

INFORMED SOURCES e-Preview October 2016

This month's Informed Sources is one of those columns which has a main central article book-ended by two shorter pieces. Inside the magazine I also have a feature article celebrating IC 125 at 40. I've tried to get away from a conventional history and focused on the train's changing role; from providing the second fastest train service in the world to today's inter urban high speed, high capacity people mover. And along the way I came across what I consider an amazing statistic – so amazing that I had to double check before putting it into print.

Train wars

Rail Supply Group naiveté endorsed

DfT responds on Control Period 6

Informed Sources were confident quite early in the bidding for the East Anglia franchise that Stadler was nailed down as the supplier of the electro-diesel regional multiple units, plus the long distance Stansted/Norwich EMUs. But with the suburban EMUs views were divided between Siemens and Bombardier.

When the contracts were announced Bombardier had turned out to be the winner. Siemens seemed genuinely shocked at the result and could only assume that Bombardier had snatched success with a killer Best & Final Offer.

But then the recently appointed Transport Secretary chose to announce the franchise award at Bombardier's Litchurch Lane works at Derby, rather than, say, Norwich. To rub it in further the DfT press release headline read 'Enhanced services and faster trains across East Anglia franchise including new trains from Bombardier'.

There was also a reference in the release to 'one of the biggest orders for British-built trains as part of a contract that will secure 1,000 jobs into the next decade'. Stadler's contribution was not mentioned.

So if Siemens was already feeling paranoid, the Government was not helping. And on 25 August the company confirmed that it had issued a legal challenge in the High Court against Abellio's decision to award the contract to Bombardier.

According to Siemens' formal statement, the company has 'serious concerns about the procurement process' and has been left with no option 'but to commence legal proceedings to obtain transparency of how the evaluation of bids has been conducted'.

Abellio's formal response was measured. They told me 'As part of our bid for the new East Anglia franchise, we ran a fair, thorough and transparent procurement process for rolling stock. We will robustly contest Siemens's claim'.

Siemens has form when it comes to challenging lost bids. In

January 2015 the Vienna Administrative Court blocked an appeal against Wiener Linien's decision to award Bombardier an order for 156 new low-floor trams.

Nor are they alone. In 2010 Alstom challenged Eurostar's award of the contract for new trains to Siemens. This case went to court but was ultimately rejected.

What is odd is that Siemens' challenge was largely ignored by the city press. Railway fatigue, following all the coverage of the Southern Industrial dispute, might be the reason.

Anyway, now we wait for the court papers to emerge. What any delay will do to the franchise plan remains to be seen

Export ambitions reviewed

In January 2015, the newly formed Rail Supply Group (RSG) launched 'Fast track for growth'. Setting out a 'vision for the UK's rail supply industry', this document listed the RSG's, and Government's, aims for the next 10 years. These included more than doubling export volumes. Another was for Britain to be 'a global leader' in high speed rail'.

I found RSG's ignorance of the UK's railway equipment supply industry, or what is left of it in the 21st Century, embarrassing and irritating in equal measure. This resulted in a critique of RSG's export aspirations in the November 2015 Modern Railways.

Based on 50 years of personal experience, plus an extensive trawl through my archives, this article showed that up to 1990 Britain had a flourishing railway equipment export business. Then exports dropped off a cliff edge.

In the article I attributed this export apocalypse to a combination of factors, but, in particular, European consolidation. As British market leaders were taken over by European multi-nationals, the new owners put export orders into their French/German/Italian factories.

Compounding this tendency was the feast and famine nature of the UK market. Finally there was the belief of UK railway engineers and managers that anything foreign was automatically superior.

But while there was no considered response to my challenge, as part of RSG's own 'Exports and Inward Investment Work Stream', Consultants Haydn Abbott and David Bill had been commissioned to make a 'Comparative Study of Rail Export and Inward Investment Promotional Techniques'.

Part of the study's task was '...to find out as much as possible about the methods, structures and support used by other countries and their Governments to encourage rail industry exports; to identify which methods are most effective; and to analyse factors that adversely affect the export performance of the UK-based railway supply industry'. This final task would cover the same ground as my article.

Comprehensive

It turned out to be a much more comprehensive exercise than originally foreseen. The expected 20 individual interviews increased to 48 and

of these 34 were with UK companies ranging from Small/Medium Enterprises (SMEs) to the UK arms of the multi-national major suppliers.

From these interviews emerged a common set of what the report calls 'blockers' to exporting. Way ahead of the other constraints (mentioned by 58% of respondents) is lack of 'UK plc' leadership and Government support. Next came shareholder constraints (33%): in other words owning groups barring their UK subsidiaries from exporting.

Ranked equal third, with 27% each, came 'European bias to home supply chain' and 'Lack of support from Network Rail and London Underground'.

Turnkey

Research for my article had included analysing contracts won in different product categories between 1980 and 1990. As an example of this former success, the article included the list of turnkey projects, where UK consortia designed and equipped complete metro systems, to demonstrate the loss of capability.

