Dear Andy and James,

HS1 stakeholder consultations on Five Year Asset Management Statement for Control Period Three and Stations Long Term Charges Review for Control Period Three

This letter sets out our views concerning HS1 Ltd’s consultations on their Five Year Asset Management Statement and Station Long Term Charges Review for the forthcoming Control Period Three (CP3). TfL is content for this response to be published and shared with third parties.

We are concerned that a significant increase in charges is proposed. Based on our assessment of the documentation provided for the Five Year Asset Management statement this increase has been driven by the following factors:

- Only 50% of the minimum proposed additional renewals charge was levied in CP2. This discount was assumed to be recovered in future Control Periods;
- The CP3 proposed charge now includes the cost impact of installing the European Rail Traffic Management System (ERTMS) which was assumed to be funded by a separate charge at the previous Periodic Review;
- Risk and contingency allowances have been added to the charge representing 30% of the direct costs forecast to be incurred. This allowance covers the potential impact of regulatory/political changes, missing scope, escalation, and currency depreciation;
- The adoption of an Integrator Model to improve the delivery of renewal works and ad hoc projects;
- Preparation and planning work required during CP3.

Whilst we accept the need for the CP3 charges to recover the shortfall in the additional renewals charge levied during Control Period Two and the cost of
ERTMS installation we would challenge the other reasons for increased charges. Whilst there is clearly a need for some risk and contingency allowance this should be minimised with targeted reductions over time to ensure that HS1 Ltd has a strong incentive to deliver as efficiently as possible. The 0.6% efficiency overlay applied during Control Period Two set a useful precedent in this respect. We consider that this approach has merit and should be considered for CP3.

The adoption of the Integrator Model appears to generate significant additional costs compared to current arrangements without leading to any commensurate decrease in the risk and contingency allowance assumed by the charges. The value of this change should therefore be tested thoroughly to ensure that it delivers performance that is more efficient and effective than that offered by existing arrangements.

The reasoning for the inclusion of an additional charge for preparation and planning work during CP3 is also unclear as this activity was also required during the current Control Period. If required this should be justified through reference to changes in workload volumes.

It is also important to consider the impact of the increased charges on the viability of the services operating on HS1’s infrastructure. For example, rail freight operators already face strong competition from the road sector so it seems unlikely that their margins will be able to absorb a 78% increase in access charges. There is a risk that service volumes could reduce if such significant increases in charges are imposed, creating a financial shortfall for HS1 Ltd to address.

TfL will continue to take an interest in the outcome of the extant Periodic Review process to ensure that it does not compromise the objectives set out in the Mayor’s Transport Strategy. Policy 18 of this Strategy commits us to supporting improvements to public transport to enhance travel between London and International destinations. Eurostar and other international train services are a key part of this so it is important that their viability and development are not compromised by sudden increases to the operating costs that they face.

Similarly Proposal 74 on the Mayor’s Transport Strategy requires that transport investment in the wider South East region supports the realisation of any associated economic and housing growth potential. This is pertinent in the context of HS1 Ltd. The domestic services operating over HS1 provide a key transport link between central London and various locations in Kent where there is the potential for significant housing development, including Ebbsfleet. It is important to ensure that this development can make a contribution to the provision of the extra homes that London requires. This objective could also be compromised if the viability of domestic services using HS1 Ltd infrastructure is adversely affected by sudden increases to the
access changes they pay.

The next phase of the consultation process must therefore include close liaison with the affected operators and the Office of Rail and Road to understand what costs their businesses can reasonably bear, with the ultimate charges being calibrated accordingly to ensure that they do not affect the viability or growth of the services affected.

Yours sincerely,

Alan Smart,
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Public Transport Service Planning team.