INFORMED SOURCES e-Preview July 2018

This month's Informed Sources is devoted to a single subject rather than the usual mix of topics.
Following the announcement that the Virgin Trains East Coast franchise would default in June many commentators noted that it would be the third InterCity East Coast (ICEC) franchise to fail since privatisation started. So I embarked on a deep-dive into the archives to trace the history, not only of each franchise, but the changing politics and government policies over the two decades.

While I occasionally come under fire for being backwards looking, as I relived the past 22 years it became increasingly clear that the repeated failures say as much about franchising in general as they do about ICEC. Wider issues also reoccur, not least the history of frustrated infrastructure upgrades.

With the future of franchising and the whole structure of the railway yet again the subject of debate, I hope readers will find this one-off both informative and relevant as Transport Secretary Chris Grayling's vague aspirations for a 'regional partnership' start to coalesce.

It will be back to normal in the August column, which is already filling up fast.

Intercity East Coast – a tragi-comedy in six acts.

New train TIN-watch

When Sea Containers won the ICEC franchise in March 1996, subsidy was forecast to fall over the seven years from just under £100 million at today's prices, to zero. But in September 1999, Sir Alastair Morton, who had just been appointed Chairman of the Strategic Rail Authority (SRA), threw a spanner in the franchising works.

To Sir Alastair, the only way to attract private investment was through longer term franchises – between 10 and 20 years. So he invited existing and would-be franchisees to come forward with offers to replace any existing franchise they fancied with a new proposal offering better value to the Government.

ICEC, was one of the first franchises to be opened to competition from rivals. Incumbent Sea Containers found itself competing against Virgin Rail Group who had teamed up with Stagecoach.
GNER proposed a two stage upgrade in speed and frequency using tilting trains. Virgin's counter proposal made even 140 mile/h tilting trains seem boring.

A new 105 mile high speed line paralleling the ECML would run from Connington South, past Doncaster to re-join the main line at Hambleton South Junction. With a new fleet of 205 mile/h trains the headline London-Edinburgh Journey time would be 3hr 15 min.

This irrational exuberance was fun while it lasted, but in February 2001 the competition was put on hold. Railtrack had reported that the cost of the associated ECML upgrades had increased by between 20% and 100% depending on what contingencies were included. My Table of the 2001 upgrade proposals for ECML makes interesting, and familiar, reading.

Anyway, Transport Secretary Stephen Byers told the SRA to drop the grandiose schemes and simply seek new benefits for passengers by negotiating a two year extension to the existing GNER franchise.
On January 16 2002, GNER was awarded the two year extension. There would be no subsidy during the extension and GNER committed to spend £115 million over the remaining three year term.

Commercially GNER was still suffering from the after effects of Hatfield. Temporary speed restrictions caused by gauge corning cracking were adding 13.5 min to King's Cross Edinburgh journey times.

At the end of 2003, with the SRA still developing the ECML Route Utilisation Strategy, time was running out for the next replacement ICEC franchise to take over in 2005.

GNER Mk2

Procurement of a new seven year franchise, plus an optional extra three years for good behaviour, started in January 2004. GNER won with an heroic bid based on a compound annual revenue growth rate of 8.7%. It needed the threat of the Freedom of Information Act to extract the premium payments from an embarrassed DfT.

Informed Sources suggested that Virgin/Stagecoach had been the runners up, about £390 million behind GNER on Net Present Value. When I challenged Christopher Garnett on this disparity, he was as insouciant as ever. 'I'm amazed how low all the others bid'. SRA officials claimed that the GNER bid was 'as expected'.

There was reason for GNER's optimism. In the first quarter of 2005 profit was up by 29% year-on-year. And while the terms of the new franchise were forecast to cut profitability by a third initially, revenue growth was expected to allow profits to rise 'to old-franchise levels and better'.

That didn't last either. After only 14 months of the new franchise GNER was already experiencing a cost and revenue crisis. Projected revenue growth for the 14 months had been 9.9%: actual growth was just 3.3%.

Costs were also increasing. And Network Rail's 'better than anticipated' performance had seen GNER making net Schedule 4 and Schedule 8 payments to Network Rail.

Confirmation that the end was approaching came when Sea Containers said it would withdraw from the GNER franchise if terms were not renegotiated by the end of April 2007. A DfT source reminded me that his Department never renegotiates contracts.

