INFORMED SOURCES e-Preview February 2024

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Although Modern Railways' policy is not to slap 'Exclusive' banners on every new story, this month's column has a genuine 'first'. Next, while everyone got excited about the Department for Transport announcing a target for long term rail freight growth, I analyse the realities of the market. Finally, I take a look at what is happening in the signalling sector.

GBRTT unveils 'Whole Industry P&L'

Freight growth – for 'target' read 'political aspiration'

Signalling is in disarray

Ever since the Williams Review was commissioned by former Transport Secretary-but-one Chris Grayling, there has been universal agreement that a whole industry Profit & Loss Account would be a good idea. In the absence of anyone else stepping up, I took on the challenge. You can find my stab at a Whole Industry P&L in the June 2023 Modern Railways.

Meanwhile, with the Government's flagship Great British Railways (GBR) on the unlit back burner, a Whole Industry P&L may seem like an intellectual exercise. But as the industry struggles to adapt passenger services to the still emerging 'new normal' market, an understanding of costs and revenues at the service level is needed as never before.

Uniting the industry's finances in this type of detail is what the Great British Railways Transition Team (GBRTT) has been working on for the last 18 months. So I asked GBRTT if I might compare this professional development with my amateur attempt. And at the end of November I was invited in for a demonstration of what is not just a Whole Industry P&L, but something much more useful – a set of whole industry Management Accounts of considerable granularity.

First task for GBRTT was to create a situation where the financial information in the separate parts of the industry could be 'more accurately, more clearly and more consistently' recorded to create a constant baseline. Central to this work was the creation of the joint industry Financial Reporting Improvement Programme.

This collaborative venture has brought together finance professionals from GBRTT, the Department for Transport, the Train Operator Owning Groups and Network Rail. Central to its work was the creation of a formalised, 'chart of accounts'. which will now be applied across the industry so that everyone is reporting on a comparable basis.

At my briefing GBRTT explained that it has been working with partners across industry to recreate the tools and insights that have been lost for a generation, 'trying to create a system where we can look across the whole rail system again'. This is as important for the Government as it is for the industry.

Collating the financial data is one thing; turning it into information is another, and the fruits of GBRTT's work are available in two interactive visualisations. To avoid issues of confidentiality, the first of these is based on the most-recently published, publically-available data.

This is GBRTT's Industry Finance Model (IFM) which provides a P&L for each line of route across the UK network. In the column I describe the facilities this model provides. At one stage of the demonstration, on my recording of the briefing you can hear my awed 'blimey'. It really is that impressive.

In parallel with the IFM, GBRTT has also been creating what it terms a 'Live P&L'. This is a simpler model but using current industry data. Unlike the IFM, which uses published data, the Live P&L involves a degree of commercial confidentiality.

With the Live Model now in place, GBRTT is able to produce, for each four week reporting period, Regional and whole industry P&Ls using current train operator revenue and costs and Network Rail costs, all expressed on a common basis. And, of course, the bottom line gives what GBRTT calls the 'core network subsidy'.

So we now have the holy grail of an industry financial position on which all those involved can agree. And while it was originally associated with the creation of Great British Railways, in the current interregnum it could provide a powerful tool for dealing with the politics and financing of the fragmented railway as a whole.

Why two models? Well, as described, the IFM can zoom-in to show the costs and revenues for 2000 or more Sections of the network. But, as with all published data, it is the railway viewed through the financial rear view mirror.

In contrast, while the Live P&L goes down only to Regional level – for example it won't show the bottom line for a specific operator - it effectively tracks revenue and costs in near to real-time. This makes it a management tool around which the industry can coalesce in responding to the demands of the working railway.

I came away from the presentation impressed by the tools the GBRTT work has created. We now have a better grasp of the costs and revenues within the industry than at any time in the past three decades. It should prove invaluable in dealings with Government. Assuming that there is anyone prepared to use it.

Freight growth – reality behind the target.

On 20 December the freight operators received an early visit from Santa, with Transport Secretary Mark Harper donning the white beard and red coat to deliver a vote of confidence in the industry. According to the DfT press release, the target, to grow freight traffic by at least 75% by 2050, 'demonstrates this government's drive to grow the rail freight industry even further and boost the considerable economic growth it delivers across the country by supporting supply chains and thousands of high-skilled jobs'.

What a contrast to the Government's prevailing attitude to the 'unsustainable' passenger railway. But, of course, in political terms any target more than five years away is risk-free.

Putting such cynicism aside, the basis for the target is a call for evidence launched by the Great British Railways Transition Team (GBRTT) in July 2022. This invited views on the current barriers to using rail, ambitions for rail freight growth, plus how a growth target should be 'designed' and delivered.

All the usual questions, in fact. And the 88 respondents confirmed that there are opportunities for modal shift to rail with 'organisations across the supply chain enthusiastic about rail's market potential'.

