



Department
for Transport

High Speed Rail (Preparation) Act 2013 Expenditure Report

1 April 2022 – 31 March 2023

High Speed Rail (Preparation) Act 2013 Expenditure Report

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

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Background

- The High Speed Rail (Preparation) Act 2013 (the Preparation Act) received Royal Assent on 21 November 2013 and authorised the Secretary of State, with His Majesty's Treasury's (HMT) approval, to incur expenditure in preparation for High Speed Two (HS2) ahead of other legislation.
- This annual report is prepared with assistance from High Speed Two Limited (HS2 Ltd) in accordance with section 2(1) of the Preparation Act. It details expenditure from 1 April 2022 to 31 March 2023 incurred under the Preparation Act.
- Whereas this report was produced in winter 2023, it does not take in to account the impact of the Network North announcement on the HS2 project as the report covers costs in financial year 2022-23.
- With the High Speed Rail (London - West Midlands) Bill receiving Royal Assent on 23 February 2017, the powers under that Act (the Phase One Act) are relied upon for most Phase One expenditure.
- With the High Speed Rail (West Midlands - Crewe) Bill receiving Royal Assent on 11 February 2021, the powers under that Act (the Phase 2a Act) are relied upon for most Phase 2a expenditure.
- The powers under the Preparation Act continue to be used to incur expenditure for preparatory works on Phase 2b, including the Phase 2b (Crewe- Manchester) "Phase 2b Western Leg" and HS2 East.
- Expenditure in this report has been broken down by each cost category referred to in section 1(4)(a) to (c) of the Preparation Act, with Resource and Capital expenditure specified separately, in accordance with section 2(2)(a) of the Preparation Act.
- Expenditure on preparatory works which occurred in financial year 2021-22 was predominantly Resource spend. On 20 June 2022, the High Speed Rail (Crewe - Manchester) Bill secured its Second Reading in the House of Commons, which means that spending on the Phase 2b Western Leg beyond this point in time will be treated as Capital spending. Spending which occurred on HS2 East continues to be treated as Resource.
- 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 revised the total estimated budget to £55.7bn in 2015 prices.

Reporting was then made against this 2015 price base. However, in February 2020 the total estimated cost range for the project was re-set and publicised through six-monthly updates to Parliament, with the price base also moving to Q3 2019.

- As indicated in the latest Parliamentary Report (November 2023), reporting progress in 2019 values no longer reflects the significant inflation which has occurred since and the Department intends to work with HM Treasury to update the price base.
- The HS2 programme is sponsored by the Department for Transport (DfT). DfT is the sole shareholder of HS2 Ltd, which it supports through delegated annual funding to promote, design and deliver the railway.
- HS2 Ltd's budget is set by DfT at the start of each financial year for the entirety of its activity, including expenditure authorised by the Preparation Act.
- Section 1(4)(b) of the Preparation Act authorises expenditure by the Secretary of State in acquiring property. Although the Phase One Act and Phase 2a Act allow the Secretary of State to acquire land compulsorily, there remain some instances where the Secretary of State relies on the Preparation Act to provide authority for expenditure on land and property for both Phases One and 2A. Expenditure on land and property for Phase 2b for the period covered by this report relied entirely upon the Preparation Act.
- 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.
- In line with the Government's commitment to transparency on the HS2 programme, the DfT keeps Parliament updated via a six-monthly overview report, the seventh of which was published in November 2023. That report is the primary way that Ministers update Parliament on the entirety of the scheme. This report only reports on the subset of costs relevant to the Preparation Act.
- The numbers set out in the tables below have been rounded to aid legibility. Due to this, they do not always tally.

Summary

Total expenditure under the Preparation Act for the period from 1 April 2022 to 31 March 2023 was £168.1m against a budget of £316.2m, representing an underspend of £148m or around 47%. This incorporates expenditure by both the Secretary of State directly and HS2 Ltd on the Secretary of State's behalf.

Of this total expenditure, HS2 Ltd spent £124.8m against a budget of £128.5m, an underspend of £3.6m or 3%. This was primarily due to delays in awarding contracts for ground investigation works, which were caused by uncertainty surrounding the outcome of the Spring Budget, slower than anticipated design activity, and reduced spending on the High-Speed Rail (Crewe – Manchester) Bill.

