

Approach to HS1 Stations Periodic Review

Moving Britain Ahead

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Executive summary

- 1 This document sets out our approach to the HS1 Stations Periodic Review, the contractual basis for the review, the key inputs required and the steps to be taken leading to us publishing a draft decision which will be subject to consultation in June 2019.
- 2 High Speed 1 (HS1) connects London St Pancras to the UK Channel Tunnel. International and domestic passenger and freight services currently operate on the route.
- 3 HS1 Ltd is the company that holds a concession from the Secretary of State for Transport to operate, maintain and renew the HS1 network. Similarly, under the HS1 Leases HS1 Ltd. is required to operate, maintain and renew the four stations on the route at London St Pancras International, Stratford International, Ebbsfleet International and Ashford International.
- 4 Under the HS1 Leases train operating companies (TOCs) using HS1 are required to pay a Long Term Charge (LTC) to cover the costs of maintenance and renewal. The purpose of the HS1 stations periodic review is to determine these charges.
- 5 Our role is to approve HS1 Ltd.'s Asset Management Strategy (AMS) and Life Cycle Reports (LCRs) which determine any changes to the LTC agreed between HS1 Ltd and the TOCs through the periodic review process. These have to be submitted by HS1 Ltd. no later than 30 June 2019.
- 6 We have procured technical support to assist us in undertaking our review, and to work with HS1 Ltd, its advisers and stakeholders in preparing the AMS and LCRs. There will be three main phases to this work:
 - A familiarisation and development phase looking at the outcome and lessons learned from the previous stations periodic review completed in 2014.
 - Reviewing proposed AMS and LCRs to support the production of formal draft LCRs for submission.
 - An assessment of the draft LCRs against number of criteria set out in the HS1 Leases, which builds to the point following formal submission where we are required to respond indicating whether we do or do not approve the LCRs, and if not, to state the reasons for not approving these.
- 7 Following a consultation period starting in June 2019, our final decision on the stations review will be made no later than 31 August 2019 with new charges commencing with the next 5 year control period (CP3) from 1 April 2020.

1. Background

- 1 This document sets out background information on HS1 Ltd and on the Stations Periodic Review process, including the contractual basis for conducting station periodic reviews. It also sets out what is required of the review, how we will approach the stations periodic review, and the steps to be taken leading to the publication of a consultation on our draft decision in 2019.

The HS1 Network

- 2 HS1 Ltd was awarded a 30 year Concession Agreement in 2010 by the Secretary of State (SoS) for Transport to operate and maintain the high speed route (infrastructure and stations) from St Pancras International in London to the Channel Tunnel boundary (108km). The SoS remains the freeholder of the route including the International Stations at St Pancras, Stratford, Ebbsfleet, and Ashford.
- 3 International services are currently operated by Eurostar, travelling direct to France and Belgium. Domestic services began in December 2009, operated under a UK franchise agreement by Southeastern railway and stopping at all the stations on the high-speed line as well as on the classic railway network at stations in north Kent. Freight services have been developing on the route since 2011, and in recent years there have been between 400 and 700 services a year, mostly operating at night.
- 4 The Office of Rail and Road (ORR) regulates the track and infrastructure on the route. The Department for Transport (DfT), regulates the international stations through an appointed Government Representative, acting on behalf of the SoS.

HS1 Ltd

- 5 The primary business of HS1 Ltd is to provide high-speed rail access to domestic and international passenger rail and international rail freight services. HS1 Ltd's revenue comes from access charges which are paid by train operators to use HS1 Ltd's track and stations. HS1 Ltd also receives income, which is not regulated, through its retail facilities and car parking at stations. Unlike Network Rail Infrastructure Ltd (NRIL), HS1 Ltd does not receive any government grant.
- 6 The Concession Agreement sets out the terms of the agreement between HS1 Ltd and the Secretary of State for Transport, who owns the HS1 railway infrastructure. This includes the charging framework, minimum operational standards including proper asset stewardship, protections against termination and protection from material adverse changes.
- 7 The HS1 Station Leases¹; separate documents to the Concession Agreement, set out the terms of the agreement between HS1 Ltd and the SoS in respect of the four

¹ Ashford International is contained within a separate lease

HS1 network stations, including the rights and obligations of both parties.