National Express

In December 2006 a franchise management agreement was signed under which GNER would continue to provide 'franchise services' until termination. GNER had also agreed to cover DfT's replacement franchise procurement costs.

There were no surprises when the shortlisted bidders were announced: Arriva, First Group, a 50/50 Stagecoach/Virgin joint venture and National Express. National Express was declared the winner with the new franchise running from December 2007 to March 2015 with the final 17 months conditional on meeting performance targets.

While the time to prepare bids had been short by normal standards, the bidders could see what had brought down GNER. Nor had DfT accepted the highest bid, which according to Informed Sources had been submitted by Arriva.

Once again we had the classic straight line constant growth premium profile, perhaps a touch steeper than GNER. Since GNER had crashed and burnt, DfT was challenged on National Express' aggressive premium profile. Up stepped Transport Minister Tom Harris who argued that GNER had been brought down by Sea Container's filing for bankruptcy rather than the over ambitious premium profile agreed with DfT.

But when National Express released its results for 2008, National Express East Coast was already feeling the strain of meeting that premium profile. Arguing that the franchise had been 'constructed in very different economic conditions', NEG revealed that it had 'engaged with the Government to explore ways to offset the impact of lower growth while delivering value through the franchise premia'. This was, of course, the Government which never renegotiates franchises.

Formal acknowledgement of defeat came in a trading statement issued on July 1 2009. Having failed to negotiate a rescue deal, the group would now continue to support the loss making business until the committed funding was used up.

DOR

Meanwhile DfT had established a publicly owned company, Directly Operated Railways (DOR), which would take over ICEC when the NXEC Parent Company Support ran out. DOR would be operating East Coast under a 'Deed of Service' rather than a franchise. Profits would be returned to Government, including the equivalent of a premium. Forecast total payments to DfT for the first three years were £383 million less than NXEC's equivalent premium profile.

It was not until June 2012 that the DfT issued the consultation document on the next replacement ICEC franchise. But as East Coast's third anniversary passed with no sign of action DOR was concerned by the lack of direction for the business. In February 2013, work started on a five year plan taking East Coast through to the end of CP5 in 2019.

VTEC

Two months later, following the Intercity West Coast franchise procurement fiasco in 2012, DfT published a revised franchising schedule. This included an 'immediate start' to returning ICEC to the private sector by February 2015.

When the ICEC ITT was published in March 2014, it emphasised the operational, financial and technical challenges. These included modelling a new timetable, plus the testing and commissioning of the new Intercity Express Programme (IEP) train fleet. In parallel the European Train Control System (ETCS) would be commissioned between London and Doncaster.

What DfT informed sources described as a railway 'nothing like today's East Coast' was to be created in three stages. The first three years would see the existing service upgraded. Introduction of IEP would follow. Finally, in December 2019 the new timetable would offer more-frequent services, shorter journey times and new destinations.

Stagecoach and Virgin were announced the winners in November 2014 and took over in February 2015. A two stage premium profile saw an initial rise, followed by a dip in 2019-20 as the increased leasing cost of the new trains came in. Then it was back-end loading all the way with the premium in the final year more than double that for the first full year.

What happened next is too recent a history for blow by blow coverage. In April 2017 Stagecoach announced that it had made provision for losses at VTEC over the next two years. And while the franchise would continue to meet its obligations, including paying the premiums, just like GNER and NXEC, VTEC was burning down its parent company support. On 16 May the Transport Secretary announced that its new operator of last resort, London North Eastern Railway (LNER), would take over ICEC from 24 June.

LNER

According to Chris Grayling, LNER will 'begin the task of working with Network Rail to bring together the teams operating the track and trains on the LNER network'. Most people I know think this is a) a bonkers concept b) an heroic timescale.

Chairman of LNER is Robin Gisby, founder of the Charterail piggy-back service. Launched in 1990 it went into liquidation in 1992, brought down by British Rail's high traction costs and access charges.

Robin then joined Railtrack in 1997, initially responsible for freight. Subsequently he held a number of posts in both Railtrack and Network Rail, including, note, Zone Director of the ECML from January 2001 to February 2003. His final role was Director Operations which he left in 2015.

Unlike DOR, which brought in new management, LNER is expected to be a lean organisation. Current VTEC Managing Director David Horne and his team will TUPE across to LNER. This will maintain the continuity which will be vital while IEP is introduced and a timetable developed for 2020 which reconciles franchise commitments and open access rights with uncertain infrastructure capabilities.

