INFORMED SOURCES e-Preview February 2018

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In this month's column I try to put subsidy claims and the VTEC 'bailout' in context, while the RAIB Interim Report into last Summer's Waterloo derailment is worrying. And we start tracking the reliability of new trains.

RDG spin only highlights cost crisis
Waterloo derailment – Clapham's long shadow.
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Reading a recent Transport Times on-line blog, I came across this passage: 'The successes of Britain's rail franchising system are well established. Intense competition at the bidding phase has helped turn £2bn of Government subsidy to the TOCs in 1997 into a net premium today'.

That claim about turning subsidy into premium originated with the Rail Delivery Group (RDG). But with it being repeated by the UK Head of Transport at a leading international accountancy firm, I thought it was time for a fact check.

All it needed was two tables comparing the financial situation of the railway then and now. For the dawn of privatisation I chose 1996-97 and at £1.95 billion the subsidy to the TOCs was near enough the even £2 billion quoted by RDG. That subsidy, plus the TOC's fare box revenue formed the bulk of the railway's income.

I've also thrown in a table of the subsidies to be paid by the TOCs in the first and final years of their original seven year franchises. In chart form, this reveals why, at the time, consultant Michael Schabas was forecasting that the privatised railway would become subsidy-free in the foreseeable future.

Of course, even before Railtrack self-destructed, costs were rising. Railtrack's revenue requirement for the second Control Period (CP2, starting in 2001) was 'substantially higher' than for the initial five years of privatisation.

Due to the 'exceptional nature' of some of these costs the Franchising Director decided that they would be covered by a direct grant. Payment of the grant would be 'unconditional' and accounted for as revenue 'so that they are equivalent to additional fixed track access charges'.

Note that final sentence. The grant was supplementing access charges. In broad terms, the effect of the new settlement was to increase subsidy to just over £2billion at the start of CP2
My second table, recording the financial situation in 2015-16, shows that after two decades the railway's finances have become much more convoluted. While the TOCs collectively the TOCs pay a premium to Government of around £690 million, that is before the direct grant is taken into account.

When the grant is included the net subsidy is 30% higher compared with 1996-97. This is no mean achievement by the TOCs given that over the two decades infrastructure costs have increased by 140%.

But as for turning a subsidy into a premium, the cold numbers don't lie. To pretend otherwise is to deny the dominant issue: the inability of first Railtrack and now Network Rail to control costs and the fact that the passengers are paying for this incompetence through rising fares.
Waterloo derailment has echoes of Clapham.

I was not alone in being surprised at Network Rail's corporate non-reaction to the Waterloo derailment on 15 August last year. In my initial write up (Informed Sources October 2017) I drew parallels with the Clapham accident in 1988.

Published in December, the Rail Accident Investigation Branch (RAIB) interim report into the Waterloo accident reveals a worrying litany of human failings of the kind that the recommendations in the Hidden Report on Clapham was supposed to have prevented.

To recap, the 05:40 Waterloo to Guildford service, was leaving platform 11 and, as far as the signaller and driver knew, the route was set for the train to run straight ahead onto the up main relief line. Having accelerated to 15mile/h the driver spotted that Points 1524A were sitting in the mid position between Normal and Reversed. The driver braked but his train was routed towards the up main and sideswiped a rake of wagons parked on the adjacent line as a physical barrier between the work site and the working railway.

Since the signaller had set the intended route on his panel, and the driver had seen the platform end starter signal at Green, the immediate question was 'how could the safety interlocking be circumvented? The RAIB report provides the answer.

As an aid to commissioning the resignalling. A Test Desk had been fitted which enabled signalling inputs from trackside equipment to the interlocking to be simulated during testing. At the start of the test, the testers would remove the fuses from the point's operational circuits and insert a link from the test desk. Using the desk, testers could send signals simulating the state of 1524 points to the main interlocking.

But after the test desk had been installed, the need to move a line side cubicle associated with the 1524 points resulted in the wiring being updated. This change caused problems for users of the Test Desk which could no longer simulate all the outputs from the 1524 points.