These schemes provided work for consultants, civil engineering groups, track and electrification companies, station outfitters, rolling stock manufacturers and a host of SMEs.

Today, the RSG consultant's report notes that in the overseas projects' market the UK no longer has lead companies either able or willing to take on major projects. SMEs and other companies that would naturally become suppliers to such turnkey projects suffer from this lack of leadership and 'pull-through'.

Back in the day GEC Transportation Projects (GEC TPL) was responsible for a series of major turnkey schemes. Alstom, which absorbed GEC, still wins such contracts, but they are managed in France and rely on French suppliers.

As the report notes 'massive investment in UK rail since privatisation has not created a rail industry that has a large export base. It adds, 'the largest UK rail companies are almost all foreign owned and have no remit from their owners to export having been bought or established to supply the UK domestic market'.

But this export bar seems to apply only to British subsidiaries. Subsidiaries in other countries, do export. Examples include Alstom in Spain, Bombardier and Alstom in Germany and Siemens in Austria.

According to the report, when it comes to imports the UK is 'well recognised' as an open market which welcomes international competition. In contrast, over 30% of the companies interviewed said that when it came to export the EU is not a level playing field. State-owned European railway organisations have 'a distinct bias towards the home market'. Even some of the subsidiaries of European parents admitted to the consultants that access to their home markets is 'difficult'.

Shop window

There is much talk in 'Fast track to the future' about 'innovation'. Several companies stressed the need for home market references as an absolute pre-requisite for exporting. The authors note that the UK government's 'Green Book' allows procurement decisions to be more broadly based than just lowest price. Factors which can be taken into account include export potential.

While the consultants were assured that Network Rail's criteria are not just based on lowest price, the perception of those interviewed was that most NR procurement is still focused on the cheapest offer, plus attracting international competition. We have seen this reality in signalling, for example - such as the shortlisting of Indra from Spain for the, now aborted Wherry Lines ETCS/TMS first deployment scheme.

As the authors conclude, in competitor countries the structure of the rail industry, its relationship with state owned operators and the very close working with government creates a very powerful force in overseas markets 'which the UK is unable to emulate'. Tied state aid, soft loans and direct government intervention, which are commonplace elsewhere, are beneath consideration by the principled British civil service.

Leverage

Rolling stock is where the high value lies and we are still ordering rolling stock. London Underground's New Tube for London has a potential requirement for up to 3,000 vehicles. This deal has already seen Bombardier and Hitachi join forces in a joint venture. The other bidders are Alstom, CAF and Siemens.

This is a chance to test the Government's commitment to building up exports. As it stands, the most we can expect is a super 'flat-pack' assembly operation, with the high added-value kit, particularly traction packages, being imported.

Were the Government serious about boosting exports the contract would require a minimum UK content by value, the bar being set at a level which could be met only with major components and systems supplied from domestic factories. In fact, depending on the future strength of the pound, this could also bring a price advantage.

Obviously it is not quite as simple as that. It would take time to transfer production of standard equipment packages to a new UK plant and ramp up production. And the production line could always be shut down when the contract was completed. But a lot of vehicles are at stake and Alstom integrated Preston into its traction equipment factory network for Eurostar.

Finally, back to that lost turnkey project capability. Crossrail is doing a sterling job. Why wouldn't a major city want such an organisation to bid for the design, construction, fit-out and equipment of a new metro line, just as GEC TPL did in the 1980s? We have the consultancies, already working on such schemes around the world; Crossrail International would be the construction arm of Team UK.

Do I think we will see any practical measures to boost UK manufacturing and export potential coming from RSG? Not really, I'm afraid. But Haydn Abbott and David Bill are to be congratulated on revealing the inconvenient truth.

All change for Control Period 6

In the July 2016 column I outlined the Office of Rail & Road's initial consultation marking the start of the process that will determine Network Rail's income for the next Control Period (CP6) which starts on 1 April 2019. On 27 July the Department for Transport issued its formal

response.

Before we get onto that, here's the latest from the DfT on what enhancements will be affordable in CP6. Sir Peter Hendy's Review has slipped £9.5 billion of enhancement projects, which can't be delivered or afforded in the current CP5, into CP6. By the start of CP6, Crossrail will be running down and HS2 spending cranking up. Altogether, according to DfT, that leaves 'possibly' one or two other major investments to be confirmed for CP6.

Hard times ahead then.

Politics

Obviously DfT's response to ORR is a political document, containing much worthy waffling and posturing. But eventually we get to the really serious stuff starting with the introduction of greater flexibility within the enhancements programme – or what there is of it.

Under this new regime Government will commit to enhancements only when the necessary funds and supply chain capability are available to deliver them. Oh yes, and the enhancements 'make strategic sense'. Well, that's progress.

This looks like a poke at politicians and their pet schemes. The classic example is the electrification programme produced out of the hat by Lord Adonis when he was Transport Secretary. Or, more recently, deposed Chancellor George Osborne's Northern Powerhouse ideas like HS3.

