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Warning that Network Rail debt is unsustainable

THE OUTGOING GOVERNMENT has warned that by 2020 the annual cost of servicing Network Rail debt will rise to £4.5 billion. At the end of the 2008/9 financial year total NR liabilities stood at £32.9 billion set against balance sheet fixed assets of £38.9 billion. New or renewed asset expenditure was £4.7 billion in the year, and overall liabilities increased by £5.2 billion.

Although profit and loss account income was £6.2 billion, which allowed an operating profit of £2.5 billion to be reported, direct Government grant is close to half of income and there are obvious warning signs about what lies ahead in a post election atmosphere that will be about the timing and extent of reductions in public spending rather than whether they will take place.

Regulatory efficiency target

The regulatory process required NR to achieve efficiency savings of 31% in the 5 years preceding 2009 and this was largely achieved for day-to-day costs with the one-off benefit of bringing infrastructure maintenance under direct control.

The regulatory review for Control Period 4 (2009-2014) requires further efficiency to be generated with a reduction in maintenance spending from the current level of £1,099 million to £845 million by 2014. As 60% of the costs relate to staff it is only by reducing workforce numbers that this target can be achieved. This is the background to the dispute with the RMT trade union about a perceived reduction in safety standards which NR refutes on the grounds that much more automation has been introduced that mitigates the need for physical inspection.

NR says that by 2014 they will be among the most efficient rail infrastructure providers in the world, with further savings made by simplifying the interfaces between train operators, engineering contractors and themselves.

Simplifying processes will be welcomed by contractors who are resentful about the



The annual cost of Network Rail debt interest will be £4.5 billion by 2020 - a figure the Government believes is unsustainable. Network Rail

wasted effort in tendering which could be avoided by framework agreements that allow call-off contracts to be awarded for given requirements. A greater continuity of orders is needed to produce a high-quality, well-invested supply chain which currently struggles with intermittent contracts that prevents effective planning.

The self-contained Merseyrail network is seen as an ideal pilot scheme to assess the cost benefit of closer integration between the infrastructure controller and train operating companies. Here, a Class 507 EMU calls at Little Sutton station nearing the end of its journey to Ellesmere Port.

Gareth Bayer



If evidence is needed that the system is not working then there is no need to look further than the financial collapse of Jarvis, at one time the largest renewal contractor, where workload requirements for NR fell by 50% in the last year.

Promoters can reduce cost

Scheme promoters have consistently said that if allowed they could reduce costs as compared to the quotations that emerge from NR, and there has been a very direct challenge by the Merseyside Passenger Transport Executive (Merseytravel) to undertake its own infrastructure development and upkeep on cost grounds. Since 2003 this organisation has provided the franchising role for the self-contained Merseyrail network and granted a 25-year concession to a joint venture between Serco and Ned Rail in that year.

At Government level, a review of spending trends has been launched which is to lead to a Value for Money review which, after consultation, will be published in March 2011 accompanied by a detailed implementation plan.

The generally held view of the train operators is that they do not wish to control the infrastructure but that with the promised longer franchises, greater partnership can be achieved and private sector funding attracted to meet the capacity enhancement programmes that are necessary if passenger growth continues as expected. ■

Operations Practice

The specialists within the FCP Operations Practice continue to work on planning for projects and developments in the rail industry, often in partnership with other consultancies with complementary skills.

With **AECOM**, we have worked for TfL to scope and refine emerging ideas for development of the national and London Overground rail networks, to build on the expected success of the East London Line Extension which is due to open in April, provided some issues that have arisen with the use of new rolling stock are resolved. FCP had previously led studies for TfL to demonstrate feasibility of the extension of ELL services onto the South London rail network, which were instrumental in obtaining an access option for the proposed new train services.

A recent major project undertaken with **The MVA Consultancy** for the ORR and Network Rail as joint clients reviewed the performance modelling and simulation undertaken in connection with the WCML Upgrade. The aim of the study was to refine modelling methodologies, to gain a wider understanding of the strengths of the various simulation tools on the market, as well as identifying potential to exploit these tools in an integrated process.