- 8 Many of the functions which HS1 Ltd must perform as infrastructure manager for the International stations at St Pancras, Stratford and Ebbsfleet (such as station operation and maintenance) are contracted out to Network Rail (High Speed) (NR(HS)), a wholly-owned subsidiary of NRIL. At Ashford International station these functions are contracted out by HS1 Ltd to Mitie. The relationship between HS1 Ltd and NR(HS) is governed by St Pancras and Intermediate Stations Concession Agreements, which are commercial agreements between the parties and not subject to any regulatory approval or scrutiny.

DfT's role in regulating HS1

- 9 International train operators and domestic train operators pay a long term charge (LTC) to use the stations to cover the costs of maintenance and renewal. This is an annuity to deliver the 50 year renewals plan. These charges are determined every 5 years as part of a Control Period review. Our role is to approve the Asset Management Strategy (AMS) and Life Cycle Reports (LCRs) submitted by HS1 Ltd which determine any changes to the LTC agreed between HS1 Ltd and train operating companies (TOCs).
- 10 We will be considering and challenging the inputs into the financial models submitted by HS1 Ltd which will be generating the output of the model in terms of the LTC for the Control Period. We have to ensure that each station shall be in good and substantial repair and condition during the whole Life Cycle Period.
- 11 As required by the Leases, HS1 Ltd is preparing its AMS and LCRs for each International Station, which will be formally submitted to the Government's Representative 9 months prior to the end of Control Period 2; the latest date for submission is 30 June 2019. Within two months of the date of receipt of the formally submitted LCRs, the Government Representative is required to provide HS1 Ltd with a written response to the submission, indicating:
- Whether the Government Representative does or does not approve the LCRs; and
 - If the Government Representative does not approve the LCRs, to state the reasons for not approving these
- 12 We have procured technical support to provide specific advice to allow us to discharge our responsibilities for the stations periodic review. These technical advisers will work with us, HS1 Ltd, its advisers and other stakeholders in providing evidence to the Government Representative to allow them to assess the LCRs and approve changes to the LTC.
- 13 The review of the LCRs will include:
- Works undertaken in the previous control period and costs incurred
 - Forecast life cycle works in respect of CP3 and the remainder of the Life Cycle Period
 - Deferrals of works to later review periods
 - Distribution of Life Cycle Works Savings, identifying any impact on the LTC
 - Adjustments to Available Life Cycle Funds

- Description of arrangements between HS1 Ltd and TOCs to modify the LTC
- Modifications to the Asset Management Strategy and the Life Cycle Budget
- General areas as may reasonably be required by the Government
Representative, for example evidence of benchmarking to assure industry good practice is being applied.

2. The HS1 Stations Periodic Review

Purpose of this document

- 14 Pursuant to paragraph 5.3 of Schedule 10 of the HS1 Station Leases, this document sets out our approach and timing for the CP3 review of the four international railway stations on the HS1 network which form part of the HS1 Concession.
- 15 This document also includes information on the end to end process for the CP3 stations review, including information on the next steps following the publication of this approach document.
- 16 Unlike the ORR, who have published their initial consultation on PR19, we are not required under the Concession Agreement or Schedule 10 of the Station Lease to undertake a consultation on our approach to the stations periodic review at this stage.
- 17 However, once we have reviewed the life cycle reports for the four international stations we will publish a consultation on our draft decision on the proposed changes to the LCRs in September 2019.
- 18 Additionally, as HS1 Ltd is not funded directly by government, there is no High Level Output Specification (as there is for the national network) in which government specifies the outputs to be delivered over the next control period. Neither is there a Statement of Funds Available issued in which government specifies the funds available to NRIL to deliver the specification.

