



Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2019 - 31 March 2020

Moving Britain Ahead

March 2021

High Speed Rail (Preparation) Act 2013 Expenditure Report 1 April 2019 - 31 March 2020

Presented to Parliament pursuant to The High-Speed Rail
(Preparation) Act 2013 (the Preparation Act)

March 2021



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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 authorised the Secretary of State, with Her Majesty's Treasury's (HMT) approval, to incur expenditure in preparation for High Speed Two ahead of other legislation. The details contained within this report have been informed by High Speed Two Limited.
- 1.2 This annual report is prepared in accordance with section 2 (1) of the Act. It details expenditure from 1 April 2019 to 31 March 2020 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 are relied upon for most Phase 1 expenditure. The powers under the Preparation Act continue to be used for some Phase 1 expenditure and for preparatory work for Phase 2a and Phase 2b.
- 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 was made against this 2015 price base. However, in February 2020 the overall funding envelope for the project was re-set and the price base moved to 3Q 2019, so this and future Preparation Act Reports will report against the 2019 price base.
- 1.6 The High Speed Two programme is sponsored by the Department for Transport (DfT). DfT is the sole shareholder of High Speed Two Ltd, which it supports through delegated annual funding to promote, design and deliver the railway.
- 1.7 HS2 Ltd's budget is set by DfT 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 Secretary of State that is necessary in preparation for a high-speed network, which includes expenditure on land and property schemes and acquisitions. Although the Secretary of State has now acquired Compulsory Purchase Order (CPO) powers for Phase 1 under the Phase 1 Act, there remain some instances where the Secretary of State relies on the Preparation Act to provide authority for expenditure on property schemes and acquisitions for Phase 1. Expenditure on land and property schemes and acquisitions

for Phase 2a and 2b also relies upon the vires of the Preparation Act ahead of the Secretary of State acquiring CPO powers through primary legislation.

- 1.9 Budget information in this report is based on the initial delegations set for activities at the beginning of the financial year, with these budgets set by HS2 Ltd. In accordance with section 1 (1) of the Preparation Act, HMT has approved all expenditure incurred under the Preparation Act.
- 1.10 In line with the Government's commitment to transparency on the HS2 programme, the DfT keeps Parliament updated via the bi-annual HS2 overview report, the first of which was published in October 2020. That report is intended to be the primary way that Ministers use to update Parliament on the entirety of the scheme. This Preparation Act Report only reports on the subset of costs relevant to the Preparation Act.
- 1.11 The numbers set out in the tables below have been rounded to aid legibility. Due to this, they do not always tally.

2. Summary

- 2.1 Total expenditure under the Preparation Act for the period from 1 April 2019 to 31 March 2020 was £466.1m against a budget of £650.8m, representing an underspend of £184.6m or around 28%. This encompasses expenditure by both HS2 Ltd and DfT under the Act's remit.
- 2.2 Of this total expenditure, HS2 Ltd spent £254.0m against a budget of £415.0m, an underspend of £161.0m or 39%. This was primarily due to delays caused by the independent Oakervee Review of HS2, commissioned in 2019, which resulted in a slowdown of expenditure against forecast on preparatory works for Phase 2a and Phase 2b.
- 2.3 DfT spent £212.2m on the acquisition of land and property and associated property schemes against a budget of £235.7m, an underspend of £23.6m or 10%. The variance was due to lower than anticipated expenditure relating to the purchase of land and property for the HS2 project. The breakdown of this expenditure is shown at Annex A.
- 2.4 With the Phase 1 Act 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 Phase 1 now falls outside of the scope of the Preparation Act.
- 2.5 Preparation Act powers, however, continue to be used in relation to non-statutory property schemes and in relation to properties acquired under the statutory blight regime that may be needed for Phase 2a and Phase 2b. Total annual expenditure on land and property acquired in connection to the HS2 project across all categories and Phases is reported in the DfT's Annual Report and Accounts.
- 2.6 The programme assumption for Phase 2a for the period covered in this report 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 sought in early 2021. In respect of Phase 2b, as the Prime Minister announced in February 2020, this is being considered as part of the Integrated Rail Plan to maximise the benefits delivered by transport investment in the Midlands and the North.
- 2.7 This report also provides a statement on vocational qualifications gained in support of Phases 2a and 2b, providing an update on apprenticeship schemes and the National College for Advanced Transport and Infrastructure.

