INFORMED SOURCES e-Preview May 2022

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More on costs this month I'm afraid, focusing on the train operators. Then there's the outcome of the investigation into the historic financial irregularities over franchise payments at South Eastern. But the main item is a report from Anglia Region on their pioneering implementation of Network Rail's 21st Century Operations programme.

Limited scope for train operators' cost cuts

South Eastern milked over 13 year period

Anglia pioneers 21st Century Operations

After nearly a decade of paying a net premium to the Department for Transport (DfT), in 2018-19 the franchised train operating companies (TOC) reverted to collectively requiring a subsidy. But how did the passenger rail business, which had been paying a net premium for so many years, suddenly flip to a rising subsidy at a time when revenue growth was outstripping the increase in ridership?

In 2019-20 net operator subsidy further increased by £0.7bn to £1.2bn. According to the Office of Rail & Road (ORR), the impact of Covid in March 2020 accounted for £0.3bn of this increase. The remaining £0.4bn was attributed to 'a number of reasons'.

These included the change to Network Rail's Track Access Charges (TAC) from the start of Control Period 6 (1 April 2019). Increased lease rentals for new rolling stock are also instanced.

What my analysis reveals is that the increased cost of running the passenger railway in recent years is largely outside the TOCs' control. You could argue that they were complicit in the acquisition of new trains through their franchise bids, but, in the case of Great Western and LNER, with their exorbitantly expensive government-procured Intercity Express Programme fleets, the TOCs have had to run what they were given.

This leaves staff as the only major cost under the TOCs' control. So long as revenue was growing faster than ridership, gradually rising staff costs was not of great concern. Now, the frogs have boiled and in the post-Covid railway all costs have to be reduced.

When discussing railway subsidy, it is easy, or even convenient, to overlook the fact that from 2001 the Department for Transport made a major change. Instead of all subsidy payments going to the TOCs, who then passed money on to Railtrack, as was, through TAC, TOC subsidies were reduced and Railtrack received a direct grant.

This arrangement continues today. Throughout CP5 Network Rail's direct grant was around £4bn a year. But, since the start of CP6 (1 April 2019), it has increased to around £6.6bn. ORR attributes the increase to 'DfT and Transport Scotland funding Network Rail to improve the overall asset condition of the mainline rail network and more is being spent on renewals to reflect this priority'.

What my analysis shows is that talk of the need for cost savings is easy, actually finding significant savings will be very hard. Great British Railways is forecasting £1.5 million in cost savings through greater efficiencies in the new organisation's first five years. But that is four or five years away.

Against this bleak financial background, the commitments, however caveated, in the Integrated Rail Plan are a genuine statement of confidence in the railway. Sustaining that confidence will involve the engineers doing much more for less money and the operators providing services that bring the passengers, with their fares revenue, flooding back.

South Eastern overpayments went back 13 years

Published on 17 March, the Department for Transport's Notice proposing the imposition of a £23.5 million penalty over London & South Eastern Railway's (LSER) retention of overpaid subsidies revealed a 13 year record of deliberate concealment.

Overpayments were first identified in July 2020, when DfT discovered that an indexation error had been made in the calculation of franchise payments due under the 2014 Franchise Agreement. The error affected payments covering LSER's High Speed 1 Track Access Charges.

DfT initially believed that the amounts overpaid would have largely been recovered through the profit-sharing arrangements in the Franchise Agreement. But LSER eventually admitted that the amount of subsidy to be repaid in connection with the HS1 TAC was higher than DfT had identified.

LSER also admitted to overpayments with HS1 depot rentals. Accruals had been made in the LSER accounts for both sets of overpayments, on the basis that both sums would, eventually, have to be repaid to the DfT.

In May 2021 LSER paid DfT £25 million covering these overpayments. The scale of the repayment resulted in DfT claiming that there had been a breach of the Good Faith Obligation, common to all Franchise Agreement, and that a penalty would be sought.

An independent committee was set up to establish the facts. Reporting back in November 2021, the Committee had identified several cases where LSER had failed to notify DfT of repayments owing, going back to the original 2006 Integrated Kent Franchise (IKF). The money had been retained by the franchise.

With DfT apparently unaware of the overpayments, LSER had to hide the cash somewhere in its accounts which DfT would inspect. This was achieved by listing the sums as non-specific accruals. Later, when LSER considered that DfT was unlikely to detect the historic overpayment, the accrual was released into income.