Previous periodic reviews

- 19 The 2014 Periodic Review of HS1 Ltd (“PR14”) was the first periodic review of HS1 Ltd ([link to DfT website](#)). PR14 set some of the elements of HS1 Ltd’s access charges, the outputs which HS1 Ltd was required to deliver, and the efficient cost for delivering these outputs during CP2, which runs from 1 April 2015 to 31 March 2020. PR14 also established the ‘regulatory framework’ for CP2. This included the financial framework within which HS1 Ltd operates and the incentives that act on both it and train operators to deliver and outperform against that determination.
- 20 The 2019 Periodic Review (“PR19”) will be the second review covering CP3, which runs from 1 April 2020 to 31 March 2025. It will deliver the same outputs as PR14 but decisions will be taken in a different context as the stations are five years older.

Scope of the review

- 21 The scope of the review is determined by the arrangements set out in the key reference points: the Concession Agreement, and the HS1 Leases.
- 22 HS1 Ltd is required to submit Life Cycle Reports for each of the four HS1

international stations based on Asset Management Strategies over the life of the next Control Period. We will then assess whether the AMS and LCRs comply with the requirements set out in Annex 1 to Schedule 10 of the Lease, before providing our approval. This will include ensuring any change to the Long Term Change has been agreed with operators. These requirements are included at Annex B for reference.

Exclusions from scope

- 23 Qualifying expenditure (Qx) is excluded from the scope of the periodic review. Qx is the expenditure associated with the costs and expenses reasonably incurred by HS1 Ltd through providing and procuring amenities and services (this means services specific to stations; not train services) at its stations, including the operation of the station itself.
- 24 Qx is calculated by HS1 Ltd on an annual basis, in consultation and negotiation with the TOCs which use its stations. Qx is calculated in accordance with the provisions set out in the [HS1 Station Access Conditions](#) and [annexes](#) specific to each HS1 station.
- 25 This review does not cover the track or 'route' aspect of the HS1 network. The route itself is subject to periodic review by the [Office of Rail and Road](#) ("ORR") on a five-yearly basis, as set out in the Concession Agreement. The ORR has no oversight or approval role in the stations review. However, we are in regular contact with ORR to discuss their approach to the review and to identify the need for commonality of assumptions and points of potential overlap. There are regular tripartite discussions with the ORR, HS1 Ltd and ourselves to ensure both the route and station periodic reviews align. Additionally, the ORR do have a role in the station performance regime.
- 26 This review does not cover HS1 Ltd's other income streams from its stations portfolio, including income from retail, advertising or car parks at stations. These income streams are unregulated, and not subject to scrutiny by either us or the ORR.

Background to the review

- 27 The HS1 Station Leases requires HS1 Ltd to produce Life Cycle Reports ("LCRs") for each of the four HS1 network stations in advance of each of HS1 Ltd's five-year control periods. HS1 Ltd's Control Period 3 ("CP3") will run from 1 April 2020 until 31 March 2025. The contents of each LCR as required by the HS1 Station Leases are set out in Annex A to this document. As well as meeting those content requirements, HS1 Ltd must also achieve the Life Cycle Purpose for each station.
- 28 The Life Cycle Purpose (paragraph 2.1 to Schedule 10 of the HS1 Station Leases) is defined as "to ensure that each Station shall be in good and substantial repair and condition during the whole of the Life Cycle Period". The Life Cycle Period is defined in the HS1 Station Leases as "the period of fifty (50) years commencing on 1 April 2011" (Schedule 10 of the HS1 Station Leases, definitions). This is the approach that was used for the CP2 review.
- 29 However, for future reviews including PR19, we have discussed with HS1 Ltd the feasibility of taking an approach to the Life Cycle Period that is consistent with the approach required by the Concession Agreement in respect of periodic reviews for the route element of the HS1 network. This would mean that, instead of a fixed end date of 1 April 2061, HS1 Ltd would adopt a rolling 40-year view in terms of achieving

the Life Cycle Purpose. In practice, this means that, at each periodic review for the HS1 stations for the duration of the concession, HS1 Ltd will act as if it is retaining the concession for a further 40 years. We believe that this approach potentially presents the best option for ensuring asset stewardship of the HS1 stations and achieving the Life Cycle Purpose. This option will be explored fully as part of our review, and if change are recommended any new proposals will be consulted on at the appropriate stage.

