Informed Sources e-Preview October 2014

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This month's column is dominated by an analysis of the implications of Network Rail's re-classification as a Government body. It's hard going, but please stick with it because the implications of financial reporting, for example, are considerable. But before that, I look at the two make-or-break issues for Control Period 5 – project costs and performance and also have some fun with Labour's retro rail policy.

GWML electrification cost in perspective?
Performance going the wrong way
Labour unveils election rail policy
Network Rail in the public sector
Captain Deltic's rolling stock round-up

We all have mental cost yardsticks, stored away at the back of our minds. When I joined English Electric Traction in 1962 a plain vanilla diesel loco, such as a Class 37, cost £1,000 per ton. Today the yardstick for an Electric Multiple Unit is £1.5 million per vehicle, which is not much more than a Class 465 at today's prices.

Having finished last month's column, including the report that the Great Western electrification was coming out 50% more expensive than expected, I realised that I had no mental yardstick for what electrification ought to cost. So I blew the dust off the project cost analysis which introduced the railway to boiling frogs just over 10 years ago.

That analysis was based on the cost per mile of route modernisation and electrification projects going back to the West Coast Main Line modernisation in 1966. Having brought this original data up to today's prices, I added some current projects.

Of course, this is not a precise like-for-like comparison, because the scope varies from project to project. As a result you get a scattering of costs, but within this narrow band, over the course of nearly five decades the cost per mile has been in the £2-6 million range.

So I have set my new yardstick at a conservative £5 million/mile. It looks as through the Northern Triangle, is coming out at around this figure, ditto the GWML electrification, at the notional £1 billion estimate.

So if, as Network Rail Chief Executive Mark Carne is said to have told the DfT, GWML is looking like nearer £1.5 billion, then we can suck our teeth and mutter, 'That's a bit pricey.
I've also republished the original boiling frogs graph of how the cost per mile of Railtrack's West Coast Route Modernisation ran away. A comparison between the traumatic doubling of the cost per mile of the WCRM in the Black Diamond review of 2000 and the implied 70% rise in the GWML since the NR Strategic Business Plan was published in January 2013 is unavoidable.

In the column I explore some more of the reasons why the cost of electrification is rising. From sneaky tricks to put other work on the electrification budget to meeting modern standards and the loss of grandfather rights.

PPM in an MAA trap
In the last month two senior railwaymen have used the same word to describe operating performance – 'awful'. Back in the June 2014 column I flagged up meeting the Regulator's requirements for the Public Performance Measure (PPM) as one of several big challenges facing the industry in the new Control Period 5 (CP5). Currently, the task is getting harder.

I illustrate this with two scary charts. The first compares the 92.5% PPM required by the Office of Rail Regulation by the end of CP5 in 2019, with the recovery trajectory from today's score of 89.5%

Why is it scary? Because NR ended CP4 2.7 percentage points short of the Regulatory requirement. Faced with this situation ORR has already recalibrated the PPM trajectory for CP5, lowering the starting point to 92.2% MAA and then easing up in gentle steps.

Chart 2 is really scary. It compares performance over the first five periods of 2014-15 with my recovery trajectory which predicates a 90.5% PPM by Period 13. Over the first five Periods the MAA PPM has dived.

Not only are things looking grim, they are likely to get grimmer. Currently PPM is caught in the MAA trap. Over the next two Periods two high PPM scores in 2013-14 (92.3% and 92.1%) will be replaced by lower numbers. Even if the coming periods are back to 90%, the MAA will still continue falling.

Of course, there are exceptions to the general awfulness, which I describe. But there is also more bad news.

While NR 'owns' the PPM and gets the blame, the Train Operating Companies also contribute to failures and delay minutes. As recently as the June 2014 column, I praised the contribution of the rolling stock maintainers to improving PPM.
Talk about the curse of Captain Deltic! Since April, the number of Technical Incidents (TIN) attributed to rolling stock has been growing, resulting in a 50% increase in impact minutes.