3. Explanation of causes of variances

- 3.1 The independent review of HS2, led by Douglas Oakervee, was announced in August 2019. The review was asked to advise on whether and how the scheme should proceed and was published in February 2020.
- 3.2 Due to the uncertainty around the outcome of the Review, HS2 Ltd paused pre-construction works around various preparation activities for Phase 2a and Phase 2b. This led to a substantial reduction in spend against the previously planned budget in several areas, most notably in enabling works and ground investigation works. This in turn had a cumulative effect on spend in other areas such as corporate support, and land and property acquisition.

4. Expenditure incurred on pre-construction activity for Phase 2a and Phase 2b

Design Activity

- 4.1 Design activity is the process of developing the overall design and specification of the railway. HS2 Ltd utilises professional services contractors (PSCs) to support its civil and systems design specifications, environmental assessments and land referencing.
- 4.2 The table below sets out variances against budget for design activity for Phase 2a and Phase 2b undertaken under the Preparation Act with explanatory notes below the table. Total expenditure incurred for the period from 1 April 2019 to 31 March 2020 on design activity was £173.4m against an annual budget of £222.4m, an underspend of £49.0m or around 22%. (C-DEL is Capital Departmental Expenditure Limit. R-DEL is Resource Departmental Expenditure Limit. T-DEL is Total DEL, being the sum of C-DEL and R-DEL.)

Design Activity (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital (C-DEL)</i>	30.3	49.1	18.9
<i>Resource (R-DEL)</i>	143.1	173.2	30.1
Total (T-DEL)	173.4	222.4	49.0

- 4.3 £30.3m was spent on Phase 2a design activity, an underspend of £18.9m against an annual budget of £49.1m. The underspend was caused by delays to the Royal Assent date for Phase 2a and pause in works related to route connection refinement works around Stone and Crewe.
- 4.4 £143.1m was spent on Phase 2b design activity, an underspend of £30.1m against an annual budget of £173.2m. The underspend was the result of pause in works

caused by the Oakervee Review and led to the shifting of a number of scheduled milestones to a future period.

Surveying and Ground Investigations

4.5 Expenditure incurred for the period from 1 April 2019 to 31 March 2020 on surveying and ground investigation work on Phase 2a and Phase 2b under the Preparation Act was £17.1m against an annual budget of £54.6m, an underspend of £37.5m or around 69%.

Survey & Ground Investigation (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital (C-DEL)</i>	14.8	41.7	26.8
<i>Resource (R-DEL)</i>	2.3	13.0	10.7
Total (T-DEL)	17.1	54.6	37.5

4.6 The underspend recorded against the budget was due to delays experienced through procurement and compound mobilisation of Ground investigations (GI) contractors, coupled with a pause in works due to the Oakervee Review. This resulted in GI works commencing later than scheduled, with a number of activities being deferred to the following calendar year.

4.7 HS2 Ltd continues to work towards the delivery of key GI milestones.

Enabling Works

4.8 HS2 Ltd has continued to conduct early preparatory works on utilities and enabling works across the planned line of the Phase 2a route. Expenditure under the Preparation Act for the period from 1 April 2019 to 31 March 2020 on enabling works was £2.3m against an annual budget of £48.3m, an underspend of £46.0m or around 95%.

Enabling Works Utilities (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital (C-DEL)</i>	2.3	48.3	46.0
<i>Resource (R-DEL)</i>	0	0	0
Total (T-DEL)	2.3	48.3	46.0

4.9 The underspend occurred primarily due to delay of the Royal Assent for Phase 2a and enhanced design work. This resulted in utility diversions and Enabling Works activity being shifted to future periods in line with the revised schedule.

Project Management

4.10 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. Expenditure incurred under the Preparation Act for the period from 1 April 2019 to 31 March 2020 on project management for Phase 2 was £20.2m against an annual budget of £27.1m, an underspend of £6.9m or around 25%.

Project Management (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital (C-DEL)</i>	4.1	6.2	2.1
<i>Resource (R-DEL)</i>	16.2	21.0	4.8
Total (T-DEL)	20.2	27.1	6.9

4.11 A £4.8m underspend was recorded against the original budget due to a freeze in recruitment of additional resources as a result of the Oakervee review, however, all new staff-resourcing issues were managed in line with schedule requirements.

4.12 The overall variance includes a £2.1m underspend which was due to the prolongation of the Phase 2a Hybrid Bill process preventing some Enabling Works.

