



Department
for Transport

Control Period 3 Stations Review

Stakeholder Workshop 24 July 2019



Agenda

1. **Welcome and Introduction**
2. **Purpose of the Workshop**
- PART A – LCR Approval**
3. **Asset Management**
4. **Compliance**
5. **HS1 Supplementary submission 26 June 2019**
6. **Open discussion**
7. **Lunch**
- PART B – Other Considerations**
8. **Risk, Contingency and Efficiency**
9. **Long Term Charge and Annuity**
10. **Station Enhancements**
11. **Summary of discussion and any final comments**
12. **Close**

This note contains a high-level overview of the points discussed at the HS1 Control Period 3 Stations Review Workshop that took place on 24 July 2019. It is not a comprehensive or verbatim note of discussions. Please be assured that the Department will conscientiously consider all stakeholder feedback received at this session regardless of whether it is referenced in overview of the session below.

Agenda Item 1 Welcome and Introduction

The Department welcomed stakeholders to the workshop.

Agenda Item 2 Purpose of Workshop

The Department set out the purpose and plan for the workshop. The workshop would cover the key findings of the Draft Decision, and the supporting information provided by the Department's technical advisers (GHD) and HS1 Ltd. The Department also reiterated the context of the review and reminded stakeholders of the **revised consultation deadline of 11 August 2019**.

Agenda Item 3 Asset Management

Asset Management: GHD discussed its final report. GHD stated that it was supportive of the adoption of ISO55000, but its view was that the adoption would need to be matured by the next control period. It was noted that adoption of ISO55000 meant the HS1 Leases have partially fallen out of step with HS1's approach to asset management. This led to some technical non-compliances. Stakeholders were generally supportive of GHD's view that these non-compliances were not material to approval of the LCRs.

Renewals Workbank: GHD noted that as the asset management strategy ("AMS") matures it would anticipate better asset monitoring. Stakeholders raised concerns that currently there appeared to be low assurance on the current asset condition which reduced their confidence in the future life cycle plans going forward.

Direct and Indirect costs: GHD indicated that the work undertaken by the consulting engineers Pell Frischmann for HS1 placed HS1 approximately 16% adrift from the benchmarks, although the costs themselves fell within expected ranges. Stakeholders asked if further benchmarking was available.

Risk and Contingency: GHD's report stated HS1's approach to calculating risk was unusual, as it is normally expected that risk calculations follow a certain process which includes risk workshops to help calculate the risk. However, this is not to say that HS1 did not follow a process, further the outcome of their risk calculation was as expected. GHD had not seen adequate evidence to support HS1's proposed removal of the 0.6% efficiency overlay and, therefore, its view was that this efficiency overlay should be retained. Stakeholders expressed a desire to place improved efficiency targets on HS1.

Asset Stewardship: The Department noted that it is currently minded to adopt the 40-year rolling asset approach for stations. The Department was also inclined to propose putting in place an action plan for the continued rollout of ISO55000.

The Department assured stakeholders that it would hold HS1 to an agreed plan to mature the AMS for CP4 to ensure a better understanding of asset condition and a new baseline for more accurate lifecycle forecasting.

Agenda Item 4: Compliance

Both GHD and the Department reiterated their view that the areas of non-compliances in the LCRs were not material and should not by themselves result in the rejection of the LCRs (although we will take into account any consultation responses on this point), as the non-compliance were primarily technical in nature. The Department intends to work with HS1 to provide further clarity on future submissions to avoid similar anomalies.

Agenda Item 5 HS1 Supplementary submission

HS1 presented an update on its work on the stations review submission. It agreed there is further work to be done on asset management maturity. HS1 also agreed with GHD and the Department that there is a mismatch with the Leases versus current practice, driving some of the technical non-compliance issues, but the new AMS approach would provide greater confidence and evidence for future reviews.

Stakeholders raised concerns surrounding whether the allocation of the LTC was fair and compliant with the Railway Charging Regulations. The Department agreed to discuss this matter with the ORR.

Agenda Item 6: Open Discussion

Stakeholders queried, regarding station enhancements, how costs would be shared around other station users and that there was some concern that operators would bear the full costs. HS1 reassured stakeholders that it would work with them over the coming months to come to the best course of action and agreed with the principle that it should be the beneficiary of the enhancements that pays.

HS1 also assured stakeholders that it was putting pressure on Network Rail High Speed (“NRHS”) to ensure robust delivery in line with their contract.

HS1 gave further assurance that they will work with stakeholders to address concerns and to give confidence on their approach which will help the close out as part of the process into the approval of the LCRs and maturing their asset management approach

Stakeholders sought clarity on who would bear the full risk of the accuracy of the forecasting of future works and the length of time it takes to get there.

Agenda Item 7: Risk, Contingency and Efficiency

Risk and Contingency mark up on LCC costs; The Department responded to stakeholder concerns of the limitations in an evidence-based approach and stated that the Department would consider these before reaching its final determination.

Cost Efficiency: Stakeholders queried the basis for the 0.6% efficiency proposed in the Department’s draft determination. The Department stated that the reintroduction of the efficiency overlay would ensure HS1 drive costs down and become more efficient. It also reiterated it would conscientiously take into account all stakeholder views on the appropriate level of efficiency.

Agenda Item 8: Long-Term Charge and Annuity

Return from escrow bank deposits and investments: It was recognised the approach to the escrow return in the LCC model adopted by HS1 was better than the approach taken in CP2.

The Department intends to work with the ORR to determine an appropriate rate of escrow return for the next control period (CP3)

Annuity Options: Stakeholders indicated that they would prefer the options on annuity to be taken outside of the station review period and brought in line with the ORR's route review. The Department confirmed it is working with the ORR to ensure as much consistency as possible in the approach to annuity calculation recognising there are differing inputs to each.

Stakeholders disagreed that there should be lower customer experience to reduce costs and indicated a desire for more information so they can understand the impact of any trade-off options presented in future reviews.

Agenda Item 9: Station Enhancements

Taking stakeholder feedback into account the Department is inclined to reflect a beneficiary pays approach to enhancements. The Department reiterated its support for HS1's approach and laid out there will be work under taken with the Department's Station Policy team to determine how to adopt this strategy for stations.

Agenda Item 10: Summary and other discussion

Stakeholders sought assurance that the determination phase would not be compromised by the extended consultation period. The Department stated it is confident that it will be able to conscientiously consider stakeholder responses and reach an appropriate determination in accordance with the current timeline. The Department reiterated there would be a lessons-learned review following conclusion of the review process.