This work drew on both our appreciation of simulation modelling developed over nearly 20 years, and our direct experience of supporting the specification of the Upgrade.

FCP consultants also work actively in support of the education programme of the **Institution of Railway Operators**. William Barter, teaches degree students in Economics and Operational Planning, and is preparing to run another weekend course in Operational Planning Principles and Practices on May 14-16 (details on the IRO website).

We are also active in preparing access bids for new open access operators, in their pursuit of opportunities overlooked by the current franchise maps.

This puts us amongst the earliest adopters of Network Rail's new Integrated Train Planning System used for timetable planning and access bidding. ■

FCP meets sales expectations and continues investment

THE 2009/10 FINANCIAL YEAR was a challenging period for First Class Partnerships given the absence of franchise competitions and efforts within the industry to reduce discretionary spending. Despite this FCP achieved its forecast sales budget and reported significant earnings from new customers. Investment continued in rail related products and services and in this sphere of activity there was a major success with the formal accreditation of Mytrainticket.co.uk. The website has been developed by Assertis Ltd to provide internet ticket sales. Activities were formally launched at the end of April following a period of trial operations to demonstrate full compliance with the Rail Settlement Plan allocation of revenue between train operators.

East Coast pre-planning and mobilisation

FCP has assisted Directly Operated Railways (DOR) with pre-planning and mobilisation arrangements for the transfer of the InterCity East Coast Railway into its ownership following the decision by National Express to give up the franchise contract in November 2009. In particular FCP has provided professional industry experts to assist DOR with the development of the operations and safety aspects of the transfer strategy, and Public Relations & Communications planning.

Support was also given on the analysis of the market position, revenue and drivers of demand to ensure all necessary steps are taken at a market planning and customer service level to protect revenue as well as lay the foundations to assess the options open to DOR for improving both farebox revenue and yield.

Peter Wilkinson, FCP Managing Director, said: "Clearly with the establishment of DOR as a special purpose vehicle reporting to the Secretary of State and under the qualified and experienced leadership of Elaine Holt, the DfT did not need a full turn-key 'Operator of Last Resort' service from FCP, however we were proud to have been asked to assist and to have been able to play a small but valuable part in the safe transfer of the East Coast operation to DOR custodianship."



The 13.30 Edinburgh–King's Cross service runs through Musselburgh on November 14th last, the first day of operation for the Directly Operated Railways East Coast subsidiary. Subtle changes have been made to former National Express and GNER-liveried vehicles to reflect the new operating circumstances. Refurbished traction is provided in the form of HST power cars No. 43206 & 43277. Steven Brykajlo

Feonic Transport Limited (FTL)

FCP is the largest shareholder in this company which is focussed on the requirement for audio and media display technology functions in the installation of platform sliding doors that remove risk by segregating train operations from passengers on platforms.

FTL is working with a number of Metro operators to refine specifications. The focus on improving stations in the UK is also an opportunity. This includes providing sound equipment in modular station design as a cost effective way of offering public address systems that give high quality audio results that confine announcements to the required envelope. This is particularly valuable at urban stations where the use of PA systems is restricted due to noise nuisance. ■

An end to stability

RICHARD GEORGE WRITES...

I HAVE THE PRIVILEGE of living in a house which overlooks a beautiful valley in the countryside just outside Bath. In 'my' valley runs a river, a canal and a railway, all in good working order and all very popular with tourists. I was down walking along the riverbank recently and came across a very modern, very grey, very square and very well produced bit of civil engineering that explained why I had been seeing Network Rail lorries disappearing into the undergrowth for the last few months.

On the bend of this scenic river, right next to the heron, was a substantial stone reinforcement where the water had presumably been undercutting the bank – above which sits the railway line, above which sits the canal. There was a bit of me that thought what an ugly scar on 'my' river bank – but I immediately put this behind me and thought what an excellent bit of railway engineering, foresight and planning to deal with a potential bank erosion problem and provide long term stability before any serious problem arises. Well done chaps.

An interesting thing stability. Would that job have been done without the certainties that Network Rail has enjoyed for the last 7 or 8 years? Not a hope. British Rail were around for 50 years but I have little doubt that the river bank would never have been touched in those days until a problem actually arose or was imminent – 'make do and mend' always seemed to be the best that funding would allow.

