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By email: Stuart.Nicholls@dft.gov.uk

Dear Stuart,

Re: DfT's HS1 stations review – response to initial findings

Thank you for your letter of 9 May 2019 to James Mackay and Andy Cole setting out the Department for Transport's (**DfT's**) findings on HS1's stations asset management documentation. This documentation was provided as part of HS1's Period Review 19 (**PR19**) consultation, which ran from 28 February 2019 to 10 April 2019.

HS1 received subsequent information from DfT and its technical advisors, GHD, over the course of May 2019. On 14 May 2019, DfT provided HS1 with GHD's report, alongside a prioritised list of the findings. Following this, HS1 met with DfT and GHD on 24 May 2019 to discuss the findings in detail.

Due to the timing of this feedback, HS1 was unable to make amendment to the stations asset management documentation to accompany our formal PR19 submission to DfT on 31 May 2019. Subsequently, Arthur Borkwood's letter of 6 June 2019 confirmed HS1 could provide a detailed response by 26 June 2019. We appreciate the DfT's flexibility in allowing HS1 further time for this response.

The structure of this response is as follows:

- This covering letter addresses what we consider to be the key concerns raised by DfT and GHD;
- **Annex A** responds specifically to GHD's request at the 24 May 2019 meeting for a supplementary explanatory statement, setting out how HS1's asset management framework informed development of the CP3 renewals work bank.
- **Annex B** provides our response to each of the findings, including signposting where we have made changes to asset management documentation.
- **Annex C** is comprised of HS1's revised asset management documentation in response to DfT's and GHD's findings.

General comments

The PR19 process has been based on progressive assurance of HS1's CP3 plans over the past 2 years. We agree with the DfT's statement in its 2018 *Approach to HS1 Stations Periodic Review* document that such an approach will achieve the best possible outcome for stakeholders, driven by genuine consultation in the development of our plans.

One consequence of adopting a progressive assurance approach is that key documents will undergo significant iteration over time. This is true of the asset management documentation we provide at **Annex C**, which reflect not only DfT and GHD's findings, but also HS1's own updates - the product of management changes at HS1 since versions of some of the documents were last amended (and reviewed by GHD). For example, we have clarified the way the asset management system influences the development of our stations asset renewal work bank, and our plans in respect of asset management system maturity.

While HS1 accepts improvements can be made to the asset management documentation – and has made those improvements in the attached – in certain areas, we disagree with GHD's findings.

For example, a number of non-compliances are claimed to exist, due to information requirements for the Life Cycle Reports (**LCRs**). By way of demonstration, clause 5.2.5(A) of the HS1 Lease requires the LCRs to include details of renewals planned in subsequent control periods. This information is shown in HS1's Life Cycle Cost models, LTC model, and described in the Stations LTC submission provided in May 2019. We have taken the view that to replicate the information across a series of further documents (which are in effect subsidiary to the above) is not warranted and therefore maintain we have complied with the underlying obligation. This is further explained at **Annex B**.

Key concerns raised by DfT and GHD

Cost efficiency

In finding 12 (recommendation 13 in GHD's report), HS1 is asked to prepare a cost efficiency plan.

In our May 2019 Stations LTC submission, we explained our approach to efficiency further. For example, on page 45 of that document, HS1 stated:

> "The way we secure efficiency is by putting individual renewals projects to an open competition in the market, ensuring we get the best available rates and quality. Further, withdrawals from the escrow accounts to fund renewals require DfT signoff, ensuring an additional level of oversight. We are concerned that imposing an efficiency overlay in this context would likely result in deferral of projects, with implications including increased Qx costs. Nevertheless, we wish to continue working with stakeholders to identify efficiency improvements that are deliverable and maintain the level of performance of our stations expected by operators and passengers".

HS1 maintains its view that imposing top-down efficiency targets would be counter-productive. This is in the context of the competitive process for procuring renewals discussed above and the work done to date, supported by independent technical consultants, in reviewing unit costs and renewals cycles in the work bank. The effect of such an efficiency overlay will likely be the deferral of renewals activity due to pressure to reduce LTC costs, which will impact asset availability, and Qx costs. Operators have told us very clearly that a key priority is to better predict and smooth out Qx costs, and that deferral of renewals projects will simply drive ongoing spending on reactive maintenance and limit our ability to improve in this area.

That said, we understand the need to target efficiencies beyond what can be achieved through a competitive approach to procurement and the governance arrangements of the current process. To that end, we welcome further discussions with the DfT and stakeholders, including specific proposals for what realistic, evidence-based efficiency improvements could be achieved, while protecting the longer-term performance of the assets for operators and customers.

Asset hand-back

On a related note, GHD recommends that HS1 and DfT clearly define asset hand-back provisions (finding 16 in DfT's letter and recommendation 17 in GHD's report). This follows earlier work on defining hand-back conditions in 2016, which were ultimately not conclusive.

