 2.3 With Phase One receiving Royal Assent on 23 February 2017, expenditure in relation to the compulsory purchase of land or statutory blight cases where land is required for the scheme on that phase of HS2 now falls outside of the scope of the Preparation Act. Preparation Act powers continue to be used in relation to non-statutory compensation property schemes and in relation to properties acquired under the statutory blight regime that are not needed for the project. Total annual expenditure on land and property acquired in connection to the HS2 project is reported in the Department for Transport's Annual Report and Accounts. Total annual expenditure on land and property acquired in connection to the HS2 project is reported in the Department for Transport's Annual Report and Accounts.
- 2.4 The programme assumption for Phase 2a had been that a hybrid Bill would achieve Royal Assent toward the end of 2019. However this assumption has been revisited, with Royal Assent now anticipated during January 2021. This means that there will continue to be work undertaken on the hybrid Bill, and expenditure incurred through the Preparation Act. In respect of Phase 2b, as the Prime Minister announced in February 2020, we are focussing on preparing the Western Leg bill, without prejudicing the outcome of the ongoing development of an Integrated Rail Plan for the Midlands and the North. Decisions on the Eastern Leg will be taken as part of the Plan.
- 2.5 The report also provides a statement on vocational qualifications, providing an update on apprenticeship schemes and the Advanced Transport & Infrastructure National College.

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 2018 to 31 March 2019 on design activity was £155.2m against an annual budget of £183.8m, an underspend of £28.6m or around 16%.
- 3.4 The underspend has been driven by the removal of scope as a result of programme realignment, coupled with early works and main works civils not contracted as per forecast. £13.6m of the overall underspend was caused by delays issuing work orders to Professional Services Contractors following instruction from DfT to defer some elements of scope while they were reconsidered. These deferrals affected HS2 core scope, (Midland Main Line (MML) and Northern Power House Rail (NPR) streams of activity. In addition there was an increase in the anticipated level of NPR work conducted in the year as a component of the whole, these NPR costs ultimately being recharged to DfT by way of separate agreement, reducing HS2 costs by circa £5.4m against budget. A further £2.4m of spend was deferred relating to incentive payments to suppliers as a consequence of not all the necessary KPI targets having been met.

Design Activity (£m)	Actual	Budget	Variance
Capital (C-DEL)	15.2	22.6	7.4
Resource (R-DEL)	140.0	161.2	21.2
Total (T-DEL)	155.2	183.8	28.6

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

- 3.5 The Ground Investigation (GI) programme on Phase 2a has proceeded beyond plan, with increased sites brought forward in the programme.
- 3.6 Expenditure incurred for the period from 1 April 2018 to 31 March 2019 on surveying and ground investigation work was £10.9m against an annual budget of £10.4m, an overspend of £0.5m or around 5%.

Survey & Ground Investigation (£m)	Actual	Budget	Variance
Capital (C-DEL)	10.2	9.4	-0.8
Resource (R-DEL)	0.7	1.0	0.3
Total (T-DEL)	10.9	10.4	-0.5

Enabling Works - Utilities

- 3.7 HS2 Ltd is conducting early preparatory works on utilities across the line of route.
- 3.8 Expenditure for the period from 1 April 2018 to 31 March 2019 on utility works was £4.0m against an annual budget of £8.6m, an underspend of £4.6m or around 53%.
- 3.9 The underspend reflects an overall programme realignment resulting in a rephase of expenditure. Due to delays in finalising design agreements with utility companies due to emerging changes to HS2's design, these delays have not so far impacted any key milestones.

Enabling Works Utilities (£m)	Actual	Budget	Variance
Capital (C-DEL)	0.2	1.4	1.2
Resource (R-DEL)	3.8	7.1	3.3
Total (T-DEL)	4.0	8.6	4.6

Project Management

- 3.10 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.
- 3.11 Expenditure incurred for the period from 1 April 2018 to 31 March 2019 on project management was £18.6m against an annual budget of £18.8m, an underspend of £0.2m or around 1%.
- 3.12 Staff costs for the Phase 2a hybrid Bill team are 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.

<i>Project Management (£m)</i>	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
<i>Capital (C-DEL)</i>	3.2	3.1	-0.1
<i>Resource (R-DEL)</i>	15.4	15.7	0.3
<i>Total (T-DEL)</i>	18.6	18.8	0.2

Corporate Support

- 3.13 HS2 Ltd allocates a percentage of its corporate support costs (including finance and corporate services, procurement and accommodation) across all the types of activity undertaken 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.
- 3.14 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.
- 3.15 Expenditure incurred for the period from 1 April 2018 to 31 March 2019 on corporate support was £45.1m against an annual budget of £37.7m, an overspend of £7.4m or around 20%.

3.16 The overspend was driven by additional land access fees aligned with an increase in survey and GI works. There were also higher IT and facility costs recorded attributable to workforce spend. There have also been changes in recharge methodology applied to the Budget and to Actuals.

<i>Corporate Support (£m)</i>	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
<i>Capital (C-DEL)</i>	14.5	12.3	-2.2
<i>Resource (R-DEL)</i>	30.6	25.4	-5.2
<i>Total (T-DEL)</i>	45.1	37.7	-7.4

Land & Property

3.17 Preparation Act powers apply to all expenditure which relates to the established non-statutory property compensation schemes and other discretionary assistance provided by the Secretary of State for all three phases of HS2. Some expenditure relating to the statutory purchase of land and property continues to be made using the Preparation Act powers, where the Phase One Act does not apply.

