



Department
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In his capacity as a Government's
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17th September 2019

[Sent via email]

Dear Dyan

Consultation: 13 to 24 September 2019 - HS1 Stations Periodic Review 2019

Thank you for your letter dated 16 September 2019. We respond to each of the points in your letter below.

Rationale for changes to the Draft Decision

We set out in our letter of 13 September 2019 (the “**Consultation Letter**”) our rationale for amending the conclusions in our Draft Decision. Given we are proposing to retain the annuity approach submitted by HS1 Ltd, and which was adopted in CP2, we consider that the analysis set out in our letter, alongside the documents already available, explain this point sufficiently. We are effectively agreeing the approach submitted by HS1 Ltd, and no longer consider the ‘buffer’ option appropriate.

Similarly, we consider that the rationale behind the revised approach to the efficiency overlay is set out in sufficient detail in our Consultation Letter, particularly as the efficiency overlay is being applied to the value of the LTC and not to individual renewals schemes or projects. However, the Government’s Representatives will consider responses to the revised figure including any alternative proposals from stakeholders.

Technical analysis

The technical analysis that supports our revised conclusions was included in Annexes A and B to our letter of 13 September 2019. However, in the interests of transparency we have attached to this letter the additional information we received from our advisers GHD on benchmarking with other sectors and other parts of the rail sector (see Appendix 1)¹.

Response to your comments on factual points in our letter

Annex A.

As you identify, we referenced the advice you received regarding risk and contingency. We agree HS1 Ltd did not apply the 20-30% risk and contingency as proposed by your advisers, and we acknowledged in paragraph A11 of the Consultation Letter that you applied differing levels of risk and contingency.

The Draft Decision also makes this clear at paragraph 3.24:

3.24 HS1 Ltd highlighted in their Stations LTC Review consultation that the station renewals plans did not include a risk / contingency element, and noted that their specialist cost consultants suggested an allowance of 20-30% could be considered. Stakeholders did not provide views on this figure in their consultation responses to HS1 Ltd, who subsequently developed an approach based on specialist cost consultant advice, mindful of operators' affordability concerns which was included in their final submission for the LTC.

We also replicated the application of risk and contingency to indirect costs at paragraph 3.34 and Table 3.3 in the Draft Decision. The Consultation Letter additionally confirmed that the view of GHD was this gave a weighted average of 13.9%, which both GHD and ourselves agreed was reasonable, as stated in paragraph A12. We hope this clarifies the position.

Annex B.

Due to the limitations of the data available, it was not possible to determine whether HS1 Ltd had achieved the 0.6% efficiency target set in CP2 against the budget set in CP2. The Government's Representatives agree that through monitoring of the renewals portfolio and release of funds from the escrow accounts, there is evidence that for the CP2 budget, in respect of procurement, costs savings were achieved. However, this does not apply in respect of the CP2 budget overall.

Again, the Government's Representatives will consider any stakeholder comments on any of the statements we made in our Consultation Letter. We will additionally undertake to continue to work with the ORR to review our approach to measuring efficiency learning from their approaches across rail and road.

In light of your comments and the clarifications set out above, we are willing to extend the consultation period to two weeks from the date of this letter, so that the

¹ Please note that this is the latest version of the draft that the Government's Representatives received, despite it being watermarked as "for discussion".

consultation will now close on **2 October 2019 at 10am**. We will notify the other stakeholders of this revised date and share your letter and this response with them.

Yours sincerely,




**In his capacity as a Government's Representative
Senior Commercial Manager
Department for Transport**