Labour relives past glories
This is such a hoot that I won't spoil your enjoyment by giving away too much of the detail. But, briefly, the new Rail policy announced by Shadow Transport Secretary Mary Creagh is a near identical copy of Labour's 1997 General Election Manifesto.

How that turned out is covered in the first half of the piece. Then I detail what Labour is calling 'the most radical package of reforms since privatisation'.
This is centred on a 'Guiding Mind' for the railway which will combine Network Rail with a 'representative passenger rail organisation'. The new body will: 'contract routes; coordinate services; oversee stations, fares and ticketing; plan new rolling stock; raise skills and be accountable for customer satisfaction'.
Labour's cunning plan doesn't mention DfT's new Office of Rail Passenger Services (ORPS), although I could see this taking the lead in some departmental mash-up with newly nationalised Network Rail. But ORPS is also on the Creagh agenda. Come the revolution a review of the franchising process will aim at creating a system that is 'fit for purpose'.

By the time of the election I suspect that Creagh's revolution will have already been overtaken by events. Likely ORPS policies under its new Chief Executive Peter Wilkinson could include a sharper focus on current performance, a new approach to inter-regional connectivity, continuation of the drive for investment in innovation plus open franchise specifications, focusing more on market sectors and their requirements, with new local services business units involving community and local government partners and funders. I would not be surprised if we also saw a U-turn on DfT's refusal to develop a long term strategy on rolling stock modernisation, procurement and cascades.

Responding to the Labour proposals Transport Secretary Patrick McLoughlin, described it as more of 'same old Labour'. If only he knew!

But on the looming financial stringency the two politicians were clearly in agreement. Mary Creagh had argued that whichever party wins the next election it will face 'big decisions' over the future of the railway, including planning future rail investment 'when there's less money around'. McLoughlin said simply, 'we can't spend money we don't have'

Network Rail under Government control

Transport Secretary Patrick McLoughlin's description of Network Rail's new status as 'a public sector arm's-length body of the Department for Transport', reminded me of an apocryphal remark, attributed to former BR Chairman John Welsby. Asked about the importance of keeping the Department of Transport at arm's length, the reply came back 'that way you can get a better swing at them'.

Now the situation is reversed. As the new Framework Agreement between the Department and NR, which came into effect on 1 September, shows, arm's length is ideal for poking and prodding.

With NR now part of the government's accounts, the Transport Secretary will have to 'fulfil an enhanced role in overseeing the company'. And this responsibility is what the Framework Agreement sets out.

In the column I describe in considerable detail the Government's new powers over NR, its greater involvement in the development and approval of business plans and the mass of financial information and reports the company will have to provide. There are also worrying signs of a reversion to the annual accounting that bedevilled British Rail.

Money

For example, all government bodies must have an Accounting Officer. In the case of NR, DfT's Permanent Secretary is the Principal Accounting Officer, accountable to Parliament for the issue and stewardship of any grant-in-aid, government loans or other resources provided to NR.

Tucked away in the PAO's duties we find this: 'the PAO will receive and act in accordance with a budget delegation each year from the Department and operate within that delegation'. That sounds like annual budgeting to me.

Is this scaremongering? Well, at a recent press function I had a chat with newish Transport Minister Claire Perry who considers reclassification a good thing. Following recent discussions with NR management, she believes that the new status has made the company 'more aware of the cost/benefit of an investment, because they are in a tougher category'. This will mean that 'they can't go on borrowing and you have to justify every investment'. From the taxpayer's viewpoint the new relationship could result in an 'even more commercial focus' on investment in capacity and how you price in overcrowding'.

A facetious question raised by the Framework Agreement is whether NR management will be so busy dealing with the civil servants that there won't be time to run the railway. For example in addition to auditing NR's annual Report & Accounts, the National Audit Office will also be able to carry out value for money studies 'examining the economy, efficiency and effectiveness with which Network Rail has used its resources in discharging its functions'.

In the blizzard of reports DfT will require, this caught my eye: 'Network Rail will submit monthly workbooks, in a prescribed format, to the Sponsorship Team within the Department, typically by 3pm of the fifth working day of each month. These will show, for each month, the actual outturn to date and the forecast for each subsequent month until the end of the financial year'.

