Railnews EXTRA
Today's news for tomorrow's railway

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PM unveils u-turn over rail fares

News in brief from an eventful week

Speculation is growing that Virgin could be set to stay on the West Coast Main Line for the time being

Shock and anger as West Coast collapses

The DfT is under fire and franchising has been plunged into disarray, as the result of official blunders

THE COLLAPSE of the West Coast franchise award to FirstGroup has angered the Prime Minister, shocked the City and reinforced calls for railway renationalisation. Two official inquiries are to be held, and MPs are demanding explanations. The DfT has admitted that the debacle will cost taxpayers £40 million, but many commentators believe the final figure could be much higher. Work on other franchises has been suspended.

The announcement came out of the blue just after midnight on 3 October, when transport secretary Patrick McLoughlin conceded that runner-up Virgin Trains had been justified when it criticised the Department's methods of calculating the risks involved in franchise bidders' business plans. Virgin, which said it had asked for details of the official calculations in vain, had taken the matter to court in what it described as a bid to gain some 'transparency' from Government over its assessment of bids.

Mr McLoughlin explained: "I have had to cancel the competition because of deeply regrettable and completely unacceptable mistakes made by my department in the way it managed the process.

"A detailed examination by my officials into what happened has revealed these flaws and means it is no longer possible to award a new franchise on the basis of the competition that was held."

Virgin had claimed that the £200 million financial buffer required from FirstGroup had not been calculated correctly, and that the degree of risk involved in First's £5.5 billion bid should have called for a deposit, known as a 'subordinated loan', of £600 million.

This figure had been denied by FirstGroup and also the DfT, which had previously described the official calculations as 'robust'.

The transport secretary has maintained that ministers, including himself, who had defended the decision had done so on the advice of officials. It appears that the flaws were uncovered while evidence was being prepared for the High Court hearing which had been set down to start on 17 October, and that the transport secretary had only been given the facts on the afternoon of 2 October, after which he decided that the award must be cancelled.

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The first Beeching Report was published 50 years ago next March, but it was only meant to be a first step. Behind the scenes, BR's closure plans went much further. No more trains between King's Cross and Cambridge. The end of the line for Lowestoft, Aberystwyth, Inverness and Torquay, among many others. There were frequent hints and rumours, but here's the proof. Newly discovered confidential documents reveal ...

Beeching's secret plan

EXCLUSIVE in Railnews for November

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news

THE LOWDOWN

DEPARTMENT FOR TRANSPORT

U-turn on New Year rail fare increases

THE PRIME MINISTER announced another u-turn on rail fares on the eve of the Conservative Party conference, capping regulated fare increases at RPI + 1 per cent indefinitely. Previous policy had specified RPI + 3 per cent for the next two years. ATOC described such a rethink as 'a positive move', but the TSSA said it was 'too little, too late'.

Rail fare increases are to be restrained, which means that regulated fares will now rise by an average of 4.2 per cent in January

IRISH RAIL

David Franks set to cross the Irish Sea

IARNRÓD ÉIREANN has announced that David Franks will become chief executive of the Irish Republic's rail network in February 2013, when Dick Fearn's seven-year contract ends. David Franks has most recently been UK Rail Director for Keolis, of which SNCF is majority shareholder, where he had been involved in preparing one of the bids for the stalled West Coast franchise.

EUROTUNNEL/ALSTOM

New boost for Chunnel railfreight prospects

RAILFREIGHT through the Channel Tunnel was given a potential boost during the last two days of September, when an Alstom Prima II locomotive was tested during special runs from Calais to Folkestone and back. Eurotunnel said the test had been part of its 'determination' to encourage more freight traffic between Britain and the continent without necessarily using Class 92 locomotives.

NETWORK RAIL

Car plant site for national rail logistics

A FORMER Peugeot car plant at Ryton in the Midlands is to become the centre of Network Rail's road distribution network. The 33,300 sq metre centre, costing £25 million, will create around 100 jobs and should open in July 2013. Because of its central location, it will reduce the total mileage travelled by road vehicles being used by Network Rail.

FIRST GREAT WESTERN

New Community Railway for South West England

THE EXETER to Exmouth branch line is the latest Community Railway. Known as the Avocet Line, the route was among those chosen for closure by Dr Beeching almost 50 years ago, but survived to celebrate its 150th anniversary in 2011. The DfT said the designation would enable the line's Rail Users' Group to work more closely with train operators.

