

Department for Transport

The completion and sale of High Speed 1

Appendix Five

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Benchmarking the sale of HS1 Limited against NAO good practice criteria for asset sales

1 The NAO has produced over 40 reports on asset sales since the start of the 1980s privatisations. Many of the lessons from our previous work remain relevant today. We therefore benchmarked the sale of HS1 Limited as reported in Part Two of the Comptroller and Auditor General's report *The Department for Transport: The completion and sale of High Speed 1* against the criteria set out below (**Figure 1**).

Figure 1

Benchmarking the sale of HS1 Limited against NAO good practice criteria for asset sales

Criteria

Establish the objectives

Assess and set out the overall policy objectives and what you want to achieve for the business asset.

Prioritise the objectives.

Undertake a full options appraisal.

HS1 Limited sale

The objectives were to:

- comply with changes in European Union rail policy;
- reduce future liabilities for the taxpayer; and
- realise value from the three distinct businesses within LCR – rail operations, train operations and property development.

The Department's overriding priority was to obtain value for money for the taxpayer during the restructuring of LCR and sale. In doing so, the Department also sought to comply with legal and regulatory requirements.

Ahead of completing section two, the Department considered a range of options for the structure of LCR. Do nothing was not an option in the light of changes to European Rail policy, which meant that high access charges borne by Eurostar UK would have to be reduced to allow other train operators to begin running international services on the high speed line.

Figure 1 continued

Benchmarking the sale of HS1 Limited against NAO good practice criteria for asset sales

Criteria	HS1 Limited sale
Establish the team	
Establish proper governance with clear roles and responsibilities.	The Department established a sub-committee of its main board to consider all major decisions before submissions were made to Ministers. The sub-committee was chaired by the Department's permanent secretary.
Make sure you have the right skills and capacity to undertake the sale.	The day-to-day handling of the sale was delegated to LCR, whose Directors and staff had a range of commercial experience. LCR added to these skills and secured additional capacity by appointing financial, legal and technical advisers.
Seek appropriate advice and manage advisers well.	The Department appointed its own advisers to provide expert opinion and inputs to the restructuring and sale.
Plan how to manage the long-term outcomes	
Plan how to manage any ongoing public interest in running the business.	The Department assessed the residual interests and liabilities of the taxpayer carefully and allocated risks best managed by the private sector to the winning bidder (for example, availability of the high speed line) while keeping those where it was best placed to manage them (for example, the level of high speed domestic services running on the line).
Establish how risks with the purchaser will be managed.	The Office of Rail Regulation was appointed as part of the concession agreement to oversee the maintenance of the line.
Establish mechanisms for managing the ongoing relationship with the business after the sale.	The Department has established a small team to manage its ongoing relationship with HS1 Limited, Eurostar and the residual property development interests managed by a small team of existing staff at a resized LCR.
Preparing the business for sale	
Commission due diligence and prepare a pre-sale valuation to understand the value of the business.	LCR undertook extensive vendor due diligence, which was made available to bidders through a secure website. A number of pre-sale valuations were commissioned by LCR at various points during the restructuring and sale. The valuations were also examined by the Department's own financial advisers.

Figure 1 continued

Benchmarking the sale of HS1 Limited against NAO good practice criteria for asset sales

Criteria

Preparing the business for sale – continued

Organise the business and extract surplus assets to maximise the value achieved.

Choose an appropriate method of sale.

Get the timing of the sale right.

HS1 Limited sale

LCR was broken up into its three key businesses:

- HS1 Limited was established as a separate company ahead of the sale;
- Eurostar was recapitalised and incorporated into a new company jointly owned by the UK, French and Belgian governments; and
- LCR's property interests were retained.

Based on the particular characteristics of the business being sold, the sale was designed as an auction of a company with experienced staff and a 30-year concession to operate the high speed line. LCR, the Department and their advisers considered that this method of sale was more likely to attract infrastructure investors.

LCR and the Department monitored market conditions and delayed the sale until conditions improved.

Source: National Audit Office analysis