According to RIAB, to circumvent this restriction, over the weekend of 12/13 August 2017, 'a temporary wiring modification was made in the relay room in an attempt to restore the correct operation of the 1524 points test desk switch.'

This modification, adds RAIB, was not reviewed by a signalling designer and was left in place when the railway was handed back on the morning of 14 August. 'Contrary to Network Rail standards, no test log or modification record has been found'. RAIB is still investigating the exact circumstances surrounding the installation of this temporary modification.

Even more surely than the intermittent contact at Clapham, this undocumented impromptu link destroyed the integrity of the interlocking of 1524 points. It no longer needed all three point ends to be detected for a route to be set.

So that's as much as we know, which leaves RAIB with much to investigate. Top of the RAIB's list are the design processes intended to ensure safe design of modifications made during engineering work, the processes for identifying errors and the reasons why these processes were ineffective at Waterloo.

Then, what about the testing which could/should have identified the unsafe control system modification? And why did testing not throw up the error?

Then you get into all the Hidden-related issues, training, competence assessment, working hours and fatigue management for designers, checkers, installers and testers.

Interestingly, in October last year RAIB published its report into a related type of incident following installation of a new track layout and signalling at Cardiff in December 2016.

When the new track layout was brought into use the driver of a departing train noticed that that points in the route his train was about to take were not set in the correct position. He stopped his train.

These points were redundant in the new layout, and should have been secured in readiness for subsequent removal. It transpired that two out of eight sets of newly redundant points had not been secured.

That incidents such as Waterloo and Cardiff East are taking place, despite all those on site having the required competencies and licenses introduced following Hidden should be worrying.
VTEC rumbles on.

Given that this column provided a detailed analysis of the financial problems at Virgin Trains East Coast back in August last year, and then updated developments last month, readers might well ask why it continues to be a political cause celebre in 2018? And the answer lies in one word – 'bailout'. That, and a nasty case of political dishonesty – although long term readers of this column should be inured to that.

As you can't have missed, the VTEC affaire is being promoted by opposition politicians as the Department for Transport 'bailing out' Stagecoach and Virgin from their franchise commitment to pay '£3.3 billion' in premia over the life of the franchise.

Actually adding up the annual premia at 2014 prices I make the total £2.7 billion. But the important number is the total payable in the last four years from April 2019 when, as we know, the East coast Main line Infrastructure upgrade and the new Intercity Express Programme fleet was expected to transform Intercity services on the route, boosting traffic growth and premium payments.

I put the premium payments for those last four years at £1.6 billion. This compares with the £1.1 billion which VTEC will have paid in the first four years to 31 March 2019. Thus, all this £3.3 billion stuff is typical political misinformation.

Then we come to the great bailout conspiracy. As I've been explaining in this column, on social media and radio, the premium payments for the second four years depend on VTEC being able to generate revenue growth from the more intensive higher frequency faster timetable which was due to be introduced from May 2019. As the franchise agreement makes clear VTEC will use its 'best endeavours' to deliver the timetable, but it still depends on Network Rail delivering.

At the moment all we know is that the infrastructure to support this timetable won't be ready by May 2019. What parts of it will become available and when, no one seems to know.

So it pretty obvious that, despite VTEC's best endeavours, the premium profile is wrecked and there is nothing VTEC can do about it. It has to be said that this is convenient for Stagecoach and Virgin as it gives them scope to negotiate a legitimate exit from a franchise which is costing them money.

Even in the arcane world of political semantics, being 'let off the hook' through someone else's shortcomings is not the same as being 'bailed out'.

Which brings us to former Transport Secretary Lord Adonis who, for whatever reason has adopted the VTEC 'bailout' as his pet cause. On 29 December 2017 Lord Adonis resigned from the National Infrastructure Commission Chairmanship to which he had been appointed in April last year.

In his letter of resignation he revealed that he would have been compelled to step down anyway over the Transport Secretary's decision to bailout Stagecoach and Virgin on the East Coast rail franchise.

'It is increasingly clear that the bailout is a nakedly political manoeuvre by Chris Grayling,' Adonis said. He described it as an extraordinary and indefensible move that would cost taxpayers 'hundreds of millions of pounds, possibly billions if other loss-making rail companies demand equal treatment'.