Don't you just love that 'typically by 3pm'?

And Network Rail will also have to provide monthly and daily cash forecasts to DfT's Cash Management Team 'in formats and to deadlines as specified'. Still, mustn't complain, it is our money they are spending.

SWT buys and LU procures

Although you had already read it here first, on 4 September there was a media event at Waterloo to confirm that Siemens are to build, and Angel Trains fund, 30 new five-car EMUs for SWT's Windsor Line services. Contract value of the trains is £210 million or £240 million with spares and support. The units are clones of the Class 700 Desiro City for Thameslink.

Siemens will build the new trains on a parallel line to the Thameslink units at the Krefeld works. Delivery is due to be completed by the end of 2017.

Also previewed in previous columns is London Underground's JNAT procurement project. It stands for Jubilee and Northern Additional Trains and on 18 August London Underground issued the OJEU.

It's all a bit woolly at present. The firm requirement is for
Five six-car trains to augment the existing Northern Line fleet when the Battersea extension opens. But options include up to 18 seven-car Jubilee Line trains to raise the peak service frequency to 34 trains/h, plus up to 45 units for the Northern Line.

This explains why LU values the contract at between £40 million for the base requirement and £470 million. Now for the woolly bit. According to LU, the allocation of trains between each line and between the base order and options will be further defined 'following completion of feasibility studies' and could be subject to change.

But it's not even that simple. LU is also considering the possible benefits of cascading trains between the Jubilee and Northern Lines. If this happens, JNAT could also include the engineering and project management for the insertion of redundant trailer cars from the existing Jubilee Line trains into the new units. And, of course, Alstom has also proposed retractioning the Jubilee Line fleet as part of its bid.

Growth critique

My analysis of passenger ridership growth, or the lack of, in the August column wound up the Rail Delivery Group (RDG). There's a letter from their rebuttal unit in this month's magazine.

RDG also circulated a more detailed critique, including a whizzy graph. If you would like a copy of this, just e-mail me at roger@alycidon.com and I'll send you a copy. I'm told that RDG have drafted in KPMG to deal with last month's cost analysis. Now that really should be interesting

Roger's blog

Shortly after last month's e-Preview, we had the SWT/NR Alliance 'do' at Waterloo mentioned above. It was a jolly event which also celebrated the return of two more Waterloo International platforms to suburban use. Alliance MD Tim Shoveller had made sure that DfT, which is being notably supportive on Waterloo capacity, was there to share the glory, with recently appointed Rail Minister Claire Perry doing the honours.

To my surprise, DfT's press officer even asked if I would like a one-to-one interview with the Minister. I thought Claire was well above the ministerial average, with something meaningful to say, rather than the usual 'I read your weight' sound-bites. Without going dewy eyed, I'd put her in my Top 10 of 'Ministers I have known', for industry knowledge and approachability.

Last week it was the Chairman's Address at the Railway Division of the IMechE. The new Chairman is Simon Iwnicki, Professor of Railway Engineering at the University of Huddersfield. He gave a thoughtful presentation on the role of research over the years, paying full tribute to the achievements of the Derby Technical Centre.

In the Q&A session afterwards I asked why the UK rail industry was no longer 'thinking big' – for example BR Research would have had a composite bodyshell in service by now. This discussion continued into the reception afterwards. I'm due to meet NR Chief Executive Mark Carne this week, so I think I will suggest that it is time for NR to have its own research centre.

Looking ahead, next week I'll be digging out the black tie for the Chartered Institute of Logistics & Transport's annual awards dinner. Fingers crossed.

After that I have a trip to Wabtec for an update on the firm's activities. A run on the East Coast Main Line and a factory visit is a great way to start the week.

Then on 15 October it is the annual Railway Division conference on rolling stock reliability. Always an excellent event, this year's conference is being held against the background of fleet reliability falling apart. Pointed questions loom.

Meanwhile there are various other interviews and visits in the course of being arranged. And you never know what invitation may arrive.

Now it's back to trying to make sense of Direct Award Franchise Agreement financials.

Roger