Annual report on HS1 Ltd 2023 to 2024



Executive summary

This report sets out our assessment of the regulated aspects of HS1 Ltd's operational and financial performance for the financial year 1 April 2023 to 31 March 2024, which was the fourth year of Control Period 3 (CP3, which runs from 1 April 2020 to 31 March 2025).

More information on our regulation of HS1 Ltd, including previous years' reports, can be accessed on our website.

We report here on our assessment of the company's delivery against the final determination and decisions of our and the Department for Transport's (DfT's) periodic reviews of HS1 Ltd 2019 respectively (PR19s), in accordance with our policies for holding HS1 Ltd to account in CP3 for the route and stations.

More information on PR19 can be found on our website. We published our approach and process for the next periodic review of HS1 Ltd, PR24, on 31 January 2023.

The key issues over the last year were:

Health and Safety

In the previous year, the key performance indicator for workforce safety fell outside the threshold value of 0.060 fatalities and weighted injuries per million hours worked.

This year we were pleased to see improvements and this indicator has now returned to within the threshold. As the asset life cycle progresses (moving from new assets, into the first full cycle of renewals), incidents this year highlighted the importance of HS1 Ltd and its contractors having appropriate arrangements in place to manage current and future risks.

In particular, we note the work that HS1 Ltd has started in the reporting year alongside train operators and other infrastructure managers to develop and improve arrangements for the recovery of stranded trains on its own and neighbouring infrastructure, and will be closely monitoring how these parties work together to ensure better management of future potential incidents.

Traffic volume and train service performance

Traffic volume on the HS1 route increased by 3% in the period 1 April 2023 to 31 March 2024 compared to the previous year. However, services were still 18% below the number operated in the period April 2019 to March 2020, before the impact of the coronavirus (COVID-19) pandemic.

The number of services delayed by HS1 Ltd-attributable incidents during the year was 458 (0.76% of all services using the network), an increase on the previous year which saw 256 (0.44%) of services run delayed. This remains substantially better than the company's requirement set out in its Concession Agreement for operation of the HS1 route (not to exceed 13%).

Recognising that passengers and freight users demand a level of train performance considerably higher than the minimum contractual requirement, HS1 Ltd sets itself a stretching target for train performance. This is based on the average number of seconds each train was delayed, by incidents attributed to HS1 Ltd.

This year the average delay was 11.83 seconds per train (an increase of 65% on the year before), compared to a target of 6.85 seconds per train. This is the second year in a row where HS1 Ltd has failed to meet its self-imposed target.

Asset Management

Last year, we reported our concern that the availability of lift and escalators at stations were below the targets set by HS1 Ltd to meet train operators' needs and expectations.

Over the last year, their availability improved and returned to above the target by the middle of the year. However there have continued to be issues with these assets and availability has fallen below the target several times towards the end of the year.

HS1 Ltd proposed improvement plans which relied heavily on improving contractor performance, and we have seen evidence of this delivering results in the short term. However, for the longer term HS1 Ltd needs to improve its understanding of these assets' performance through improved condition data, and better remote monitoring that will allow investment to be more effectively targeted. We are scrutinising these long-term plans through the PR24 process.

The reporting year also saw the continued implementation of improvements to the planning of renewals delivery. The resulting route and stations renewals portfolios significantly reduced planned volumes this year, with the intention of greater certainty in the remaining two years of the control period.

At stations, HS1 Ltd actually delivered 248% of its planned renewals, which gave rise to a large number of change control papers and challenges to estimated costs. This amount of change is indicative of immature asset management and estimating.

There is still work to be done to increase certainty in stations plans, which we will address in PR24. In contrast, the more moderate over-delivery (120%) of route renewals has been because of better possessions planning around multiple assets.

Through PR24, we are seeking to understand how this approach will be expanded to enable the forecast step-up in the level of renewals at the next control period.

Finance and efficiency

HS1 Ltd received £105.7m of regulated income this reporting year, £10.6m higher than assumed in

our PR19 forecast. This included £4.2m higher recovery on international services, £6.3m higher recovery on domestic passenger services following charging reopeners to reflect actual traffic volumes; and £0.2m of higher recovery costs for freight services.

HS1 Ltd's own costs were £0.9m higher than assumed at PR19, which the company has attributed to additional work following the pandemic.

These costs have been absorbed by HS1 Ltd and it has stated that it is implementing structural changes to reduce internal costs in line with its regulatory budget by the end of CP3. HS1 Ltd has also indicated that it is not seeking to increase previously forecasted costs for the following control period, CP4 (1 April 2025 to 31 March 2030).

We are currently assessing HS1 Ltd's proposed costs for CP4 through PR24.

Network Rail (High Speed) Ltd (NR(HS)) is HS1 Ltd's primary supplier, managing most of the physical rail infrastructure on the network. NR(HS) reported £3.8m of efficiencies for the year, ahead of its £2.9m target.

These savings included £2.4m of lower staff costs due to improved managing of vacancy gaps and workforce reform benefits; and £1.2m of savings from a revised provision of support services agreement with Network Rail Infrastructure Ltd. NR(HS) currently expects to meet our PR19 efficiency challenge for CP3.

Background

HS1 Ltd has a 30-year Concession Agreement from the Secretary of State for Transport to operate and manage the HS1 route, and concurrent leases for the four stations on the network.

HS1 Ltd is responsible for the overall management and operation of the HS1 network. However, it subcontracts delivery of operations, maintenance and renewals to NR(HS) for all its assets, apart from Ashford International station which was subcontracted to Mitie Plc (Mitie).

However, during the last year, this subcontract ended and a new subcontract established with ABM Technical Solutions (ABM). NR(HS) and ABM are therefore the safety dutyholders for the HS1 network, responsible for compliance with regulatory requirements relating to the management of safety on the HS1 network.

We are the health and safety regulator for the HS1 network under the conventional suite of legislation. HS1 Ltd has economic regulation responsibilities through the terms of the Concession Agreement and the Railways Infrastructure (Access and Management) Regulations 2016 ("the Regulations"), as amended in 2020.

Under the terms of the Concession Agreement and leases, we have a role in ensuring the long-term sustainability of the assets, while making sure that HS1 Ltd is incentivised to ensure infrastructure costs and access charges are efficient.

The Concession Agreement requires HS1 Ltd to secure the operation, maintenance, renewal, replacement, planning and carrying out of upgrades in accordance with best practice and in a timely, efficient and economical manner, to the greatest extent reasonably practicable, having regard to all circumstances.

The station leases require that HS1 Ltd acts in accordance with industry good practice and undertakes such works of renewals and replacement which, in its reasonable opinion, are necessary for each station to be in good and substantial repair until 1 April 2061.

We undertook our latest periodic review of HS1 Ltd in 2019, assessing HS1 Ltd's Five- Year Asset Management Statement for this control period (CP3, 1 April 2020 – 31 March 2025). Further to our final determination, we monitor performance annually through data provided by HS1 Ltd against key metrics in the following areas:

- health and safety
- train service performance
- asset management
- financial performance and efficiency

Until 27 July 2022, the DfT was responsible for the periodic review of HS1 stations and associated monitoring of HS1 Ltd's management of those station assets. We then took on those duties for stations and published an interim policy for holding HS1 Ltd to account against DfT's PR19 decision from that date, setting out our focus on the following areas:

- station asset information
- financial reporting, including the calculation of efficiency
- use of risk and contingency provisions
- the delivery of efficiencies set out in its Life Cycle Report for each station

More information on our approach to monitoring and reporting on HS1 Ltd in CP3 can be found on our website.

- → Next Health and safety