



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Transport and HS2 Ltd

Investigation into land and property acquisition for Phase One (London – West Midlands) of the High Speed 2 programme

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Investigation into land and property acquisition for Phase One (London – West Midlands) of the High Speed 2 programme

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 13 September 2018

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

12 September 2018

HS2 Ltd's programme to acquire the land and property it needs to build and operate the high speed railway is a vital part of the overall programme. We received correspondence raising concerns about HS2 Ltd's estimate of the cost of acquiring land and property, and its capability and capacity to manage the programme.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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The National Audit Office study team consisted of:
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This report can be found on the National Audit Office website at www.nao.org.uk

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What this investigation is about

1 High Speed 2 is a programme to construct a new high speed railway between London Euston, and Leeds and Manchester, splitting to form a Y-shape in the West Midlands. This investigation is about Phase One of the programme, which is to construct the railway between London and the West Midlands. HS2 Ltd is preparing its full and final business case for approval in 2019. Phase One is scheduled to open in 2026.

2 In order to build Phase One of the railway, the government will need to acquire approximately 70 square kilometres (more than 17,000 acres) of land along the route of the railway. HS2 Ltd estimates that it will have to compensate between 6,000 and 10,000 claimants who have land and property interests affected by the route, including property owners, leaseholders and tenants, and issue and process up to 50,000 compulsory purchase notices between 2017 and 2023. HS2 Ltd, on behalf of the Secretary of State, also offers a range of discretionary schemes that enable some property owners not on the main route of the railway to apply either for compensation or for the government to buy their property.

3 We received correspondence from a number of individuals concerned about HS2 Ltd's land and property programme. They raised concerns with us that:

- HS2 Ltd had understated the property cost estimate, including in information provided to Parliament with deposit of the hybrid Bill for Phase One;
- governance and assurance around the estimate and the land and property function was weak and that HS2 Ltd did not have the capability or capacity to deliver the land and property acquisition programme; and
- HS2 Ltd was failing to make payments to landowners on time.

4 In response we investigated:

- how HS2 Ltd developed its estimate of the cost to acquire the land and property required to build Phase One of High Speed 2, and how it communicated this to Parliament;
- HS2 Ltd's capability to produce robust estimates of the cost of land and property and to acquire the required land; and
- HS2 Ltd's performance to date in acquiring land and property.

5 We last reported on progress across the High Speed 2 programme as a whole in June 2016. This report does not cover aspects of the High Speed 2 programme other than the land and property acquisition programme, such as the overall position on costs, schedule, the latest business case for the programme and preparations for delivery of the programme's benefits. We intend to return to look at the broader programme in the future.

Summary

Key findings

1 The estimated cost to acquire land and property for Phase One has increased significantly since the start of the programme. In 2012, HS2 Ltd's estimate of the net cost (cost after resales¹) to acquire land and property that supported its first baseline cost and delivery plan was £1,120 million in 2011 prices. By 2013, around the time the hybrid Bill was deposited, this had increased to £1,608 million (2011 prices). The most recent estimate in 2017 was £3,295 million (2015 prices). For the purposes of budget setting, HS2 Ltd and the Department for Transport (the Department) apply a contingency provision to these estimates to cover the cost of uncertainty and assessed risks, should they materialise. For the 2015 Spending Review, HM Treasury approved an overall funding package of £27,180 million for Phase One (2015 prices), including £4,316 million for land and property. This £4,316 million included £878 million of contingency (paragraphs 2.6 and 2.16).

2 The estimate has increased for a range of reasons, such as scope increases and the introduction of additional compensation schemes. We have been able to identify a number of drivers of increases in the cost estimate. For example, since the start of the programme, including through public consultation and the parliamentary process, there have been significant additions to the scope of the programme, such as additional junctions and route changes. These changes have resulted in an increase in the amount and type of property required, and therefore the cost to acquire the property needed has increased by approximately £175 million (2011 prices). In 2010, 2013 and 2015, the Secretary of State introduced discretionary compensation schemes designed to enable property owners to claim compensation if they or their property are affected by High Speed 2, but are not on the route itself. On current estimates, the schemes have increased costs by around £241 million (net after resales, 2015 prices). Other changes include a shift in the price basis for cost estimation from 2011 to 2015 prices, an increase in the area of land to be acquired from around 25 square kilometres to around 70 square kilometres when the basis for the estimate changed from a uniform 120 metre corridor on the proposed route to a more detailed understanding about the specific properties required (paragraphs 2.7 to 2.16).

¹ Unless otherwise stated, all cost estimates quoted in this report are net of resales that HS2 Ltd plans to make once construction of Phase One is complete, and any income that HS2 Ltd might generate from management of property it holds.

3 HS2 Ltd’s estimate of the cost to acquire land and property has improved, and now provides a reasonable basis for monitoring the cost of the property acquisition programme. Since 2009, HS2 Ltd has used the services of property consultants to produce estimates of the cost to acquire land and property for Phase One. In 2016, in the run-up to the hybrid Bill gaining Royal Assent in February 2017, HS2 Ltd commissioned its consultants to carry out its most detailed estimate to date. This involved six firms working in regions to produce estimates of property costs, and was based on a more developed understanding of the likely route of the railway and scope of the programme. Prior to this, HS2 Ltd instructed its consultants to produce estimates based on a set of assumptions, and the limited amount of information available, that reflected the earlier stage of the programme’s maturity. HS2 Ltd’s approach has been to develop its estimates in line with the maturity of the design. To ensure value for money, this needs to be balanced against the costs of attempting to estimate to a greater level of detail prior to having statutory powers. HS2 Ltd did not consider it useful to create a detailed cost estimate prior to Royal Assent being granted because the Bill process would result in significant changes, which it did, and because it would not have powers of access to properties to carry out detailed valuations until after Royal Assent had been granted (paragraphs 2.5, 2.8 to 2.10 and 2.14 to 2.16).