For the purposes of this report, spending on Phase 2b has been broken down into HS2 Phase 2b Western Leg and HS2 East. Of that, the total spent on Phase 2b Western Leg was £114.8m against a budget of £123.3m, which is an underspend of £8.5m or 7%. As already highlighted, spending on the Phase up until June 2022 has been treated as Resource, whilst spending beyond this point as Capital. The breakdown between the two is £24.2m (Resource) and £90.5m (Capital). For simplification purposes, these figures have been consolidated into a single total. The total spend on HS2 East was £9.9m against a forecast of £5.1m which represents an overspend of £4.8m or 95%.

The Secretary of State spent £43.3m on the acquisition of land and property and associated property schemes against a budget of £187.7m, an underspend of £144.4m or 77%. The variance was due to slower than anticipated progress on a number of key property acquisitions. The breakdown of this expenditure is shown at Annex A.

With the Phase One and Phase 2a Acts receiving Royal Assent on 23 February 2017 and 11 February 2021 respectively, expenditure in relation to the compulsory purchase of land (including by way of statutory blight notices) for Phase One and Phase 2a now falls outside of the scope of the Preparation Act.

The Preparation Act, however, continues to be used to authorise expenditure in relation to non-statutory property schemes and in relation to properties acquired under the statutory blight regime for 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, covering financial year 2022-23.

This report also provides a statement on vocational qualifications gained in support of Phases 2a and 2b.

Most of the property acquired under the non-statutory property schemes will not be required for the railway and will in due course be sold, meaning much of this expenditure on these properties will eventually be recovered. Following the cancellation of Phase 2b, property acquired under statutory blight that is no longer required will also be sold. As stated in the latest six-monthly update to Parliament published in November 2023, the Department is currently developing the programme for selling land acquired for HS2 that is no longer needed.

The Department will develop this programme carefully to ensure it delivers value for money for taxpayers and does not disrupt local property markets. Further, the Department will engage with the communities and individuals who are affected throughout this process. More details will be set out in due course.

Impact of Network North

On 4 October 2023, the Prime Minister announced Network North – this Government’s transport investment vision to drive better connectivity across the North, the Midlands, and the country.

As part of the announcement, the Government terminated all HS2 Phases north of Birmingham, redirecting £36bn of investment towards improvements across rail, buses, and roads.

The impact of the cancellation of Phases 2a and 2b on future Preparation Act Reports is still being assessed.

Expenditure incurred on pre-construction activity for Phase 2b

Design Activity

Design activity is the process of developing the overall design and specification of the railway. HS2 Ltd utilises professional services contractors to support its civil and systems design specifications, environmental assessments and land referencing.

The tables below sets out variances against budget for design activity for Phase 2b undertaken under the Preparation Act with explanatory notes below the table. The total Phase 2b expenditure incurred for the period from 1 April 2022 to 31 March 2023 on design activity was £73.6m against an annual budget of £77.3m, an underspend of £3.6m or around 5%.

Phase 2b Western Leg

Design Activity (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital and Resource</i>	66.6	73.6	7
Total	66.6	73.6	7

HS2 East

Design Activity (£m)	Actual	Budget	Underspend (Overspend)
<i>Resource</i>	7	3.7	(3.4)
Total	7	3.7	(3.4)

The underspend was driven predominantly by an overall reduction of programme development costs associated with the High Speed Rail (Crewe - Manchester) Bill. This reduction was partly offset by higher project and design management cost. These in turn were driven by continued support for parliamentary petition management activities, and Professional Services Consultants, instructed to study potential changes to the scope which could have had an impact on the overall design of the route.

Surveying and Ground Investigations

Ground investigation (GI) is the examination and study of the soil, rocks and groundwater below the surface. Data from GI ensures that the contractors designing and building the main works can do so safely, economically and efficiently.

The combined expenditure incurred for the period from 1 April 2022 to 31 March 2023 on surveying and ground investigation work on Phase 2b under the Preparation Act was £0.5m against an annual budget of £1.7m, an underspend of £1.1m or around 65%.

Phase 2b Western Leg

Survey & Ground Investigation (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital and Resource</i>	<i>0.5</i>	<i>1.7</i>	<i>1.1</i>
Total	0.5	1.7	1.1

The underspend occurred primarily due to delays in awarding GI contracts and scope changes associated with Phase 2b Western Leg, driven by uncertainties around the outcome of the Spring Budget 2023. No costs were incurred for HS2 East.

Project Management

Project management is the discipline of planning, organising and controlling the deployment of available resources to deliver necessary objectives. Its purpose is to ensure HS2 Ltd's design, preparatory works and construction programme are integrated, scheduled and resourced to meet the expected timetable.