Role of DfT and the Government Representative

- 30 Under the terms of the HS1 Station Leases, We are required to approve the LCRs for each of HS1 Ltd's five-year control periods. Under the HS1 Station Leases, the SoS may appoint a Government Representative, defined as "such person(s), firm(s) or company(ies) that the Secretary of State may appoint to be his representative(s) or any substitute as may be appointed from time to time pursuant to paragraph 4.1² of the Concession Agreement." (Schedule 10 of the HS1 Station Leases, definitions).
- 31 Paragraph 4.1 of the Concession Agreement states "The Secretary of State may appoint, from time to time after giving prior notice to HS1 Co³, the Government's Representative (or more than one) to be his representative (or representatives) in relation to the HS1 Concession and in relation to the obligations of HS1 Co as a network provider of HS1. Without limiting the Secretary of State's obligations in respect of such matters, HS1 Co agrees that each Government's Representative shall carry out or exercise in respect of this Agreement such of the functions, duties, rights and obligations of the Secretary of State under this Agreement as the Secretary of State may notify to HS1 Co from time to time. The Secretary of State shall give to HS1 Co notice of his intention to change the Government's Representative (or any of them), of the identity of the Government's Representative (and if more than one then of each of them), and of the date upon which that change shall have effect."
- 32 Paragraph 5.3 of Schedule 10 of the HS1 Station Leases provides that the Government Representative must, within two months of the date of receipt of the LCRs, indicate whether they approve or reject the LCRs and, if the LCRs are rejected, the reasons for this.

² Which relates to the Government Representative

³ Namely, HS1 Ltd.

3. Our proposed approach

Key inputs

- 33 The important inputs to the review are the AMS and LCRs and any supporting information (such as its business strategy and overall vision or any commercial strategy). This, alongside any other relevant information provided by stakeholders during consultation, will be the evidence base for taking decisions. It is therefore critical that HS1 Ltd's submissions are high quality, complete and on time. HS1 Ltd will need to demonstrate that its plans are robust and underpinned by sound analysis.
- 34 Our role is to provide independent challenge before considering all the available evidence in taking its decisions. If there are any deficiencies then we may ask our technical advisors to work with HS1 Ltd on further analysis. However, this is a backstop and our ambition is for the Draft and Final Decision to contain either no, or only minor, changes from HS1 Ltd's AMS and LCR submission. We will therefore take a progressive assurance approach to achieve the best possible outcome.
- 35 It is equally important that HS1 Ltd continues to build on its good engagement to capture views from existing customers and stakeholders, together with a sense of the needs of future customers, in setting out what the network and stations should deliver.

Timetable and approach

- 36 Although PR19 will be undertaken through the formal timetable, preparatory work has already begun. On 20 June 2017 an initial event was hosted by HS1 Ltd with key stakeholders to gather opinions and share views on a number of key issues. This was a positive and proactive initiative, signalling HS1 Ltd's intentions to work collaboratively with its stakeholders and covered both the station and route reviews.
- 37 There will be three main phases for the stations periodic review.
- 38 Firstly, there will be a familiarisation and development phase including desktop reviews of the outcome and lessons learned from the previous CP2 review and progress made since 2015; an analysis of the current station LCRs, and other related input workstreams from HS1, including the key themes identified by stakeholders to be reviewed as part of CP3. This phase will commence in early 2018 and run through to March 2018.
- 39 Secondly, we will be reviewing the proposed AMS and LCRs with HS1 to support the production of draft LCRs for the four International stations. This phase is likely to commence in April 2018 and run through to July 2018. From HS1's submissions, the technical advisors will review any proposed change to AMS and or issues with

existing deliverability, risks, estimation accuracy and conduct a literature review and analysis of current station LCRs and review proposed LCRs in order to produce recommendations for a draft decision by us, which will form the basis of a stakeholder consultation. We can only withhold approval of the AMS and LCRs if they do not comply with the requirements set out in Annex 1 of Schedule 10 of the HS1 Lease.