Well, they would say that, wouldn't they? But, as a detailed analysis by Julian Worth elsewhere in the February Modern Railways confirms, the markets with the potential to meet the target do exist, particularly in those historic staples, aggregates and intermodal.

But what about the ability of the industry to grow the business? According to GBRTT, respondents called for a 'clear delivery plan' and 'interim targets to monitor progress and ensure delivery of the target'.

Oh come on, we are talking about private sector freight operators, with a duty to their shareholders, serving a competitive market. Does anyone really think the Freightliner would share their business plans with DB Cargo?

Apart from that minor detail, a 'clear delivery plan' assumes that each operator would detail its growth plans over the next quarter century. I would guess that, in the current situation, the freight companies are hard pressed to maintain a five year rolling business plan with any confidence.

And, above all, as GBRTT notes 'we must accept that we are working in a constrained public funding environment as we explore options to enable freight growth, especially in the short term'. That said, GBRTT believes that working within these constraints 'there is still a significant and timely opportunity to grow rail freight's modal share'.

In the column I also analyse the financial performance of the freight business. Much is written about tonnages, but not so much about costs and revenues.

Tables in the column analyse changes in turnover and train km run by the various operators. As Julian Worth argues in his article, 75% growth by 2050 requires only a relatively modest compound annual growth rate. The questions raised by my analysis is the ability of the freight operators to win the profitable business on terms needed to generate a return on the investment in traction, rolling stock and facilities on which to build that business.

And that is before we come to Network Rail's ability to provide the quality and reliability of service customers transferring more business from road to rail will expect – let alone the investment needed to maintain and increase capacity.

Signalling problems mount

As part of the latest stage in the current West Coast Main Line resignalling, which was due to be commissioned in January, the Colwich and Trent Valley workstations were combined and moved to the Rugby Rail Operating Centre (ROC). Reading the Business Justification documentation for this move, I came across a worrying detail.

One option considered was to retain control from the existing MCS workstation at Stoke Signalling Centre. But this was rejected on the grounds that the MCS was having 'obsolescence and asset life-cycle issues which would lead to increasing maintenance costs in the near future'.

Another option was transferring control of the new interlockings to the Trent Valley MCS work station at the existing Rugby Signalling Control Centre. This, too was rejected on the grounds of the on-going obsolescence issues with the MCS components at Rugby.

In the column I provide a brief history of the development of the MCS (Modular Control System) which was eventually acquired by Alstom's signalling arm. Subsequently Alstom has been developing a successor to the inherited MCS, known as Infinity MCS.

Alstom's new Infinity MCS is paired with a new Modular Automatic Route-Setting (MAR-S) system. This combination will be a feature of Alstom's current framework resignalling contracts.

According to Alstom, 'the M-ARS system is currently undergoing Network Rail product approval. Once approved, M-ARS will be delivered on a number of high-profile projects including Ashford, Cambridge, East West Rail Phase 2 and Victoria Phase 5'. Infinity MCS is also still going through the Network Rail acceptance process, which suggests development is running late.

Fortunately for Network Rail, according to the manufacturers, the other established VDU-based work stations, Siemens' WESTCAD and Resonate's Scaleable, do not face obsolescence problems.

Relays renewed

Meanwhile, at the other end of the technology scale there is the resignalling of the Newquay Branch, which was de-scoped from the current Devon & Cornwall resignalling programme.

The branch is currently controlled from the charmingly named Goonbarrow Junction Signal Box and, now, it seems this will continue. A new relay interlocking at Goonbarrow Junction, will control Newquay station plus the new loop at Goss Moor which will allow increased train frequency under the 'Cornish Metro' proposal.

This interlocking will be combined with train detection by Frauscher axle counters, which conveniently come with a safety-critical data transmission system which can handle lineside indications.

While this relay-based solution may be obsolescence proof, the scheme has not avoided the endemic lateness. Commissioning was originally due in May this year. The pressure is now on for May 2025. Space allowing, more on late signalling deliveries next month.

Roger's blog

As I mentioned last month our January issue goes on sale at the end of December. This means that the end of the year is always a busy time. In addition to the regular column, the January magazine featured my annual rolling stock reliability review. And before I can start writing that, there are the tables, plus the associated analysis, to be prepared.

With all that out of the way, there was the February column to write, which coincided with the Christmas and New Year break. Being laid low with a nasty cold over Christmas didn't help.

But, now the normal writing cycle has been restored, with plenty of time to prepare for the March column. As ever, the question will be which of a long list of potential topics to cover!

Meanwhile, the fruits of some of these labours are available in the Modern Railways 2024 Review, which is now on sale. This captures the state of the industry and looks ahead to the prospects for 2024. This 116 page publication provides detailed coverage of policy, finance, rolling stock, infrastructure, signalling, major projects and more.

Roger