



THE RAIL PROFESSIONAL INTERVIEW

KEITH LUDEMAN

CHIEF EXECUTIVE, GOVIA

PHOTOGRAPHS BY BRIAN GLASSBOROW

Govia has bounced back from the loss of its Thameslink franchise and a failed bid for Greater Western by winning an eight-year deal on Integrated Kent. As the new franchise starts, chief executive KEITH LUDEMAN talks to Chris Randall about the highs and lows of a turbulent past 18 months

Keith Ludeman would make a good poker player. Lugubrious and deadpan, Govia's chief executive shows little emotion, restricting himself to an occasional flicker of a smile.

However, by his own admission Ludeman was 'bouncing around the room' when last November the Department for Transport awarded the Integrated Kent franchise to Govia, the joint venture between Newcastle-based Go-Ahead and the French transport operator Keolis.

The hard-fought contest for the franchise, which from December 2009 will include high-speed domestic services on the Channel Tunnel rail link, had been billed as make-or-break for Govia following the double blow of losing Thameslink and the surprising failure to make the short-list for Greater Western.

Had Govia run up a hat-trick of failed bids, leaving it with just the Southern franchise, many believe Ludeman would have been battling to stay in a job. Instead, he is eagerly anticipating the 1 April start of the eight-year Integrated Kent franchise (which will retain the South Eastern brand name), having led what he describes as 'one of the most complicated business deals I have ever been involved in'.

'The franchise bidding process was far longer than any other. We were shortlisted in September 2003, received a draft invitation to tender in January 2004 and then a revised more comprehensive ITT in January 2005. We eventually put our bid in on 29 July 2005!

'When the final ITT came out it had a very detailed requirement to submit, for the base case alone, 59 strategies and 134 detailed actions plans of how we would run the business.

'I challenge anyone to put a comprehensive corporate plan

together for the next couple of years of a business they are already running and to describe in detail what they are going to do. If you ask somebody to do that for a business that they don't know about and where they are getting data from a room somewhere, it is a very tough call.'

Ludeman's open hostility towards what he saw as the unnecessarily complicated franchise template created by Richard Bowker's Strategic Rail Authority brought him into direct conflict with the government agency. In February 2005 at a conference of senior railway managers organised by the Department for Transport, Ludeman, sharing a platform with Alistair Darling, urged the transport secretary to 'take a strimmer to the franchise agreement'.

His outspokenness was thought to have made him enemies within Whitehall, and reportedly landed him with the rail equivalent of an Asbo. Ludeman's recollection is different. 'I was Atoc chairman at the time and was leading a process around the rail review. We were saying to the Government that there was a lot of talent, time and expense involved in bidding. We were asking: "Do you really need all the information you are asking for?"

'A lot of the soundbites weren't original. The bit about taking a strimmer to the franchise agreement was originally from an official at the Department for Transport.

'All I was doing was paraphrasing their intent. The SRA was lobbying for its continued existence and there were people there who would not have liked what I was saying. But those in the DfT camp were very happy because it was more or less what they wanted.'

One year on and the SRA has been legislated out of existence; franchising, to Ludeman's obvious satisfaction, has been simplified. But the concern now is that the process is simply costing too much. Ludeman says that the £4m Govia spent on the protracted bid for South Eastern represents about one per cent of projected revenues and subsidy over the life of the franchise. 'Viewed in that context, it's not unreasonable,' he argues. 'But because there are so many parties seeking to pre-qualify and then bid, they absorb a lot of the expertise in the industry. That expertise then becomes quite expensive.'

The heavy cost must be even harder to take for the losers in the over-heated competition for franchises. Ludeman's own shattering experience of losing out on Thameslink and Greater Western – 'it felt like a kick in the teeth' – allows him to bring some perspective to the current situation. 'Until very recently FirstGroup had bid for about eight franchises and had been successful with just one,' he says of one of Govia's main rivals

for South Eastern. 'They've caught up considerably. What the FirstGroup experience demonstrates is that you have to keep bidding. You have to stay in the market and you have to absorb the cost.'