NETWORK RAIL/EAST MIDLANDS TRAINS

Next stage launched in Nottingham Hub scheme

THE NEXT stage in the creation of a transport hub at Nottingham station took place yesterday, when the ticket office and taxi rank were moved to temporary locations so that work can continue. The scheme, which will take another 18 months, includes a new concourse and a bridge over the station carrying trams heading for the south of the city, where two extensions are being built.

SAMARITANS

Train namings honour founder of 'the listeners'

THE FOUNDER of the Samaritans was commemorated on 4 October by three train namings at London Euston, including a Virgin Pendolino. Reverend Chad Varah launched the service for people in distress at a City of London church in 1953 helped by its phone number MANsion House 9000, which he felt was similar to 999. The charity is working with Network Rail to reduce railway suicides.

NETWORK RAIL

Senior planning jobs are reshuffled

NETWORK RAIL has announced that some senior jobs are being reshuffled. Jo Kaye, who is currently route managing director for the London North Western route, is to take up a newly-created post reporting directly to group strategy director Paul Plummer. Dyan Crowther will replace Jo Kaye, while her job will be taken over temporarily by operational planning head Fiona Dolman.

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Apart from Virgin and FirstGroup, the Dutch operator Abellio and a partnership of SNCF and Keolis had also been shortlisted for the Intercity West Coast contract, which should have started at 02.00 on 9 December and run for a minimum of 13 years and four months.

As the news spread on 3 October FirstGroup's shares began to sag, wiping 20 per cent off the company's value during the day. A spokesman said the company was 'very disappointed' although the cancellation was welcomed by Virgin, which may now continue to operate West Coast for now under a management contract if discussions with the DfT succeed.

The Prime Minister said he was 'extremely angry and apologetic' about the crisis. David Cameron also vowed that those responsible for the miscalculations at the DfT would be 'held to account'. He conceded that 'technical errors' by the DfT's Rail Group had remained undetected, although he insisted No.10 had done all it could to double-check the process.

Three civil servants were immediately suspended by the permanent secretary of the DfT, Philip Rutnam, but even this action soon led to fresh developments. Although the DfT refused to name those involved, one of the three decided to go public after taking legal advice.

Kate Mingay, who was in charge of commercial and technical services, said: "While it has been widely reported that I have been suspended my role has been inaccurately portrayed, mainly due to statements and other comment made by the Department for Transport itself. I would like to make it clear that I did not have lead responsibility for this project. Neither I nor any member of my team had any responsibility for the economic modelling for this project or for any Department for Transport project.

"Nor did I have any responsibility for the financial modelling in respect of this project."

> **"The Government's belated admission that it ran a flawed tendering process will come as a surprise to no one. The transport secretary must now reveal the full details of what went wrong and come clean on the full cost to taxpayers of this shambles."**
> Maria Eagle of Labour

The DfT has declined to comment further.

Among those reacting to the news of the collapse, Labour's shadow transport secretary Maria Eagle said: "The Government's belated admission that it ran a flawed tendering process will come as a surprise to no one. The transport secretary must now reveal the full details of what went wrong and come clean on the full cost to taxpayers of this shambles."

RMT general secretary Bob Crow called for the West Coast route to be taken over by the Department for Transport for good. He said: "The whole sorry and expensive shambles of rail privatisation has been dragged into the spotlight and instead of re-running this expensive circus, the West Coast route should be renationalised on a permanent basis. Those ministers who have presided over this fiasco should also be called to account."

The first of the two official inquiries will be an 'urgent independent examination' conducted by independent advisers and overseen by Centrica chief executive Sam Laidlaw and former PricewaterhouseCoopers strategy chairman Ed Smith, who are both DfT non-executive directors. Their initial report is expected by the end of the month.

The second review will be undertaken by Eurostar chairman Richard Brown, and examine the wider rail franchising programme. The DfT said it will look in detail at whether changes are needed to the way risk is assessed and to the bidding and evaluation processes, 'and at how to get the other franchise competitions back on track as soon as possible'. This will report back by the end of December.

There are further implications beyond West Coast, because the DfT's admission has now put the 2013 franchising programme in jeopardy.

Four franchises were due to be renewed next year – Essex Thameside (currently c2c), Greater Western, Thameslink and East Coast, but the bidding processes have come to a halt.