4.13 The cost of 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.

Corporate Support

4.14 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. Expenditure incurred for the period from 1 April 2019 to 31 March 2020 on corporate support under the Preparation Act was £40.9m against an annual budget of £62.6m, an underspend of £21.7m or around 35%.

Corporate Support (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital (C-DEL)</i>	<i>13.5</i>	<i>14.4</i>	<i>0.9</i>
<i>Resource (R-DEL)</i>	<i>27.4</i>	<i>48.2</i>	<i>20.8</i>
Total (T-DEL)	40.9	62.6	21.7

4.15 The underspend of £21.7m occurred primarily due to the re-allocation of corporate support costs between Phases 1 and 2 based on their relative expenditure against the budgetary assumptions.

4.16 The Oakervee Review also contributed to lower than budgeted spend across support functions as a number of support activities were put on hold until the review was complete.

Land & Property

4.17 Preparation Act powers apply to all expenditure which relates to the established non-statutory property 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 1 Act does not apply. Expenditure incurred on land and property for all Phases for schemes falling under the Preparation Act for the period from 1 April 2019 to 31 March 2020 was £212.2m against an annual budget of £235.7, an underspend of £23.6m or around 10%.

<i>Land and property (£m)</i>	<i>Actual</i>	<i>Budget</i>	<i>Underspend (Overspend)</i>
<i>Capital (C-DEL)</i>	<i>208.1</i>	<i>232.6</i>	<i>24.5</i>
<i>Resource (R-DEL)</i>	<i>4.1</i>	<i>3.1</i>	<i>(1.0)</i>
Total (T-DEL)	212.2	235.7	23.6

4.18 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 where this does not fall under the Phase 1

Act. This category of expenditure includes the payment of statutory compensation.

- Expenditure relating to non-statutory property schemes. A number of property 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 1, 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 proposed Phase 2b route.
- Other discretionary expenditure where 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 accurately to 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.

4.19 The underspend on land and property against budget has been caused by a lower than anticipated number of successful property acquisition applications (applications must meet the scheme qualifying criteria and are demand-led by line of route residents); construction rescheduling, resulting in land and property acquisitions being reprofiled to a later point in the schedule; and time lag between agreeing to the acquisition of a property or business and settling the associated compensation and disturbance claims (which must be evidenced-based and follow established rules).

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 early and future Phase 2a and Phase 2b contracts in a similar way to the requirements on Phase One. HS2 Ltd intends to conduct a survey which will analyse the types and volumes of Vocational Qualifications gained in support of Phases 2a and 2b. The results of the first survey will be published in the Preparation Act Report for financial year 2020-21.
- 5.3 Some of the Phase 2a and Phase 2b 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 of overspend / underspend on Total Programme Budget

- 6.1 The Preparation Act stipulates that this report contains 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. However, In February 2020 the overall funding envelope for the project was re-set and the price base moved to 3Q 2019, so this and future Preparation Act Reports will report against the 2019 price base. The Government reset the funding envelope for Phase 1 to be delivered between £35-£45bn (in 2019 prices). The full Y network is estimated to cost between £72-98bn (in 2019 prices), subject to the conclusion of any revised scope emerging from the Integrated Rail Plan.
- 6.2 For the period covered in this report, the variances outlined do not have a material impact on the funding envelope due to their small magnitude in relation to the estimate for the full scheme.

Annex A: Breakdown of expenditure under the *Preparation Act for Financial Year 2019/20*

HS2 Expenditure against budget under Preparation Act	Financial Year 19/20			
	Actual	Budget	Variance	
	£'000	£'000	£'000	%
A. Design Activity	173.4	222.4	49.0	-22%
B. Surveying and Ground Investigations	17.1	54.6	37.5	-69%
C. Enabling Works	2.3	48.3	46.0	-95%
D. Project Management	20.2	27.1	6.9	-25%
E. Corporate Support	40.9	62.6	21.7	-35%
Total HS2 Ltd	254.0	415.0	161.0	-39%
Land & Property capital acquisitions and compensation schemes (DfT)				
Phase 1	130.2	77.7	-52.5	68%
Phase 2a	26.0	66.7	40.7	-61%
Phase 2b	56.0	91.3	35.4	-39%
Total DfT L&P	212.2	235.7	23.6	-10%
Land & Property CDEL/RDEL Split				
L&P CDEL	208.1	232.6	24.5	-11%
L&P RDEL	4.1	3.1	-1	31%
L&P T-DEL	212.2	235.7	23.5	-10%
Total HS2 Programme	466.1	650.8	184.6	-28%

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

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