This new approach means that the High Level Output Specification (HLOS) and Statement of Funds Available (SoFA) for CP6 'will look significantly different to those which were published in 2012'. The HLOS will be 'much higher-level', in other words less prescriptive.

Meanwhile the SoFA will focus on four areas of expenditure.

These are:

- *the 'steady state' costs of operations, maintenance and renewals;
- *meeting the Government's commitments to the projects in Network Rail's Enhancements Delivery Plan;
- *delivering major projects, Crossrail is instanced although this will be essentially completed by the start of CP6;
- * projects 'that are deemed critical to prevent serious deterioration or disruption to passenger or freight services'.

DfT is arguing that its new approach will provide greater flexibility to take forward and fund additional enhancements on a rolling basis, 'as and when they reach sufficient design maturity'.

Such enhancements will be allocated to three categories. These are:

- *proposals for enhancements that are considered by Ministers to be worth developing;
- *those that have been developed to a stage worth designing in detail;
- * and those that are worth delivering.

This triage exercise will be followed by a further test of 'whether those worth delivering are also capable of being delivered and are timetabled to have regard to other factors such as the state of the supply chain and the impact of disruption on the network'. The lessons of the Great Western Electrification Programme (GWEP) appear to have sunk in.

Changes are also expected to the way outputs are specified by DfT. DfT's immediate preference is for a model which emphasises 'broad outcomes' for users, such as increased capacity or faster journey times, rather than inputs in the form of specific projects.

Open access taxed

Discussing 'Track Access Charges, incentives and open access' DfT notes that it is 'exploring' the introduction of a levy to ensure that open access operators 'make a fair contribution to unprofitable, but socially and economically important services'. 'ORCATS raiders of the franchised railway' have become even more unpopular within DfT than the rapacious Rolling Stock Companies.

Consultation on DfT's proposals for such a levy is planned for 'later in 2016'. If the levy comes into effect, DfT wants it to apply to all open access applications granted from 'Budget 2016'.

Treasury rules

Finally some positive news for those calling for the return of BR. When it comes to funding the Treasury is back in total control.

DfT cautions on the overall availability of funding for CP6, 'against the backdrop of a continued need for restraint in public spending'. The SoFA will also have to 'fully reflect' the changes to the manner in which Government provides funding to the industry following the reclassification of NR to the public sector.

In other words, there will be no more borrowing on the money markets to pay for cost over-runs. Network Rail will have to live within what the state can afford – back to the future!

Roger's blog

Thanks to the readers who wrote in pointing out errors of omission and commission in last month's 'Who runs the railway' mega-table. Far from being a handicap, classification as 'Old Railway' clearly has a certain cachet which must be fiercely defended if the table gets it wrong. Chris Gibb's call to the colours to sort out Southern shows why.

A list of corrections will be published next month.

Meanwhile I have been asked for a similar analysis of the Railtrack/Network Rail executive. I might just oblige.

After a relaxing August, the pace is picking up again.

As a general rule I don't do TV interviews. The set-up shots waste so much time and you are limited to sound bites. Radio, though, is a different matter.

September began with an interview at my local railway station for an item on rail nationalisation versus privatisation for the BBC Radio 4 Westminster Hour programme, broadcast on Sunday 4 September. Radio is so slick: we completed the detailed interview in 15 minutes and when edited down I had ample time to develop my point that it is structure not ownership that matters. The theme of vertical integration is also developed in this month's Railtalk.

The following week I was able to attend my first monthly meeting of the Retired Railway Officers Society since being elected an Associate Member. Much wisdom and experience was absorbed with sundry leg pulling at my expense.

Last week DeltaRail had their relaunch at the National Theatre, with spectacular views of the Thames and the City as dusk fell. A new company name was revealed and I must now get used to writing 'Resonate' as the supplier of IECC Scalable. 'What about Reson8', I asked? But apparently text-speaking millennials read it as 'Reason eight'. I suppose Rezon8 would have sounded too much like a rap artist.

Anyway, it was a good evening for the notebook with various signalling chums from industry and Network Rail in attendance. The collective view is that David Waboso is continuing to make his mark on this column's bête noire, the Digital Railway Programme.

October starts with Virgin hosting their second railway journalists' dinner. This event gives Virgin the chance to update the specialist press on the two TOCs and to share views in an informal atmosphere, with some banter among the serious stuff.

A week later I'm booked for a get-to-know you session with new Transport Minister Paul Maynard. He reads Modern Railways, but whether he has the time to slog through Informed Sources is another matter!

Then at the end of the month it's the Railway Industry Association's Annual General Meeting which is always an enjoyable event. In addition to catching up with industry chums the day has become noted for the high level speakers at the conference which follows the AGM.

Meanwhile it's time to start researching my contributions to our increasingly popular annual Directory, 'The Modern Railway'. As you know the convention is that my scene-setting introduction has the headline 'Year of ...' I think I have got 2017 figured out.

Roger