According to DfT ‘it is clear from the evidence of numerous accounting papers and reports that LSER’s intention was that the overpayments would be repaid only if and when they were discovered by the DfT and that if they were not discovered, the overpayments would be treated as LSER revenue’.

Of course, hiding the overpayments in accruals was not pure bunce. DfT notes that LSER expected release of the accruals as income would result in a substantial amount of the overpayments being returned to DfT through the profit share mechanism in the 2014 Franchise Agreement.

In the column I attempt to make sense of the overpayments and repayments. While the figures do not reconcile precisely, they give the broad picture, with DfT recovering up to £64 million on top of the £23.5 million penalty.

## Liverpool Street IECC pilots radical reorganisation

Speaking at the 2019 Modern Railways Golden Spanners Awards five months after his appointment as Network Rail’s Chief Executive, Andrew Haines made it clear that he was dismayed at the extent to which some core operating principles had been ‘diminished, overruled and overshadowed by other matters’. He then issued this rallying cry. ‘I would suggest, regardless of where you look within the rail industry, rail operations as a profession – a profession with expertise and oversight of the whole system - has not, in general, been cultivated and valued in the way that it should have been. And that dwindling expertise has contributed to our collective failure to make sure the railway works seamlessly as a system’.

A year later, the 21st Century Operations concept had been launched, alongside consultation on a Network Operations Strategy (Net Ops). And while the consultations continued, operators were already responding to the Chief Executive’s call for a new approach.

In particular, a report on progress with the first phase of Net Ops noted, ‘Anglia route has implemented several initiatives including a talent strategy and a revised operating approach at Liverpool Street Integrated Electronic Control Centre (IECC), with accompanying re-structuring of key roles’.

That was enough for me to get in touch with Anglia and for Operations Director David Davidson to invite me to Liverpool Street IECC to find out how 21st Century Operations is being translated from a concept to a change in organisation and culture on a busy railway. The result is a feature-length item which I hope readers will find as encouraging as I did.

There are three strands running through the Anglia programme – people, process and technology. In the article I go through each in turn.

Having written about the introduction of Resonate’s Luminate Integrated Traffic Management system on Western Region in detail, I was interested to see its second application in operation. The morning of my visit, there had been a points failure in the Liverpool Street approaches: on the IECC floor I was shown how the timetable had been modified to work round the problem in just 5 minutes and given to the Automatic Route Setting (ARS) to run.

Meanwhile, Western Region has continued to work with Resonate on exploiting Luminate’s capabilities to the full. When I bumped into Western Region Managing Director Mike Gallop at this year’s Golden Whistles conference, he wanted to know when I was coming to see the ‘transformational’ integration of Crew & Stock in action. A further Luminate-based innovation, Connected Driver Advisory System (C-DAS), is due to be introduced shortly and we agreed that a demonstration of the two capabilities will be combined in a future visit.

Having been impressed by the progress with 21st Century Ops at Liverpool Street, I thought it prudent to get the train operator’s experience. Greater Anglia was glad to oblige.

Although hard numbers are yet to emerge, Greater Anglia is fully supportive of the pilot scheme and is seeing ‘early signs of a positive impact on performance’.

Good to report such encouraging news for a change.

## Happy anniversary

Modern Railways readers turning the page from the Railtalk in their May 1982 issue would have been surprised to find a new feature instead of the familiar Newsdesk. Below an artist’s impression of Metro Cammell’s proposed lightweight Diesel Multiple Unit, was a new heading: ‘Ahead of the News, Compiled by Roger Ford’.

This was the prototype for what would become Informed Sources the following year. In the column I describe how this innovation came about. And even after 480 columns there’s no shortage of things to write about.

Roger’s Blog

Due to the late Easter, I had to deliver Informed Sources earlier than usual so I haven’t been out and about much since the last blog. However publication of the Office of Rail & Road’s final report on the Hitachi Class 80x fatigue cracking problems saw me at my desk at 08.00 on 7 April for an online briefing session on the conclusions of the investigation.

I was not alone in being unimpressed by some of the conclusions and I will explain why in next month’s column. In fact traction and rolling stock issues are set to dominate the June Informed Sources – although, as with Thunderbirds, my final choice of content always has to ‘expect the unexpected’. But at the moment I’m also re-visiting Mk 3 coach crashworthiness and, as I type this, I’ve just completed an interview on hydrogen freight locos.

Our June issue will also feature the next in our series ‘Modern Railways’ Six Decades’. Writing these is requiring some highly enjoyable desk research. Currently, I’m reliving the 1980s as I go through our back numbers. Those really were exciting times.

Roger