Consistency of funding has addressed past underinvestment

So it isn't just about organisational stability, it is more about consistency of priorities and consistency of funding to back it up. Whilst Network Rail have always argued they need more money and less interference from Regulators to do their job properly (I would in their shoes too) there is no doubt that the basic infrastructure engineering spend is greater than it has been in actual and in proportional terms than for a generation. This is good news for all railway users (other than at weekends) – but it could only have happened with the stability of funding and direction that Network Rail have had in dealing with what they themselves have described as decades of underinvestment.

Stability is not however what we are likely to see in the near future. The general election means we have the potential for political instability to go with the questioning of all public spending that will follow. For the first time in many years we also have Industrial Relations instability with national strikes being called.

One can see a 'perfect storm' brewing. Economic imperatives to cut public spending will become hard world reality very soon after any new government takes power. This will exacerbate the already fragile state of industrial relations and provide those who are looking for disruption opportunities with plenty of excuses. Put that in the context of political uncertainty and it really does look horribly unstable.

Apart from some wailing and gnashing of teeth, what are we

"One can see a perfect storm brewing."

to do about it? As is usual in these articles, I will remind the reader that this is not new. The railway has been through National Strikes, funding shortages, hostile political environments (and worse) many times before. In these circumstances there is no point in doing anything other than just getting on with it as no amount of politicking is going to avoid the funding cutback. I suspect we will be saying goodbye to many of our favourite schemes.

In these circumstances, in the past, railway management would have reverted to the 'make do and mend' culture until the storm blew over. The problem now is that the quantitatively risk assessed, programme managed, assurance checked, audited, process driven, design approved, integrated and layered approach to managing anything at all makes this all very difficult. (Don't get me wrong – this approach stops a lot of duff and harmful decisions happening – the problem is that it also makes any change of approach pretty hard too).

Managers will find difficulty in exercising judgement

So my fear is that instead of asking managers to make sensible judgements about priorities, risk and value for money – the cut in public spending will simply lead to a quantum cut in the work done, in the number of improvement schemes and in the outputs, because the current processes dictate that nothing else can happen without increasing the risks.

Good managers don't take unreasonable risks either – but they can take decisions – but the system has to allow them to do so. If we have a perfect storm approaching then we need to have a flexible response which can't be driven by what the machine says. Stability has allowed the process machine time to bed in and function well to deliver in an ordered, well-funded environment. My fear is that the storm is about to blow that stability away and I suspect the machine is not equipped to deal with the new conditions.

If you think that reads like a rant about Network Rail – it isn't. They are just one part of the process machine – this is a machine that goes all the way up from local management to the highest levels of government; it includes Network Rail but it also includes the TOCs, the franchise mechanisms, the DfT, the Treasury and numerous other associated hangers-on.

I dread to think how many people there are employed throughout the railway industry involved in process checking, assuring each other, integrating programmes between each other, stakeholder managing etc. All organisations are required to do it – it's the way our 'stable' world operates these days, some call it a thorough approach to management, some call it democracy; I know what I call it...

Me? I like a bit of instability, stuff happens! ■

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FCP continues to undertake wide-ranging advice in the transport consultancy market for customers that include the Department for Transport, Scottish Executive, Welsh Assembly Government, Office of Rail Regulation, Transport for London, overseas governments and railways, financial institutions, UK train operating and rail engineering companies. FCP is also retained by the DfT as the 'operator of last resort'.

How ATOC is influencing opinion formers

THE NEED TO RETAIN some elements of centralised management in the passenger market following privatisation resulted in the creation of ATOC – the Association of Train Operating Companies. From a customer perspective the most important function is the management of products available on a national basis from all TOC's which requires a complex revenue allocation system known as the Rail Settlement Plan. ATOC manages this process to ensure revenue reflects how passengers use services.

A computing application called LENNON (Latest Earnings Networked Nationally OverNight) is used to interpret sales data provided by another program called ORCATS (Operational Research Computer Allocation of Tickets to Services) which models what can be expected to happen in the choice of service when inter-available tickets are used.

