INFORMED SOURCES e-Preview April 2024

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It was a strange experience writing this month's column. With all the research and writing pretty much done and dusted, in the three days before I was due to send the text to the editor, there were three major developments – all of which related to the topics I was covering. As a result, what should have been the final read-through, became revision and expansion to include the latest information.

Recovery stalled – revenue on plateau

DfT in open access U-turn

Can GBR survive?

When the Office of Rail & Road (ORR) published its 'Passenger rail usage report' for July to September 2023, the year-on year ridership growth data generated some excited chatter on social media. However, when Rail Partners subsequently published their 'Manifesto for Rail A five point plan to create a thriving railway', one passage stood out. It began 'At a time when recovery of passenger numbers has plateaued'.

Had I taken my eye off the ball? It was time to catch up with some more research. And what matters at the moment is not ridership, but revenue.

So while there has undoubtedly been significant year-on-year revenue growth, Rail Partner's warning was timely. On my analysis, revenue will have remained static throughout the 2023-24 financial year, when the passenger business should have been going for growth.

I estimate total passenger revenue for the year ending 31 March will be around £10.4bn. The question now becomes one of putting this figure in context.

My argument all along has been that with the railway is in an entirely new world, pre-Covid comparisons are of dubious value. Which brings us to Transport Secretary Mark Harper's oft-repeated claim, that current levels of financial support for the rail network are 'unsustainable'.

One of the events mentioned was publication of the National Audit Office (NAO) report on DfT's handling of the William's-Shapps Plan for rail reform. According to the NAO, DfT agreed with the Treasury that Rail Reform would deliver savings of £2.6 billion by 2024-25. Most of these savings would come from workforce reform.

The revised figure is £2bn by March 2025. But, with Network Rail's Revenue support Grant fixed for the next five years, most of the savings will be internal 'efficiencies' rather than reduced demand on the DfT budget.

So even before the delay to GBR, the much vaunted 'reform' alone is not going to make current subsidy levels sustainable. As this column has pointed out ad nauseam, the railway can't cost cut its way out of crisis – it has to go for growth.

In the column I have a chart of annual revenue growth since privatisation. Across the peaks and troughs it averages around 6% per annum. The GBR Transition Team estimates a potential £2.3billion in additional revenue to go for. At 6% annual growth I reckon it will take up to 2028 to bring in that extra cash.

That would bring the overall annual subsidy for the railway, to not far off the total subsidy for 2019-20 - the first year of the current CP6. Since DfT increased Network Rail's Revenue support grant by £1.5bn from that year, presumably that level of subsidy was considered sustainable.

I know I said that we shouldn't use comparisons with the pre-Covid railway, but we have to start somewhere. So, if we consider 2019-20 as the Government-approved benchmark for 'sustainable subsidy', it might be attainable in the next five years.

I've cross checked this analyses against Rail Delivery Group statements These referred to taxpayers continuing to contribute 'an extra £54m a week' to keep services running post Covid.

That 'extra £54m a week', equates to £2.8bn a year. Knock that off the total subsidy for 2022-23 and you get £9bn. So £8-9 billion a year could be 'sustainable'.

When the politicking starts ahead of the forthcoming General Election, and if railway policy features on the campaigning 'grid', the key question will be 'what is a sustainable level of subsidy'? You won't get am answer of course, but political feet need to be held to the fire.

At a Media Event shortly before the budget, my former colleague Robert Preston, did just that. Robert asked the Chancellor of the Exchequer, no less, whether he thought the level of spending on the railway in the UK was sustainable in the long term? Mr Hunt replied, 'I do, as the railway is going to become increasingly important as we move to net zero'.

But, he cautioned, ‘However, there is a transition post pandemic - we’re still finding the right equilibrium’. So here’s a new undefined ‘weasel’. ‘Tell me, minister, what is the “right equilibrium” when it comes to rail subsidy’?

DfT wants more open access

Just under a decade ago, Virgin Trains East Coast (VTEC) was battling with various open access operators for the use of the extra paths expected from Network Rail’s East Coast Main Line (ECML) upgrade. At the ORR hearings, DfT was in the thick of the fray supporting the VTEC application and arguing against awarding more paths to Open Access operators who would abstract revenue from franchised operators.

Since then the world has moved on. As a result of DfT’s claim that Open Access operators (OAO) didn’t pay their way, new applicants may now face a supplementary Infrastructure Cost Charge (ICC), currently £5 per train mile.

And, when the proposed Rail reform legislation went out to consultation as recently as June 2022, it included changes ‘further strengthening protection for taxpayers’ against OAO. DfT proposed that ORR would also have to take into consideration public sector funding of rail services when applying its duty to encourage competition - including access to the track.

But all this went out of the window when the Conservative politicians in the DfT got back in touch with their inner capitalist. In January 2023 Rail Minister Huw Merriman declared that ‘We want to encourage more and more private operators to get involved in the operation of trains through open access and more competition along the line’.

Newly appointed Transport Secretary Mark Harper has taken an axe to the Williams-Shapps Plan. The Draft Bill to establish Great British Railways was suffused with a true blue insistence on private sector involvement.