- 40 The final phase of works will run from August 2018 to June 2019, possibly extending to November 2019. This phase will:
- 41 Assess the draft LCRs for the four International Stations and review the Life Cycle Cost (LCC) models and the financial model used to determine the LTC, and any other associated documentation, including advice on the structure of the models.
- 42 Determine if the LCRs, the associated LCC/LTC models, and any other relevant or supporting documentation:
 - contain the appropriate renewal activities
 - enable the effective delivery of asset management activities
 - align with the amended AMS
 - align with HS1 Ltd.'s Life Cycle Purpose under the Lease
 - comply with Schedule 10, Annex 1 of the HS1 Lease, and the Ashford Lease
 - align with recognised best practice and benchmarking for asset management
 - include proposals around efficiencies and securing the best possible deal for operators (and therefore passengers).
- 43 Assess and consider any deficiencies or issues that impact the LCRs that were previously identified during the latest AMS review, and identify any new risks.
- 44 Assess and challenge the appropriateness of the definitions and assumptions underpinning the financial models, particularly the definitions of renewals.
- 45 Identify and consider the treatment of works beyond the 50 year life cycle period.
- 46 Identify and recommend, as appropriate, any aspects that would need to be improved or expanded in accordance with the HS1 Concession and Leases Agreement or industry good practice. This will include the treatment of upgrades and enhancements.

Summary table of key milestones

Timescales	Milestone
June 2017	Periodic Review stakeholder kick-off meeting held
October 2017 to March 2018	DfT procure technical advisers to support stations periodic review, and undertake familiarisation phase.
January 2018	DfT publish their approach to the HS1 stations periodic review
February 2018	HS1 Ltd produce draft station SAS and SAMP
March 2018 to May 2019	DfT and technical advisers work with HS1 Ltd to review and refine SAS
June 2018	HS1 Ltd produce Final SAS
September 2018	Draft AMS issued by HS1 Ltd/NR(HS)
September 2018	Draft LCRs for each of the 4 international stations issued by HS1 Ltd
November 2018	Final AMS issued by HS1 Ltd/NR(HS)
November 2018	Individual station LTC/LCRs for each of the 4 international stations issued by HS1 Ltd
December 2018	Final LCR models for each of the 4 international stations issued by HS1 Ltd
February 2019	Draft submission by HS1 Ltd to DfT
May 2019	Final submission by HS1 Ltd to DfT
June 2019	DfT issues consultation on its proposed decision.
June/July 2019	DfT holds stakeholder workshop on its proposed decision.
July 2019	Consultation closes.
July to August 2019	Any required alterations made to DfT decision in light of workshop and consultation responses.
By 31 August 2019	Final DfT decision issued.
September 2019 to November 2019	Implementation phase – Review Notices issued and adjustments made to Stations Access Agreements.
November 2019 to February 2020	Lessons learned review carried out.
1 April 2020	Control Period 3 commences

4. Annex A

Glossary of terms

AMS - Asset Management Strategy

Concession Agreement – The Concession Agreement for the design, construction, financing, operation, repair and maintenance of High Speed 1, between The Secretary of State for Transport and HS1 Ltd

CP2 – HS1’s Control Period 2 (1 April 2015 – 31 March 2020)

CP3 – HS1’s Control Period 3 (1 April 2020 – 31 March 2025)

DfT – Department for Transport

the HS1 network – the physical HS1 infrastructure, including both route and stations

HS1 Ltd – HS1 Limited

HS1 Station Leases - the lease document dated 30 September 2010 setting out the terms for the lease of the four HS1 network stations

LCR - Life Cycle Reports, as defined by Schedule 10, section 5 of the HS1 Station Leases

LTC - Long Term Charge (used to fund renewal and replacement work)

NR(HS) - Network Rail High Speed Limited

NRIL – Network Rail Infrastructure Limited. Parent company of NR(HS)

ORR – Office of Rail and Road

QX - Qualifying expenditure (used to fund operation and maintenance work)

PR14 – The 2014 Periodic Review of HS1 Ltd, conducted by ORR leading to CP2

PR19 – The ORR Periodic Review of HS1 Ltd, conducted by ORR leading to CP3

SACs - the HS1 Station Access Conditions

SoS – The Secretary of State for Transport (for England and Wales)

TOC – Train Operating Company

5. Annex B

HS1 Lease – Schedule 10 (Annex 1) – Asset Management Strategy Requirements

An Asset Management Strategy (“Strategy”) shall comply with each of the following requirements.