Govia's winning bid for South Eastern will see it receive £580m in subsidy over the course of the franchise. Ludeman was happy to discover that this was only £10m ahead of its nearest rival. 'My great fear was that we would win South Eastern by a big margin,' he says, adding with a hint of a smile, 'We didn't!'

Even before the franchise started, commentators were saying that Govia had got its sums wrong and would eventually be forced to ask the Government for more money when subsidy levels declined.

'The bid is optimistic,' concedes Ludeman. 'We are forecasting growth each year. In fact, all the recent bids were put in when the railway was growing significantly. But if we get another terrorist incident or there is a serious downturn in the economy, I think we are all going to start to worry a bit.'

What did he think about the remark by Stagecoach chief executive Brian Souter that the market is getting a 'bit toppy'? 'Some of the comments made in public are for a variety of audiences. People are always keen to say bids are way too high when they have lost. And bidders always say they are confident of delivering. Let's see what the South West Trains bid looks like. If he [Souter] wins, it will be interesting to see how he

'Until recently FirstGroup had bid for about eight franchises and had been successful with just one. They've caught up considerably. What the FirstGroup experience demonstrates is that you have to keep bidding. You have to stay in the market and you have to absorb the cost'

defends the much, much larger amount of money he is pushing in the Government's direction.'

Crucial to the success of South Eastern will be the willingness of commuters to pay up to 30 per cent extra to travel on Hitachi-built high-speed trains using the Channel Tunnel rail link into a new terminal at St Pancras. With subsidy payments declining sharply over the second half of the franchise and a premium payment of £11m due in the final year, Govia is looking to CTRL domestic services to substantially boost revenue. Ludeman is confident that the premium service will be a success when it starts at the end of 2009. 'The journey time savings will be phenomenal. For example Ashford to London is 83 minutes now. It goes down to 36 minutes. Who in their right mind would want to continue using the classic service from Ashford trundling all the way into Cannon Street?'

But won't commuters who work in the City and central London find St Pancras just a little bit inconvenient? 'A lot is said about people not wanting to go all the way to St Pancras. But you have to remember that St Pancras today is a building site. It will be a totally different place at the end of 2009. It will have to be for the Olympics. It will have to be for the CTRL international services. Then there is the work planned for the Thameslink Box interconnecting with the Underground.'

Ludeman thinks the opening of the international terminal late next year will regenerate the area around St Pancras and create thousands of new jobs. 'Look over there at that pointy thing in the distance,' he says pointing towards the just-visible outline of the Canary Wharf tower some 15 miles from his Croydon office. 'Before Margaret Thatcher, if you said you were going to work in Docklands people would think you were mad. But thanks to a combination of the Jubilee line and some very modern state of the art buildings a lot of people now want to go and work in Canary Wharf.'

In February Ludeman unveiled the new top team at South Eastern, which contained only one director from the previous government-backed operator. Michael Holden, who had been managing director since 2003 when Connex was sacked from the franchise, was controversially axed and replaced by Southern managing director Charles Horton.

'I spent a lot of time over this,' says Ludeman. 'When we were putting the bid together I saw a range of people. I asked questions about the team. I asked questions of the managing director. I built up a reasonable pen picture of the team.'

During the course of lengthy one-to-one meetings he developed 'a strong understanding of their strengths and weaknesses'. Apparently Holden, an experienced operator and widely regarded as a safe pair of hands, didn't have the qualities Govia wanted.



'South Eastern was in a very difficult position,' says Ludeman. 'It didn't have a franchise agreement and it was set different objectives from a normal train operating company.'

'It was given two years to prepare the business for sale to the private sector. It was very difficult for the management team, which had been given a shifting and un-ambitious set of objectives. They did pretty well. But against the commercial measures I would set my people, they didn't do as well.'