In GHD's report, it comments on HS1's approach as follows:

> "...if asset condition and asset performance is not challenged by DfT through the regular quarterly renewal decisions and AMAS submissions, the condition of assets will be considered to meet the level of 'good and substantial repair and condition' (under the HS1 Lease).

HS1 would welcome DfT's views on formalising an approach to asset hand-back conditions, given the importance attached to it by both DfT as the ultimate asset owner and by HS1 in view of the influence hand-back conditions have on running the concession (e.g. its relationship to renewals interventions and annuity calculations).

In our view, there are broadly two approaches possible.

The first is to define, on a per-asset or per asset system basis (using the asset hierarchy), the target asset condition rating at hand-back. This approach was taken in the 2016 exercise and ultimately did not result in agreement between HS1 and the DfT.

The second is to agree a process-based or governance-based approach. This would see either or both of the quarterly renewals meetings and 5-yearly control period reviews operating as a compliance check on HS1's adherence to the HS1 Lease asset stewardship requirements. As part of its Final Determination each 5 years, the DfT could confirm ongoing compliance or indicate where it wishes to see further investment to meet hand-back requirements.

This more dynamic, rolling 5-year approach may avoid the need to codify asset condition requirements in the HS1 Lease through a formal Concession Agreement change process, while allowing choices to be made by DfT in future control periods on the cost vs performance / risk trade-off for HS1 assets. Building in this flexibility is particularly critical given what we've seen in development of our CP3 plans – that affordability of maintaining excellent performance on HS1 over time without a direct public funding grant will be challenging. We welcome further discussions with DfT on this point.

Long-term assets

DfT and GHD posed a series of questions relating to the treatment of long-term assets in our future renewals plans (e.g. the St Pancras roof) (i.e. DfT finding 18 / GHD recommendation 19; DfT questions 21i and ii; GHD recommendations 20-1).

We confirm that the LCC and LTC models account for periodic renewals requirements over the 40 years ahead. The intention is that these models can be rolled forward each 5 years, to pick up subsequent periodic renewals requirements, and extrapolated into the longer-term in the 100-year model (which we will provide the DfT once its views on the 40-year models are confirmed).

However, future 'one-off' requirements, including a full renewal of the St Pancras roof, are not currently costed and reflected in HS1's work bank. Clearly, as the DfT has indicated in its letter (questions 21i and ii), capturing these requirements and determining a funding source is an important future workstream.

Our initial view is such one-off requirements should continue to be treated separately from the periodic renewals requirements which form the basis of our plans. Such one-off requirements are materially different from ordinary wear-and-tear or obsolesce-driven renewals (e.g. in terms of impact on train services), and are likely to involve costs that are unaffordable to operators if factored into the LTC annuity over the course of the Concession and beyond. Given the current affordability concerns expressed by train operators, there is a strong case here for considering public funding contributions towards these assets, as is the case on the 'classic' rail network. Clearly, a range of funding and financing options may be possible and we would be pleased to work with the DfT and stakeholders on a way forward.

GTR and retail contributions to LTC

In DfT's findings and questions 9i, 10 and 11, it asks whether the LTC allocation between operators and retailers (particularly at St Pancras station) should be revisited.

As we note in our separate letter to DfT dated 26 June 2019 which sets out our response to Eurostar's consultation feedback, we agree that the Thameslink 'low-level' platforms should be included within the HS1 Lease and concession and charged accordingly. This will ensure a fairer allocation of renewals and Qx charges, given the significant increase in Thameslink passenger footfall throughout St Pancras in recent years. This would need to be accompanied by appropriate provision for future liabilities associated with the transfer of any assets from Network Rail Infrastructure Limited to HS1. We are grateful for the positive discussions with the DfT to date on this topic and look forward to further progress as part of the development of the next Thameslink franchise specification.

On the question of retailers paying towards long-term stations renewals costs, we refer you to our letter to the DfT dated 26 June 2019 in response to Eurostar's consultation feedback.

As we note in that letter, the High Speed 1 concession has been contractually established and was sold on the basis that retail income would remain unregulated.

We maintain that railway renewal costs should be met from a railway funding source. In response to operator concerns on this question, we submit that the benefits to train operators of the retail offer on HS1 are clear, as shown in the excellent passenger satisfaction ratings we achieve at St Pancras and other HS1 stations.

Stations enhancement framework

Finally, DfT highlights in finding 13 that it wishes to see further work that led to our proposals for stations enhancements. We have included the initial advice from Oxera in this pack at **Annex C** but reiterate that this was then further elaborated by HS1 to arrive at our final position in the Stations LTC submission. HS1 intends to develop the stations enhancement policy as an Annex to HS1's Network Statement, in consultation with stakeholders later in the year.

We would be pleased to discuss the contents of this letter further with you. In the first instance, please contact Andy Cole with any follow-up queries you may have.

Yours faithfully

M. Fm

Mark Farrer
Chief Financial Officer