Expenditure incurred under the Preparation Act for the period from 1 April 2022 to 31 March 2023 on project management for Phase 2b was £12.7m against an annual budget of £16.4m, which represents an overspend of £3.7m or around 23%.

Phase 2b Western Leg

Project Management (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital and Resource</i>	12.1	15.5	3.4
Total	12.1	15.5	3.4

HS2 East

Project Management (£m)	Actual	Budget	Underspend (Overspend)
<i>Resource</i>	0.5	0.9	0.3
Total	0.5	0.9	0.3

The recorded underspend was due to lower than anticipated workforce costs, caused by the delayed entry of the High Speed Rail (Crewe - Manchester) Bill to the hybrid bill committee.

Corporate Support

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 2022 to 31 March 2023 on corporate support under the Preparation Act was £37.9m against an annual budget of £33.1m, an overspend of £4.8m or around 15%.

Phase 2b Western Leg

Corporate Support (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital and Resource</i>	35.6	32.6	(3)
Total	35.6	32.6	(3)

HS2 East

Corporate Support (£m)	Actual	Budget	Underspend (Overspend)
<i>Resource</i>	2.3	0.5	(1.8)
Total	2.3	0.5	(1.8)

Corporate support costs exceeded the budget due to increased program activity throughout the year, resulting in a larger portion of cost allocations.

Land & Property

Expenditure incurred on land and property for all Phases of HS2 under the Preparation Act for the period from 1 April 2022 to 31 March 2023 was £43.3m against an annual budget of £187.7m, an underspend of £144.4m or around 77%.

Land and property (£m)	Actual	Budget	Underspend (Overspend)
<i>Capital</i>	41.8	187.2	145.4
<i>Resource</i>	1.4	0.4	1.0
Total	43.3	187.7	144.4

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

- Expenditure relating to the acquisition of land following the service of a valid blight notice where powers of compulsory acquisition in the relevant hybrid Bill have not yet come into force.
- Expenditure relating to non-statutory property schemes, such as Express Purchase, Cash Offer, Voluntary Purchase, Need to Sell and Rent Back. The Homeowner Payment is currently available only in relation to Phase One and Phase 2a. The Shimmer Relocation Assistance scheme and Shimmer Cash Offer are available only in relation to a specific estate in Mexborough, South Yorkshire.
- Other discretionary expenditure, which 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 exercises discretion to acquire a property and/or make a payment where a landowner has special circumstances or owns an atypical property.

The underspend on land and property against budget was driven by deferral of early acquisition of commercial property pending the conclusion of the Integrated Rail Plan and a lower than anticipated number of blight claims reaching completion within the year.

Account of Vocational Qualifications

Section 2(3) of the Preparation Act requires an account of the vocational qualifications gained during the financial year by individuals employed to carry out activities in connection with preparing for, and constructing, the HS2 network.

All vocational qualifications attained in connection with Phase One are referenced in a separate Vocational Qualification Report issued annually under section 66(1) of the Phase One Act.

For reporting purposes, vocational qualifications associated with Phases 2a and 2b and gained during the financial year will be included in the Vocational Qualification Report for Phase One covering the period between 1 April 2022 – 31 March 2023. The Secretary of State's view is that this complies with the requirements to report under the Preparation Act.

A detailed assessment of the impact of the cancellation of Phase 2a, Phase 2b WL, and HS2 East on VQs has not yet been carried out.

Impact of overspend / underspend on Total Programme Budget

Section 2(2)(c) of 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). As noted at paragraph 1.8 above, the total estimated cost range for the project was re-set and publicised through six-monthly updates to Parliament, with the price base also moving to Q3 2019.

For the period covered in this report, the variances outlined above do not have an 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 2022-23

HS2 Expenditure against budget under Preparation Act	Financial Year 21/22			
	Actual	Budget	Variance	
	£'000	£'000	£'000	%
A. Design Activity	73.6	77.3	3.6	-5%
B. Survey & Ground investigation	0.5	1.7	1.1	-65%
C. Enabling / Advance	0.0	0.0	0.0	0%
D. Project Management	12.7	16.4	3.7	-23%
E. Corporate support costs	37.9	33.1	-4.8	15%
Total HS2 Ltd	124.8	128.5	3.6	-3%
Land & Property capital acquisitions and compensation schemes (DfT)				
Phase 1	20.5	73.5	53.0	-72%
Phase 2a	2.3	11.1	8.8	79%
Phase 2b	20.5	103.1	82.6	-80%
Total DfT L&P	43.3	187.7	144.4	-77%
Total HS2 Programme	168.1	316.2	148.0	-47%

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

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