External scrutiny has also begun. The chair of the House of Commons Transport Committee, Louise Ellman, this morning published a letter she has sent to transport secretary Patrick McLoughlin.

He is due to appear before the Committee on 31 October, when he will be expected to give details of his Department's failure. Mrs Ellman is also demanding early publication of the results of the official inquiries.

■ West Coast Q&A **P3**
■ The Longer View **P4**

Virgin may now continue to operate intercity services on the West Coast after 8 December

West Coast Q&A

Q. What has gone wrong with the award of the Intercity West Coast franchise?

A. The DfT has admitted that its calculations of risk associated with the winning West Coast bid were 'flawed'. Assessments of the losing bids may have been affected as well, of course. A new computer model which was supposed to provide a better assessment of risk was used for the first time, and the DfT has said that not all the necessary figures were provided to it. There may also have been some 'double-counting' by officials.

Q. Does that justify cancelling the award?

A. The DfT (and Virgin Trains) say it does. Although the details have not been fully revealed, we understand that the errors included a failure to take inflation into account, which means that the projected revenue and profits (and expenditure) would have become increasingly inaccurate as the franchise progressed.

Q. If inflation had been taken into account, would the projections have been reliable?

A. Less unreliable, perhaps, but long-term predictions associated with franchises of this length (13 years and 4 months, at least) are always going to be highly approximate, to put it kindly. Disregarding a major factor like inflation only makes matters worse – possibly much worse.

Q. Doesn't the DfT try to protect itself (in other words, the taxpayer) against rail franchises failing en route?

A. Indeed it does. Bidders are required to provide a financial buffer – essentially a form of insurance – which will be called upon in the event of failure. This buffer usually takes the form of a 'subordinated loan'. In the case of FirstGroup, there would have been £10 million of shareholders' capital involved too.

Q. Does this buffer also cover people who pay for travel in advance?

A. No. There are separate bonds which protect money deposited with the franchisee because of advance purchases (for season tickets, in particular).

Q. So is it safe at the moment to buy West Coast tickets for travel after 8 December?

A. Absolutely. The DfT has guaranteed that all tickets will remain valid.

Q. We know that Virgin had started legal proceedings. Had VT discovered that the DfT had disregarded inflation?

A. It is not clear how much Virgin knew about the details. We know it sent 40 questions to the DfT about the process, which it says were ignored, so the court case was launched in a bid for greater 'transparency'. However, Virgin was certainly doubtful about the outcome of the DfT's calculations, even if the cause was not identified.

Q. What alerted Virgin to a possible problem?

A. It seems to have been the relative sizes of the subordinated loans, which become larger as the risk increases. Virgin's bid, worth £4.8 billion at net present values, involved a loan of £40 million. First's, which involved another £700 million in premiums, also assumed roughly 25 per cent more revenue growth. Virgin was cynical about the realism of this forecast, but decided to take action over the size of First's financial buffer, which amounted to £200 million (including the £10 million of capital). Virgin had attempted to calculate the risk associated with First's more optimistic bid, and came up with £600 million. It is only fair to add that First disputed this conclusion.

Q. What about the other bidders?

A. There were two: the international arm of Dutch Railways (NS), which trades as Abellio, and a partnership of French Railways (SNCF) with Keolis. They have not commented on developments since the award was made on 15 August.

Q. The DfT has said the cost of its error will be £40 million. How is that calculated?

A. Again, this is not something the DfT has explained, but presumably it stems from the DfT's announcement that it will refund the costs incurred by the bidders. Virgin said it spent £14 million, but perhaps the other three spent rather less. The figure seems optimistic even so, because it may not take other expenditure into account, such as almost two years of Departmental time. External consultants were also employed, and there will have been some legal costs. Neither do we yet know if First is going to seek damages for the loss of its potential contract. The cancellation was announced just after midnight on 3 October, and shares in FirstGroup fell by 20 per cent during the following day.

Q. The award was made on 15 August, and Virgin started legal action on the 28th. If it had not, the contract could have been signed with First on the following day. But ministers continued to maintain that the calculations were 'robust', and would be defended in court, until just after midnight on 3 October. Were they lying?

A. They say not. Patrick McLoughlin, who became transport secretary as the successor to Justine Greening in the first week of September, has said ministers relied on their officials, who had reassured them consistently that all was well, although it is said that Greening was alerted to a 'minor' problem in late August. If that is true, it was still apparently not enough to justify changing course at that stage.