With the appointment of Andrew Haines as the new Chief Executive of Network Rail, the first experienced railwayman to head the company, I am expecting some exciting times ahead on the East Coast. While DOR was a holding operation, LNER, with what I suspect will be a hands-on Chairman, is going to be in the thick of creating the new railway based on further devolution of the Routes and integration with train operation. Watch this space.

New train TIN-watch

In last month's TIN-watch I highlighted the constant number of units in service with both South Western and Great Western over recent months. This didn't seem to correlate with other reports or mileages. A check confirmed that the Class 707 data was indeed correct with all the 30 units finally available for service in Period 1 2018-19.

However, the GWR Class 800 bi-mode fleet now totals 32 units, reporting having caught up with deliveries. At the last count, 30 five car sets are covering 28 diagrams with two units on driver training. Average daily diagrams are around 470 miles.

At GTR the 115th and final Class 700 has been delivered. However, the Miles per Technical Incident (MTIN) has been falling back for the last three reporting periods. This is concerning, given the increased potential impact of a failure on the already chaotic GTR timetable.

While I predicted low initial reliability, the slow rates of improvement among all the new fleets is starting to disappoint even my low expectations. None of the new trains can yet match the MTIN MAA of the best Pacer fleet.

Roger's blog

I've had an interesting time since the last blog, starting with a trip to Derby for a demonstration of Resonate's Luminate Integrated Traffic Management system. Since 10 June this has been controlling the Great Western Main Line from Paddington to Bristol Parkway.

This is Network Rail's third contract for TM and it is a case of third time lucky. Great Western is not only the first route to have TM operational, but the top spec 'Integrated' version at that. What makes this even more remarkable is that the contract was signed only a year ago.

On the journey to Derby, East Midlands Trains asked if I would like a footplate. Not many hands get bitten off faster, as I have been suffering from a deficiency of main line front end action recently.

Seeing the MML from the cab was informative and illuminating and, as ever, the professionalism of the driver was outstanding. I hope to write-up this trip for a future Modern Railways Welcome page.

At Resonate, Network Rail's Traffic Management Director Andrew Jones and two of his team took me through Luminate's capabilities using the demonstration facility which was running the GWML timetable.

The facility mimics the workstations at Swindon Control and Thames Valley Signalling Centre, but also repeats the displays on large wall screens for visitors. Compared with my visit to see the development system in 2014, everything's much posher, including a seating area with a work surface and stools with lurid seat covers.

There will be a full, illustrated, write up in the August column. But for the meantime, the demo exceeded my expectations. What's different, compared with the other TM systems I have played with, is that Andy and Resonate have produced a truly Integrated operational system that makes running the railway much easier – as with the original IECC.
.
Last week the Office of Rail & Road published its Draft Determination for Network Rail's income for Control Period 6 (2019-2024). I went to London for a briefing from John Larkinson, ORR's Director of Railway Markets & Economics. This was very helpful as this latest Periodic Review is both different and much simpler than previously.

For readers (and me) the good news is that there is a lot less data to crunch so fewer tables and charts in Informed Sources. It is also limited to Operations Maintenance & Renewals as DfT is now responsible for enhancements. Anyway, write-up in the next column and I'll try and make it as interesting as possible.

This Friday I am let loose with a microphone and a captive audience at the Modern Railways Innovation Awards. As you all know by now I am an 'innovation' sceptic when it comes to wonderful solutions from outside the railway which promise to transform our boring old industry. Our awards recognise here-and-now innovation and I look forward to meeting another group of worthy winners.

Next week is interesting. On Tuesday, the IMechE in conjunction with IRSE is holding a conference on Traffic Management. Right up my street. Then on Thursday it's the annual Stagecoach summer reception. No shortage of topics of conversation there as I work the room with notebook and pencil.
Before I sign off and get down to some serious writing, I'll share a new abbreviation used by the Traffic Management testers – DITLO. This stands for 'Day In the Life Of', as in a typical timetable scenario being tested.

Roger

STOP PRESS
Those who follow me on Twitter (@Captain_Deltic) will know that I have been asking when the order for the new Piccadilly Line Tube Stock was going to be announced. Last Friday I tweeted that another week had gone without an order announcement. Five minutes later TfL announced that, as expected, Siemens had won the £1.5billion deal. I suppose I can pretend it wasn't a fluke.