INFORMED SOURCES e-Preview October 2023

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This month’s column focuses on Scotland, where the political mood, when it comes to railways, is very different to that in England.

Scotland’s Railway goes for growth.

Scotland SBP – looking on the brighter-side

Operations – marginal gains drive PPM target

Captain Deltic’s notebook

A provocative table arrived in my in-tray in August, courtesy Alex Hynes, Managing Director, Scotland’s Railway. It showed that in Quarter 4 2022-23, ScotRail ranked fourth among train operators when it came to year-on-year ridership growth. At 32% growth, ScotRail was just behind niche operators Lumo and Hull Trains, both on 40%.

Since I have been preaching that the railway’s only path to financial salvation lies in going for revenue growth, I was soon onto Alex asking how the nearest thing to a joined-up railway we have was doing just that.

And the first thing Alex did was to correct me. In Scotland the emphasis is on reducing the net cost of the railway. As he put it ‘it's not just about revenue or cost, it's about the difference between the two’. The focus is on managing costs and revenue together, which is, of course, one of the aspirations of the Williams-Shapps Plan for Rail – the fabled ‘whole industry Profit & Loss Account’.

Of course, ScotRail has been free of industrial action since March and has been ‘flying’ for the last five months, ‘with a full service and PPM consistently in the 90s’. On the back of this ScotRail has been ‘marketing the hell out of the product’.

In terms of revenue growth, the latest year-on-year figure is around 35%. And, of course, in October ScotRail is due to abolish peak fares for a six months trial across its network.

In the column I describe where ScotRail is spending to generate revenue, including making it easier to buy tickets and making sure that thickets have actually been bought.

Summing up this revenue drive Mr Hynes says, ‘In my six years in Scotland I’ve never known such levels of marketing and recruitment because we are rebuilding the railway post Covid’. All this activity appears to be working, since ScotRail Trains recently increased its revenue budget for the current financial year by £50m.

Supporting the drive is recognition of the ‘new normal’, with Saturday now the busiest day for the leisure-led railway. There are some interesting examples of how planning of engineering works is moving closures away from Saturdays when there is serious money to be made.

As Alex Hynes sums up, ‘what we did pre-Covid is pretty irrelevant. What we need to do now is keep the railway performing and open for when people want to travel and go for the market which now exists’.

Scotland SBP - Ministers maintain rail funding

What stands out in the Network Rail Scotland Strategic Business Plan (SBP) is the positive tone compared with the comparable document for England & Wales which I analysed in July. Of course, on both sides of the Border times are hard and money is tight, but I noted a much more positive response from Scotland.

Inflation is a recurring problem when analysing these five year funding arrangements. In cash terms, Network Rail Scotland’s forecast income for CP6, was £3,767 million. On a like-for-like basis, the Statement of Funds available for CP7 (Informed Sources April) provides £4,200m for operations, support, maintenance and renewals.

However, at 2023/24 prices, and excluding traction electricity, the CP6 funding was also £4,200 million. So, as with England & Wales, the SoFA level of funding for CP7 is ‘broadly in line with CP6’.

Which brings us back to the tone of the Scotland SBP. The focus for CP7 will be on developing an ‘efficient business plan which prioritises greater resilience of the network during extreme weather events, while improving on-time train performance’. A combination of greater efficiency and better performance, is the basis of the SBP.

For CP7 an ‘affordability-driven’ approach to renewals expenditure will see renewals switched to a mix of full renewals and life extending interventions. Clearly overall asset condition will suffer, but the SBP argues that potential risks can be mitigated by applying more targeted refurbishment and maintenance interventions, underpinned by Scotland’s market-led approach.

As with ScotRail, (above), Scotland’s SBP breaks new ground by emphasising the need to focus on reducing net-cost to Government, which equates to the total railway subsidy required from Transport Scotland as opposed to just Network

Rail’s revenue grant. The Scotland SBP reflects this by pairing cost reductions with investing in routes where funding will increase revenues. ‘Infrastructure investment decisions’, claims the SBP, ‘should be focused on value for money for Scotland’s Railway and at the lowest reasonable net cost for the railway overall’.

Prioritisation between assets across Scotland’s eight strategic corridors has resulted in a net increase of £36m expenditure on renewals. Removal of £60m of the lowest value interventions has been offset by £96 million additional high value interventions to target safety and performance risk.

With the Carmont derailment still fresh in the memory, it is to be expected that the biggest increase in funding – 66% up on CP6 – is allocated to ‘drainage and lineside’. Drainage resilience and track drainage works will be prioritised to maintain the asset condition profile and address specific safety and performance risks, taking the impact of climate change into account.