3.18 Expenditure on land and property under the Preparation Act broadly come under the following three categories:

- Expenditure relating to the statutory acquisition of land and property that is required to construct or operate HS2. This category of expenditure includes the payment of statutory compensation.
- Expenditure relating to non-statutory property compensation schemes. A number of property compensation schemes have been available for all phases of HS2: Express Purchase, Cash Offer, Voluntary Purchase, Need to Sell and Rent Back. The Homeowner Payment (HOP) scheme is currently available only in relation to Phase One, following Royal Assent of the relevant Bill. The Shimmer Relocation Assistance scheme and Shimmer Cash Offer are available only in relation to a specific estate in Mexborough, South Yorkshire on the Phase 2b route.
- Other discretionary expenditure. Land and property can also be acquired at the discretion of the Secretary of State. This category of expenditure generally involves the early acquisition of commercial property (often at the request of the owner). It is often difficult to accurately estimate completion dates due to the complexity of the deals and the need for negotiation. Expenditure is also incurred where the Secretary of State is persuaded to make an atypical payment in specific cases where a property owner affected by HS2 has special circumstances or owns an atypical property. In such cases, the Secretary of State may agree to acquire the property and/or pay other compensation where the established statutory and non-statutory schemes do not apply, and where it is appropriate to do so.

3.19 Expenditure incurred on land and property under the Preparation Act for the period from 1 April 2018 to 31 March 2019 was £227.9m against an annual budget of £192.3m, an overspend of £35.6m or around 18%. The variance was due to re-profiling of expenditure across future years.

<i>Land & Property (£m)</i>	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
<i>Capital (C-DEL)</i>	<i>227.9</i>	<i>192.3</i>	<i>-35.6</i>
<i>Resource (R-DEL)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Total (T-DEL)</i>	<i>227.9</i>	<i>192.3</i>	<i>-35.6</i>

4. Update on the 2017-18 Expenditure report

- 4.1 The assumptions used to report figures in the 2017/18 Preparation Act report have now been updated, which had resulted in only partial spend figures being recorded, leading to under reporting of spend on Phases One, 2a and 2b. These costs totalled £175.7m. Although these costs have been incorporated in the 2018-19 Annual Report and Accounts issued by the Department and HS2 Ltd, they have also been included in this year's Preparation Act report for transparency.
- 4.2 A further clarification note on expenditure in relation to land and property: the treatment of the home loss payment (one of the components of statutory compensation paid in relation to compulsory purchase and statutory blight cases) and expenditure paid on the possession of land have been reassessed. It has not been possible to identify in expenditure data those home loss payments which have been made in relation to compulsory purchases (which rely on Phase One Act powers), as opposed expenditure following the service of a statutory blight notice which relies on Preparation Act powers. Similarly, advance payments made in relation to the compulsory purchase of land are generally made using Phase One Act powers, but in some cases HS2 Ltd may make a discretionary payment at an earlier stage than the law requires in order to support claimants' cash flow. In the latter case, Preparation Act powers are used. For reporting transparency purposes all such transactions are recorded in this report.
- 4.3 Due to the nature of statutory blight cases, it is not possible prior to the final design/detailed route to determine whether the land being acquired is required for the railway. The report therefore may include expenditure on land required for the railway made using powers under the Phase One Act as this cannot at this stage be disaggregated in expenditure data.

5. Account of Vocational Qualifications

- 5.1 The Preparation Act requires an account of the vocational qualifications gained during the financial year. This account only refers to those attainments in relation to Phases 2a and 2b. All vocational qualifications attained under Phase One are referenced in a separate Vocational Qualification Report issued annually under the vires of the High Speed Rail (London to West Midlands) Act 2017.
- 5.2 Apprenticeship requirements continue to be embedded in the Phase 2a/b contracts, in a similar way to the requirements on Phase One. With the development of Phase 2a/b running behind Phase One, contracts have not been let and there are consequently no vocational qualifications gained in support of Phases 2a and 2b..
- 5.3 Some of the Phase 2a/b training and apprenticeship opportunities will be met through the National College for Advanced Transport and Infrastructure. The College was rebranded from the National College for High Speed Rail in October 2019, as the educational offer has been diversified to support training across the wider transport infrastructure sector.

6. Impact on overspend / underspend of Total budget of £55.7bn in 2015 prices

- 6.1 The Preparation Act stipulates that this report contain details of the likely effect of any overspend or underspend on a total budget (for HS2) of £50.1bn in 2011 prices (which includes construction and the cost of rolling stock). This budget was set at Spending Review 2013 (SR13). Spending Review 2015 (SR15) updated the funding envelope to £55.7bn in 2015 prices. Reporting from 2016/17 is done against the 2015 price base. For the period covered in this report, the variances outlined do not have an impact on the funding envelope established at SR13 and updated at SR15 due to their small magnitude. As stated above, the Government reset HS2 in 2020 and has reset the funding envelope for Phase 1 to be delivered between £35-£45bn (in 2019 prices) and for the whole programme to be delivered between £72-98bn (in 2019 prices), subject to the conclusion of any revised scope emerging from the Integrated Rail Plan.

7. Annex A

HS2 Expenditure against budget under Preparation Act	Financial Year 18/19 Budget			
	Actual £'000	Budget £'000	Variance £'000 %	
A. Design Activity	155,197	183,833	28,636	16%
B. Survey & Ground Investigation	10,870	10,399	-471	-5%
C. Enabling / Advance	3,997	8,564	4,567	53%
D. Project Management	18,597	18,797	200	1%
E. Corporate support costs	45,095	37,663	-7,432	-20%
Total HS2 Ltd	233,756	259,256	25,500	10%
Land & Property capital acquisitions and compensation schemes (DfT)				
Phase 1	129,428	82,095	-47,333	-58%
Phase 2a	23,266	25,913	2,647	10%
Phase 2b	75,210	84,320	9,110	11%
Total DfT L&P	227,904	192,328	-35,576	-18%
Total HS2 Programme	461,660	451,584	-10,076	-2%