Q. So it was the fault of civil servants?

A. That is one interpretation, and three officials from the DfT have been suspended ahead of possible disciplinary action. But one of the three has denied that she was even involved in the financial modelling process, and political observers have suggested that there is a blame game in progress within the DfT.

Q. Who will be running West Coast from 9 December?

A. Although it was not an outcome anybody would have predicted during the summer, it could be Virgin. Talks are under way about a management contract, in which Virgin would get a fixed slice of revenue (some observers suggest 2 per cent) for carrying on. Such a contract can be ended at comparatively short notice, and does not involve complex calculations about premiums, subsidies and revenue protection clauses. If Virgin and the DfT do not agree terms, the DfT's Directly Operated Railways must take over, probably via a newly-created operating company – as has been the case on East Coast since November 2009.

Q. Isn't East Coast due to be returned to the private sector in December 2013?

A. Well it was, although the date had already been postponed because the DfT's franchising timetable has been running late for some years. This slippage does not bode well for next year's franchise awards, which are also supposed to include Essex Thameside, Greater Western and Thameslink.

Q. Can these go ahead as planned?

A. It seems fairly unlikely at the moment. The whole franchising process has been suspended (probably until New Year at the earliest) to allow time for two official inquiries to report their findings. We also know that West Coast must be restarted from scratch, and the inevitable conclusion is that something will have to give. It is even possible that rail franchising as we know it has come to an end, and will be replaced by a new system. The role of the DfT will also be questioned, because its management of franchising has not been conspicuously successful. Certainly, opposition MPs (and also the unions) will be baying for the DfT's blood for some time yet.

Q. How soon can West Coast be relet?

A. Nobody knows. It could stay as a management contract (or else directly operated by Government) for quite some time. One problem facing the DfT will be that the essentials of the top two bids are now public knowledge. This makes a straight re-run using the current specification rather difficult. There will also be the competing demands for DfT time from the other franchise competitions, and the continuing distraction (from the DfT's point of view) of a major public and political debate about the whole issue of rail franchising, which is set to be fuelled even further when the results of the current official inquiries become available.

Q. What will happen between now and 2013?

A. Parliament is still in recess until mid-October, but we can expect a vigorous reaction to the events of the past few days when MPs are back at Westminster. The DfT will also be embroiled in two inquiries, while the ministers (and maybe some officials) involved can expect a fierce grilling from Parliamentary committees. We may hear more about the three suspended civil servants. Watch, too, for announcements of fresh franchise extensions to keep things going for the time being. As they say, this one is set to run and run.

Other franchises which may now have to be extended as a result of the West Coast problems include c2c, First Capital Connect and First Great Western

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Alan Marshall
The Longer View

Is this the end of the line for rail franchises?

The decision to re-run the InterCity West Coast franchise contest – and to suspend others that were under way – is a train crash on the political network of monumental proportions. Indeed, can rail passenger franchising really continue?

FORTUNATELY, there have been no serious train accidents on the national rail network for more than a decade.

But the Government's enforced decision to re-run the InterCity West Coast franchise contest – and to suspend others that were under way – is a train crash on the political network of monumental proportions. Indeed, it demands the question: can rail passenger franchising, as we have known it, really continue?

The Government's admitted errors in the Department of Transport's handling of the West Coast bids have not only raised huge questions about where we go from here, but have potentially done considerable harm to FirstGroup, which was to have been awarded the new franchise. For, within 12 hours of Transport Secretary Patrick McLoughlin's admission of the DfT's errors, First had seen 21 per cent – some £230 million – wiped off its Stock Market value.

This is a reminder of the serious damage that may be done when civil servants meddle in the implementation of Government policy that could – should? – be handled better by a specialist, arms-length agency, staffed by professionals and with oversight from appropriate non-executive directors.

The Labour Party has also been ill-advised to attack the Coalition Government for what has happened. It was, after all, a Labour Transport Secretary, Alistair Darling, who abolished the last arm's length body, the Strategic Rail Authority, and brought its activities within the Department of Transport.

At its annual conference last week in Manchester, Labour had an opportunity to change its policy and say it would not proceed with further franchising. The result of such a course of action would be that, as franchise contracts expire, they would revert to the DfT's subsidiary company Directly Operated Railways — effectively taking them back into public ownership at no cost the taxpayer.