Govia now has to prove it can do better. Ludeman acknowledges the size of the challenge. 'There is a lot to do.' Starting with industrial relations? In the final days of the state-run South Eastern the RMT union threatened strike action over plans to cut nearly 100 staff from ticket offices. 'Frankly this is a demonstration of how the private sector is better at running franchises than short-term public sector management,' is Ludeman's blunt assessment.

'You can't argue with the principle. If you have got a lot of people sitting around in ticket offices with nothing to do, it makes sense to give them a more constructive job. But they kept the 99 people in the ticket offices and then went out and employed extra people, which seems a bit strange to me.'

A negotiated settlement with the RMT that resulted in a reduction in the working week didn't help matters. Says Ludeman: 'That meant that the 99 people in the ticket offices were not able to meet the obligations for opening hours. Consequently, South Eastern had to seek derogation from the DfT to vary the ticket office opening hours to match manning hours of 99 people. Frankly it's a bit of a mess.'

Soon after winning South Eastern, Govia announced it was pulling out of the contest for the highly-prized South Western. 'I had a lot to prove in getting shortlisted for South Western, having not succeeded with Thameslink or Great Western,' says Ludeman. 'We put a lot of effort into it.'

'But I felt that having Southern, South Eastern and South Western, which is 25 per cent of the entire UK rail market, would overstretch us. I didn't want to take the risk of having another large and high-profile business and not being able to do a good job of it.'

'Kent is a big franchise. There's a lot that could go wrong. I would prefer to be a good medium sized player than be the biggest player that doesn't do the job as well.'

Nevertheless, Govia has already said it will bid for the two new franchises proposed for the east and west Midlands. And it aims to be in the running for the Silverlink Metro network when responsibility for the franchise passes from the DfT to London Mayor Ken Livingstone's Transport for London organisation next year.

What does Ludeman think of Livingstone getting his own trainset in time for Christmas 2007? 'It doesn't surprise me. But it's a lot lower profile than the Mayor was seeking through the rail review.'

Unable to resist taking a swipe at the controversial Livingstone, he adds: 'What we are seeing are regular attacks on Tocs, for tardiness in taking up Oyster Card and the security of our stations in London. These attacks are in the press but it's the Mayor who is quite often quoted. There are structures in place to have discussions through Atoc, both for Oyster Card and issues of security at stations. We will talk to TfL, to the DfT and British Transport Police. But to conduct an argument through the Evening Standard is unfortunate.'



'South Eastern was in a very difficult position. It didn't have a franchise agreement and it was set different objectives from a normal train operating company'

Away from the tetchy relations with the Mayor, Ludeman is generally rather pleased with the progress the rail industry has made over the last two years. 'The industry is working together,' he says. 'You rarely see the sort of public spats that you would see in the press when Tom Winsor was rail regulator and Richard [Bowker] was at the SRA.'

'We conduct our business behind close doors. We still have the occasional commercial disagreement, which you would expect.'

Even the relationship with Network Rail appears to be on a more stable footing, although as Ludeman makes clear not everything in the garden is rosy. 'Potentially, it's always going to be difficult. On one side you have a number of train operating companies with finite franchises. On the other side of the commercial spectrum you have a publicly-funded large infrastructure company that is there ad infinitum.'

'Tocs are always keener to do things more quickly. Network Rail doesn't have to respond quite as quickly because of its structure and the fact that it's there all the time. That can be frustrating for us when we want things done quickly.'

'Inevitably, one relies on good contacts within Network Rail for things to happen. Network Rail has a very good top team that is making things happen. But it has got to drive culture change throughout a very big organisation.'

The last 18 months have seen some spectacular highs and lows for Govia. Ludeman now appears to have got the company back on track after a difficult period. But in an unpredictable industry where trends are as difficult to predict as the weather, he will be hoping there are no more unexpected journeys into the sidings.