Which brings me to the latest Open Access Applicant, the Alstom-backed Wrexham, Shropshire & Midlands Railway Company (WSMR). As reported in our January issue it is proposing a service between Wrexham General and London Euston.

According to WSMR, the service would pass the ORR’s ‘Not Primarily Abstractive (NPA) test. This test is a simple measure – the ratio of the new revenue generated by the proposed new service divided by the revenue abstracted from existing operators . The threshold used by ORR in evaluating open access applications is that the ratio must be greater than 0.3.

linked to the WSMR proposal, in February DfT instructed Avanti West Coast to withdraw its Shrewsbury-Euston service from the start of the June 2024 timetable. A DfT spokesperson told Modern Railways that the service was ‘losing £1.4 million a year’.

DfT added that ‘changing travel patterns mean our railways aren’t generating the same revenues as they were before the pandemic, and we can't ask taxpayers to maintain the historically high level of financial support for the industry indefinitely – more than £12bn over the last financial year alone’.

So here we have an interesting financial calculation. DfT is removing a single return service from Shrewsbury, losing £1.4m a year, while encouraging the private sector to run five trains a day over the same route, abstracting revenue from the subsidised passenger operators.

Meanwhile, according to Informed Sources, Avanti West Coast’s analysis of WSMR’s notional timetable has revealed over half a dozen issues with pathing the new services. And Network Rail is still working on the pathing requirements for the five services a day each way.

When the access request was submitted, an initial analysis could make only one of the 10 paths work. Network Rail’s Capacity Planners are even now exploring the options available for accommodating all, or some, of the requested paths.

And, in yet another of the late breaking events, the ORR announced that it had approved Grand Union’s Open Access Stirling-London service. ORR calculates Gross Abstraction at £24.4 million a year on new revenue generated by the service of £9.3 million.

According to ORR, ‘The Department for Transport (DfT) did not comment on this application’. Nuff said!

GBR on last legs

With the Draft Bill required to give Great British Railways its powers just published, readers might have been worried that this month’s column would be taken over by a clause-by-clause analysis of the changes proposed to the existing legislation. But given the uncertainty of an upcoming General Election, I judged this to be a waste of your time and mine.

What the GBR Transition Team (GBRTT) has yet to make public has been a schedule for the creation of GBR, starting with the passing of the new Railways Act and ending with a GBR fully staffed and running an integrated railway. To explain why I expect that the Williams-Shapps Plan for Rail will join Sir Roy McNulty’s 2009 Value for money study among the archives in the basement of New Minster House, I thought it worth updating the timescale for the creation of GBR, which appeared in the March 2023 Informed Sources.

Last yer, I assumed that that Bill would receive Royal assent in mid-2024, with GBR established from 1 April 2025. In retrospect, that was a touch naïve.

My new, but still optimistic, assumption is that by the time the dust has settled after the election, the new Administration, (of whatever colour) could get the Bill through in time for GBR to be in existence by April 2026.

Working from there I explain how an empowered GBR would not be ready to start the competition to let the first of the new integrated Passenger Service Contract (PSC) before 2029. That is a very long time in politics which prefers quick fixes.

So GBR is probably dead. But what might a Labour government do, starting with leaving the Reform Bill alone? The immediate task would be to allow the individual Train Operators to settle the Aslef dispute.

After that, while the current fragmented railway is far from perfect, with nearly 30 years' experience railway managers should know how to make a bodged privatisation work. Free from political distraction they should be able to get the network running reliably, given a free hand on things like rolling stock cascades, for example.

This may seem lacking in imagination, but as laid out in the opening item, the dominant task is to restore the boringly reliable and dependable railway which is needed to get ridership and revenue growing again. And this demands a period of stability.

Certainly, GBR is no longer the answer to whatever the question was when Keith Williams started his review nearly six years ago.

I would not like readers to think that I would be happy for the railway to be left making the best of a bodged job long term. In the column, and also in this month's Editorial, we provide some thoughts on the recreation of an integrated railway.

Roger's blog

First of all, for magazine readers, here's an update on my lead story on revenue recovery. In Figure 3, I derived the revenue for October-December (Quarter 3 2023) from internal industry reports for Period 10 2023-24. This showed a drop in revue for the Period which was reflected in the chart.

ORR has since published its passenger rail usage report for Quarter 3 which gives total revenue of £2.6b billion. This is in line with the two preceding quarters and my estimate for Quarter 4.

So my report that revenue has been on a plateau since April 2023 still stands. But I will need to find out why the fall in revenue for Period 10 was not reflected in the quarterly statistics. It may be something simple like the mismatch between 13 Reporting Periods and 12 in a year.

Meanwhile, after the hectic start to March, I'm hoping for a return to a more-orderly tempo when I start writing the May column. With luck, I will also be able to avoid this month's weighty political matters and return to the column's regular fare, including revisiting a recent topic which generated a lot of interest and expert feedback.

The signalling webinar I mentioned in last month's e-Preview turned out to be a disappointment, with the focus almost entirely on ETCS. There were some nuggets of information to be gleaned, but not what I was expecting.

Talking of signalling, elsewhere in the April issue, there is an article by the Editor on Scotland's Railway's signalling plans, including an update on their introduction of Resonate's Luminate Traffic Management System.

That's all for now.

Roger