However, Labour's conference did not change its policy – and within 24 hours Patrick McLoughlin announced (not in time for the next day's newspapers, but in what seemed to be a midnight panic) that the West Coast franchise process was going to be started all over again, while other franchise bids were to be put on hold indefinitely while an investigation is led by Richard Brown, a former President of the Chartered Institute of Logistics and Transport. He is now chairman of Eurostar, but has considerable experience of franchising, having been previously managing director of Midland Mainline and head of the rail division of National Express when that organisation was the biggest owner of franchises.

Then, within 24 hours of McLoughlin's announcements, Labour leader Ed Milliband said he was open to considering taking the railways back into public ownership.

For years after the railways were originally nationalised by Labour in 1948, civil servants in the Transport ministry believed they knew best and were known to hold out against many of British Rail's proposals, with which they often quarrelled.

In 2005 they finally got their wish, becoming directly responsible for our railways – with the result that criticisms increasingly grew from the train operators and from within Network Rail that the Department for Transport, as it is now titled, was trying to micro-manage the whole industry.

Well, now the chickens have come home to roost with a vengeance.

Yet the only victims so far seem to be three civil servants who have been suspended by Permanent Secretary Philip Rutnam – the modern-day 'Sir Humphrey' in charge of the DfT – who remains serenely in place!

Patrick McLoughlin has admitted this debacle will cost the taxpayer at least £40 million. But there are many more questions to be asked about costs to the taxpayer as a result of other activities and decisions by the Transport Department – including, inevitably, the accuracy of the calculations behind its decisions to award the Thameslink contract to Siemens of Germany and the Intercity Express contract to the consortium led by Hitachi of Japan.

Worrying, too, is that DfT's earlier admissions that it had twice misplaced submissions resulting from last year's public consultation on plans for the first stage of HS2. This has quickly led to calls from HS2's opponents for the whole public consultation process to be re-opened. This would delay the HS2 project by at least a year – and prevent the necessary hybrid bill being passed in Parliament before the next general election … which is a major objective of the opponents.

Nor can HS2 be divorced from the West Coast franchise debacle – although DfT seemed to think so.

The end date of the new franchise was planned to coincide with the opening of the first section of HS2 in May 2026 – yet, extraordinarily, there was nothing in the invitation to tender that required the bidders to take any account of what would be happening in 14 years from now.

As ever, the ITT looked like an exercise for students at a Business School, rather than giving any serious thought to what the real situation might be by 2026 when, in effect, the entire InterCity West Coast service as we now know it should move over – lock, stock and barrel – to the new High Speed line.

After then, hopefully, there would be some time for the engineers to get in and carry out major repairs and replacement to the fast lines that would have been relieved of long-distance services by HS2. Network Rail's CEO David Higgins believes this will be a real necessity because, by 2026, he reckons the southern section of the WCML will have become, to use his word, "trashed." Virgin Trains' CEO, Tony Collins, is of a similar view that the southern section of the West Cast route should be re-engineered before alternative services make use of it.

It seems to us that the West Coast franchise should now be offered on a quite different basis – say, for eight or nine years until 2021/22, by which time work should be well under way on constructing the first 120 or so miles of HS2 from London to Lichfield and the branch line into Birmingham. The franchise then could be re-bid on the basis of the forthcoming transitional requirements prior to the opening of HS2 – with perhaps the winner of that contest being the company that may also take on running some, or all, HS2 services from May 2026.

For, let us not forget, the HS2 services will be no more than the ICWC services running over a new route south of Lichfield – but at a much higher speed, offering much more attractive journey times.

Subsequent services, introduced to take advantage of the capacity released on the West Coast route south of the West Midlands (and, hopefully, only after the route has been re-engineered) could then be the subject of an entirely new franchise/concession.

These comments reflect only some of the future possibilities. The problem – until now, anyway – is that no one in Government or the civil service seems to have thought about the reality of railway life as it might be in the mid 2020s – even though the same people are trying now to determine these circumstances, for example by driving forward the HS2 project on the basis of services to be operated in 2026 that are being specified now which may bear no reality to the demand levels that will exist by then.

It really is time to let some rail transport professionals take over from Sir Humphrey's team.

It was a Labour Transport Secretary, Alistair Darling, who abolished the Strategic Rail Authority