For longer distance travel in particular there is now much less emphasis on inter-available tickets where passenger can 'turn up and go' and these products are now outsold by dedicated tickets for use on services provided by a specified operator. This type of ticket validity is particularly relevant for advance purchase where the use of the internet has enabled users to search out good value products for themselves.

ATOC also manages the National Rail Enquiry Service the advent of which was a major improvement over what had gone before where more than 40 enquiry bureaux existed that were not networked, so that busy centres could not overflow calls to other locations.

There are also licensing functions including the accreditation of travel agents, and approval for international travel products such as Britrail and Inter-Rail passes. The arrangements for staff travel are managed through Rail Staff Travel Ltd. ATOC also acts as a trade association to represent the views of train companies to the Government, Office of Rail Regulation, and other stakeholders such as devolved executives and Passenger Focus.

The organisation has become more pro-active and a number of initiatives have been launched that among things has called for line re-openings as part of the 'Connecting Communities' report and more recently a paper on franchise reform which would allow the TOC's to be more proactive in the development of the rail market. The latter seeks to demonstrate that longer franchises would bring defined improvements that would focus management on the delivery of high quality customer service without having to be mindful of when they had to make the next bid. The key benefit is that it is believed initiatives could be delivered more quickly and more cheaply than relying on Network Rail to sponsor schemes. The case was summarised that TOC's could deliver more for less, and bring innovation and commercial nous into improving the railway.

A decision by the DfT early in 2010 that in future longer franchises of up to 22 years duration would be offered appears to have marked a successful climax to this campaign but concerns remain that the future franchise specifications will be too tightly drawn to allow innovation. ■

Freight recession continues as Jarvis Fastline ceases trading

JARVIS FASTLINE FREIGHT has become the second licensed freight operator to collapse within six months, and follows the demise of Advenza.

Jarvis entered the commercial freight market in 2006 with the operation of intermodal trains to link Thamesport (Isle of Grain) with Doncaster, Birmingham (Birch Coppice), and Manchester (Trafford Park). The company was then successful in securing a five-year contract from the electricity generator E.ON to haul coal to Ratcliffe-on-Soar and Ironbridge power stations from collieries at Daw Mill and Hatfield, and various ports. This traffic commenced in May 2008.

The economic recession had a severe effect on the intermodal business and by early 2009 load factors achieved could not justify continued operation and the services were withdrawn. Initially the coal operation prospered and high performance standards were achieved which encouraged other generating companies to use the operator but during 2009 the recession was also to have a severe effect in the coal market. The price of gas fell and it became a more competitive energy source for electricity generation. In addition mild weather in the winter months leading up to Christmas meant electricity demand was low and the large coal fired stations were operating far below capacity reducing revenue for freight operators. Rail coal traffic fell by 30% in Quarter 3 of the financial year compared to a year earlier.

The Jarvis parent company also experienced reduced Network Rail work which weakened cash flow throughout the group to the point where bank credit was no long available.



Fastline Freight invested heavily in new equipment for its £40 million five-year coal haulage contract with E.ON, leasing a fleet of five Class 66/3 locomotives and 94 high capacity bogie coal hoppers. All have now gone into store after the financial collapse of Jarvis at the end of March. Steve Jackson

For commercial freight activity it had been hoped that the business could be sold as a going concern but this had not happened when administration occurred and operations ceased in early April.

Advenza had a longer history than Jarvis Fastline Freight. It was established to provide a service for small consignments between London (Willesden) and Glasgow (Mossend) marketed as 'FreightBus' with ex-Royal Mail vans used for rolling stock. This was not a success and the company was taken over by Cotswold Rail with a policy to concentrate on the vehicle movement market for overhaul and storage with effort to

diversify to secure more commercial freight. Again recessionary effects were felt and the company ceased trading in October 2009 as a result of investors declining to provide further financial support.

Reduced competition in the freight market will not be welcomed by customers who have valued the growing diversity of freight operators available and the varying solutions adopted to meet market needs. Recently published traffic figures show that the remaining operators have a lot of spare capacity and it is unlikely that there will be any further new entrants until this is absorbed. ■