Lord Adonis added that the 'East Coast affair' will inevitably come under close scrutiny by the National Audit Office and the Public Accounts Committee (PAC), 'and I need to be free to set out serious public interest concerns'. 'I am ready to share troubling evidence with the PAC and other parliamentary committees investigating the bailout'.

What this 'troubling evidence' is has yet to be revealed. It looks as though we are entering conspiracy theory territory here. For example, before the cabinet reshuffle Lord Adonis tweeted "Sir Richard Branson & Sir Brian Souter praying that Chris Grayling stays in his job. It could be worth billions to them!"

When Chris Grayling was briefly reported as the new Tory Party Chairman only to remain at Transport, you can guess who had successfully lobbied for him to stay in post – yes really. "Sir Richard Branson & Sir Brian Souter rejoicing that Chris Grayling remains Transport Secretary. Billions in it for them in bailouts, new contracts & reduced competition! I will be exposing all this in the weeks ahead #bailoutbritain".

All great fun for lovers of hyperbole. But back in the real world of 2018, on 10 January there was a debate in Parliament on rail privatisation where Chris Grayling gave an update. VTEC is paying a 'huge premium' to the taxpayer and continues to do so. However, the franchise is not delivering the profits the operator expected 'and is at risk of not making it as far as 2020'.

Virgin and Stagecoach 'got their numbers wrong.' And the franchise has now lost 'the best part of £200 million in the past three years'.

‘Despite that, I am holding them to their full financial obligations, taking every last penny of the £165 million guarantee that we insisted on when they took on the franchise’, Mr Grayling concluded.

Now obviously DfT wants to appear rough and tough as it weathers the bailout storm, but in the column I look at the actual premium payments, sundry potential claims and conclude that Mr Grayling is piling on the agony a bit.

To judge by a blog by Sir Richard Branson Stagecoach and Virgin haven’t given up. The chances of setting up Chris Grayling’s new East Coast Regional Partnership by 2020 are on the emaciated side of slim, so I could see VTEC running the renegotiated Intercity East Coast franchise, possibly up to its full term.

Meanwhile, readers might ponder why DfT is letting Lord Adonis make the running.

DfT’s topsy-turvy train weights

Following on from my recent comments on Class 800 track access charges, a recent Parliamentary Written Answer explained that the difference between the average maintenance cost per mile of track for bi-modes was expected to be approximately 11-12% higher than electric trains of the same design. However DfT added that ‘while heavier than the electric Intercity Express Programme trains the bi-modes are still lighter than the High Speed Trains they are replacing which means less track wear and damage with lower operating costs – a benefit to the taxpayer’.

So, in the world of DfT a 2+8 IC125 at 408 tonnes is heavier than a nine car Class 800 at 431 tonnes, while the lightest of all are two five-car Class 800s in multiple which are replacing the IC125s on a like for like basis and weigh 494 tonnes.

New Train reliability report

As this column has been warning for years, nothing works out of the box. With new trains entering service in large numbers, how soon the manufacturers can get them working something like as advertised is going to be critical to performance over the next couple of years.

Hence a new feature starting with this month’s column. New Train TIN-watch will rank the new fleets in order of Miles per Technical Incident (MTIN). A TIN is recorded after a train has been stopped for 3 minutes.

So far, we have four fleets and no prizes for guessing which depot is in the lead.

Roger’s blog

Well, the professional high spot of the last couple of weeks was the BBC actually sending a Radio Car outside the M25 so that I could do an interview with the Radio 4 PM programme. I suspect I was the only specialist available over the holiday period. The topic was, of course, the VTEC affaire and I got some positive feedback from readers.

This week it’s the Operators’ annual moment of glory as the Fourth Friday Club hosts the Golden Whistles organised by my colleague Tony Miles. Like the Spanners, these awards are based on the hard numbers and honour the people at the sharp end who keep the real railway running underneath all the politics. With around 300 attending there should be a great atmosphere.

Apart from that the diary is pretty clear, but I can’t see that lasting for long.

Roger