Apart from safety, these activities should also improve service reliability and performance. Removal of sites from the adverse weather list is another priority. These sites are currently subject to the imposition of speed restrictions, applied to mitigate safety risk, during extreme weather.

As with England & Wales, the Scottish SBP cautions that reduced expenditure will result in more Service Affecting Failures (SAF) In Scotland, infrastructure failures are responsible for 17% of delays.

Modelling is predicting a potential 7% increase in SAF by the end of CP7 compared with today. However, proposed mitigations should reduce the actual increase to 3%. This ‘marginal’ increase is allowed for in the programme to improve the Public Performance Measure (PPM) in the new Control Period.

Improving PPM through marginal gains

While the England & Wales SBP challenged the use of a target for the Passenger Performance Measure, Network Rail Scotland embraces it and provides details of the measures which will get from the current 89% to the 92.5% target in five years.

Reflecting the move to an integrated railway through the Scotland’s Railway Alliance, the SBP notes that around 48% of PPM failures are outside the infrastructure operator’s control. Within this percentage, ScotRail Trains’ fleet and train crew have the greatest impact, representing 26% of total PPM failures.

In the column I have a Table showing the percentage points attributed to the various initiatives proposed to achieve the PPM target. Some of these carry over from work during the current Control Period.

Top of the list of ‘targeted improvements’ is the installation of Dual Variable Rate Sanders (DVRS) (Informed Sources June). Based on a full fleet roll-out, assuming full funding by year 3 of the new Control Period, this is forecast to contribute a 0.8 percentage point improvement.

Sources of other marginal gains include increased funding for clearance of lineside vegetation and £10m to be spent on three earthwork sites in the Croy area which should eliminate most speed restrictions during heavy rainfall.

However, to reach the target an 0.4 percentage point improvement will be expected from the ScotRail Trains rolling stock fleet. This will require ‘urgent, sustained and significant investment’ in the fleet, work which is currently unfunded.

Captain Deltic’s notebook

If you haven’t seen the Notebook section of the column yet, it contains short items of topical interest which haven’t found a place in my current writing, but which I think readers might find of value.

There are three short items in the Notebook this month, starting with an analysis of changing passenger subsidy over the last 30 years. This is followed an update on the cost of the Great British Railways Transition Team (GBRTT) revealed in a recent written Parliamentary Answer.

Finally there is a table of train fitment costs for the European Train Control System (ETCS) taken from official European Commission data. In the case of the Class 700 ETCS major up-grade mentioned in a recent column, the cost is pretty much in-line with the European average.

Roger’s blog

A welcome break in the heavy duty analysis of Network Rail’s Scotland Region Strategic Business Plan, which dominates this month’s column, was the surprise interview with Alex Hynes Managing Director of Scotland’s Railway. Alex and his team, plus his bosses at Transport Scotland, have embraced the post-Covid ‘New normal’ in their business plans and marketing.

Covered in the News pages in this month’s magazine is the appearance before the House of Commons Transport Select Committee of Chief Executive of DfT’s Operator of Last Resort (OLR) Robin Gisby with his Chairman Richard George. This too had some heartening moments, Mr Gisby telling the committee, ‘‘What we have always said to our train operators is, “Do the right thing for the long term. Take an investment decision that is the right thing.”’. He added, ‘It is that long-term perspective that we try to emphasise in everything that we see: be bold, be brave, get on and do stuff’.

Contrast this with the recently-announced National Rail Contracts (NRC) for Avanti West Coast and Cross Country. In the case of AWC, the Contract will have a core term of three years and a maximum possible term of nine years. But after three years, the Transport Secretary can terminate the contract at any point with three months' notice.

Meanwhile, next month, I'm planning to update my analysis of the rolling stock market in the May Informed Sources, where the plight of Derby Works has now made the national press. I'll probably also try to get a better handle on the industry's current finances, as the passenger business acclimatises to the new normal.

In a recent piece, travel writer Simon Calder claimed that the railway was being subsidised to the tune of £4,000 per minute, while Transport Secretary Mark Harper has accused the rail unions of wanting the Government 'to throw more money at them'. Time to fire up a spread-sheet and determine the cold numbers.

And on top of that, it's the time of year when production of our annual publication 'the Modern Railway' starts. One of my contributions is writing the introduction, which sets the scene for the coming year.

By tradition this has the heading '20xx – year of ….' In previous years finding the 'mot juste' to complete the heading has taken some thought. But this year the Editor and I had it agreed within a few minutes.

So what will 2024 be the year of? You'll have to wait until your copy of The Modern Railway arrives!

Roger