1. Scope

The Strategy shall consider only the renewals and replacement of the Station. Maintenance and repair activities shall be excluded.

2. Station Elements

The Strategy shall identify each of the elements of the Station which will need to be renewed and/or replaced during the Life Cycle Period. Unless the parties agree otherwise the elements of the Station shall comprise:

- a. substructure;
- b. frame;
- c. upper floors;
- d. roof;
- e. stairs;
- f. external walls;
- g. windows and external doors;
- h. internal walls and partitions;
- i. internal doors;
- j. wall finishes;
- k. floor finishes;
- l. ceiling finishes;
- m. fittings and furnishings;
- n. sanitary appliances;
- o. services equipment;
- p. disposal installations;
- q. water installations;

- r. heat source;
- s. space heating and air treatment;
- t. ventilation systems;
- u. electrical installations;
- v. fuel installations;
- w. lift and conveyor installations;
- x. fire and lighting protection;
- y. communication installations;
- z. specialist installations;
- aa. site works;
- bb. drainage;
- cc. external services; and
- dd. minor building work.

3. Life Cycle Works

The Strategy shall describe, in reasonable detail:

- (a) the renewal and/or replacements works which will need to be undertaken in relation to each of the elements of the Station in order for the Tenant to comply with its obligations under clauses 4.3.1 and 4.14 and the Life Cycle Purpose to be achieved; and
- (b) the anticipated year in the Life Cycle Period when such works should be undertaken in order for the Tenant to comply with its obligations under clauses 4.3.1 and 4.14 and the Life Cycle Purpose to be achieved.

4. Performance Monitoring

The Strategy shall identify those elements of the Station for which the Tenant will monitor breakdown frequencies and gather performance data.

5. Life Cycle Budget

Expenditure

The Strategy shall for each of the works identified in paragraph 3 above, contain:

- (a) an estimate of the costs of carrying out such works;
- (b) a statement of the assumptions, including those in respect of inflation and interest rates, which the Tenant has used in preparing the cost estimates; and
- (c) an explanation, in reasonable detail, of the principal components of the cost estimates (including any management fees or contingencies) and the factors on which the costs estimates are based.

Revenues

The Strategy shall contain for each Financial Year of the Life Cycle Period an estimate of:

- (a) the Long Term Charge which will be received by the Tenant in relation to the Station;
- (b) any Income which will be received by the Tenant pursuant to the escrow arrangements in relation to the Station; and
- (c) a statement of the assumptions, including those in respect of inflation and interest rates, which the Tenant has used in preparing the estimates of the Long Term Charge and investment income.

Cashflow

The Strategy shall include an analysis of the forecast cashflows of the revenues and expenditures described above and identify any potential shortfalls between forecast revenues and forecast expenditure.

6. Financial Model

The Strategy shall include a financial model and supporting explanatory documentation which enables the parties to determine in relation to the Station:

- (a) the Available Life Cycle Funds in a Financial Year;
- (b) the financial effect of any acceleration, deferral or permanent omission of any renewals and/or replacements at the Station;
- (c) the financial effect any new renewals and/or replacements at the Station not previously included in the Asset Management Strategy;
- (d) the extent of any savings arising where the actual costs of undertaking certain renewals and/or replacements at the Station is less than the estimated cost of such renewals and replacement; and
- (e) the financial effect of applying any savings to fund the costs of any renewals and/or replacements at the Station which are in excess of the cost estimate for such works.

7. Long Term Charge

The Strategy shall include a financial model and supporting explanatory documentation which enables the parties to:

- (a) determine the level of the LTC for the Station which is necessary to fund the proposed station renewals and replacements at that Station;
- (b) determine the level of any changes to the LTC for a Station to reflect:
 - any changes in the estimated costs of the proposed renewals and/or replacements at the Station;
 - any acceleration, deferral or permanent omission of any renewals and/or replacements at the Station;
 - any new renewals and/or replacements at the Station; not previously included in the Asset Management Strategy;
 - the application of any costs savings or changes in the expected levels of Income