4 HS2 Ltd forecasts that costs will remain within available funding, but it is still very early in the property acquisition programme. As at July 2018, HS2 Ltd was forecasting that the cost to acquire land and property would be £3,356 million. This was £308 million less than its budget of £3,664 million, which includes £369 million of contingency to manage risks. This forecast is based on a combination of HS2 Ltd’s estimate of the cost to acquire property, and a small number of more detailed valuations of specific properties and claims that have been received. As of the end of July 2018, HS2 Ltd has spent £1,710 million on land and property for Phase One. HS2 Ltd has acquired 492 properties via various acquisition schemes and commercial agreements for around £881 million, and 165 via compulsory purchase, for around £829 million. A high proportion of the properties acquired under compulsory purchase powers to date are higher value commercial properties in London. The early stage of the programme means that there remains significant uncertainty about what the final cost will be. There is potential for further changes to the scope of the programme, and therefore the amount of land required, the number of property owners that will apply for compensation under discretionary schemes is uncertain, and the final settlement value of almost all properties, including some high value properties, has not yet been decided (paragraphs 2.22 to 2.24, and 3.11).

5 The Department deposited an estimate of the cost to acquire land and property, and a list of the property it expected to acquire, with the hybrid Bill, as required by Parliament. The government submitted an estimate of likely expenditure on Phase One of the programme (the 'Estimate of Expense'), including an estimate of the cost to acquire land and property. The Estimate of Expense stated that the estimate for land and property was £2,788 million in 2011 prices, including a provision for risks should they emerge. Subsequently, the Department submitted estimates of expense that resulted from Additional Provisions (changes to the proposed scope of the programme) to the hybrid Bill. The Department also issued the 'Book of Reference' setting out all the land and property it could require for construction and operation of the railway, so that people affected could decide whether to petition Parliament. Parliament did not require the Estimate of Expense to be based on the Book of Reference, and Parliament did not specify the level of maturity it required of the Estimate of Expense (paragraphs 1.11 to 1.13 and 2.11 to 2.13).

6 The property acquisition programme is currently on track but there is a long way to go and risks remain. At this early stage in the delivery of Phase One, HS2 Ltd is on track to gain access to the land it needs to carry out surveys for the construction of the railway, and possession of land required for construction work to start. HS2 Ltd's compulsory purchase powers were granted in February 2017 and run out in February 2022 but, to date, only 165 properties have been acquired via these powers. There are significant risks to the success of the acquisition programme, which HS2 Ltd has identified and is taking steps to manage. For example, substantial changes to the scope of the programme, or the engineering methods used by contractors, could significantly change the land that is required, which could impact the overall construction schedule (paragraphs 1.6, 1.12 and 3.11 to 3.13).

7 HS2 Ltd's land and property team has become better established since 2015. Prior to 2015, HS2 Ltd's land and property function did not have a clear approach to managing land and property acquisition and had a number of changes in leadership. During 2015, HS2 Ltd began work to increase the capacity and capability of the land and property function. It focused on establishing clear processes for acquiring property and handling compensation claims, increasing the size of the land and property team to manage the acquisition process, and developing IT systems to enable it to manage the caseload of acquisition and compensation more effectively. In 2016, HS2 Ltd established the Land and Property Board, chaired by the company's finance director, to approve purchases and provide governance for the acquisition programme. The land and property team currently has 17 out of 133 positions vacant (paragraphs 3.4 to 3.10).

8 Only half of advance payments to claimants have been completed within the required three-month period from HS2 Ltd receiving a claim request. Under compulsory purchase, HS2 Ltd is required to pay claimants 90% of HS2 Ltd's valuation of the property within three months of receiving a claim, or the date of possession, whichever is later. The remainder is then paid upon agreement of the final value of the property. Between March 2017 and August 2018 payments have been later than the three months or forecast to be later in 52 out of 108 cases. HS2 Ltd has analysed the causes of delays. It considers that in 35 cases, the main reason is that claimants have not provided the required information in a timely manner. HS2 Ltd considers that the remaining 17 cases have been caused, at least in part, by HS2 Ltd (paragraphs 3.14 to 3.15).

Concluding remarks

9 It is understandable that concerns have been raised with us about HS2 Ltd's land and property acquisition programme given that it affects so many individuals and businesses. Although HS2 Ltd has made efforts to improve its land and property function since 2015, there is work to be done to support claimants to receive timely compensation where they are due an advance payment.

10 While HS2 Ltd's estimate of the cost of land and property has increased significantly over time, cost estimates, particularly in this sort of major land acquisition programme, are inherently uncertain and subject to change as more information becomes known about both the design and operation of the railway, and the nature of the land and properties required. HS2 Ltd's current estimate is within its agreed funding envelope from HM Treasury and provides a reasonable basis from which it can monitor the potential cost to compensate property owners and tenants affected by the construction of the railway. However, it is still very early in the property acquisition programme and too soon to determine with certainty what the final outturn will be.