

BIDS BEGIN FOR ECML

The ECML is up for grabs again. But will GNER's early exit from its franchise agreement change the face of bidding for this and other franchises from now on? Alan Whitehouse looks at the possibilities

Refranchising the East Coast Main Line was always going to throw up a surprise or two. Despite the resurgence of the West Coast Main Line, the ECML is still seen as the symbol of all that the private railway does well. As such, it always attracts interest and attention.

As the deadline for expressions of interest closed, it emerged that the partnership of EWS and Danish State Railways has decided it is not worth bidding again, while GNER's management team refuse to reveal whether they will be pitting themselves against their old adversaries from last time round. GNER and the ECML have become inextricably intertwined over the past decade: the idea that TOCs would be somehow transitory and ephemeral, owning little and with equally little security of tenure, has been pretty well demolished on the ECML.

But this is not just about the fate of GNER any more. Precisely because GNER was such an icon among the TOCs, its demise – in its present form at least – is a defining moment for franchising and for the TOC industry. It raises more questions about whether the franchising system works well enough, is robust enough and can itself survive in its present form.



There have to be doubts. If this can happen to the jewel in the crown, what price those other 'heroic' franchise bids, notably First Great Western and South West Trains? GNER's problems are well documented and boil down to, if not an unrealistic bid, then certainly one with insufficient slack to allow for contingencies. There is equally no secret about how this came about: emotional attachment.

There is doubtless some proverb of the business world about not allowing your heart to rule your cheque book, and it is a rule that GNER broke in a big way. Christopher Garnett, architect of the bid, once told an audience that he and the GNER management team were determined that no one else would wrest the ECML franchise away from them. They had spent too much time building up one of the best-known brands in the industry, with a reputation to match, to allow it to be taken away.

The result was a £1.3bn premium bid that few people believed would run the full 10 years. Just about everyone involved in the process is at fault here. GNER should have used a little more corporate common sense. But equally, the DfT should have been more hard-headed when it crawled over the figures and projections before signing them off as realistic and achievable. They were neither.

The Treasury should perhaps forget about the costly mistakes of privatisation – it was, after all, an enthusiastic supporter of both privatisation and

the flawed way in which it was done – and demand less from an industry that is capable of doing a great deal more. A little more realism about the cost of running a modern railway should find its way into the Treasury's spreadsheets and the chancellor should be willing to invest more in the railways to the benefit of all.

Whatever, it all leaves both the industry and the Government with a problem. GNER's bid was nodded through because it represented an excellent way of using a profitable part of the system to underwrite other areas that have no chance of breaking even. Attempting to balance the railways' books by showing that GNER's profits help offset Northern's subsidy bill is a crude way of going about it, but no less accurate for that.

There is no shame in relying on a subsidy if you are performing a service that the nation says it wants even if it can never be profitable. Northern, Scotrail and Central, to name but a few, have become the congestion-busters that keep our major towns and cities moving and will do to a greater and greater extent as traffic congestion increases.

But the strategy of helping to finance them with £1.3bn here, £1.2bn there from the super-profitable sections of the system now lies in ruins.

It is impossible to say ahead of the contest what premium payments the new ECML franchise will command. It is unlikely to be the £1.3bn levels. Industry grapevine sources say GNER overbid by



A GNER train is dispatched from York station.



A GNER Mallard crosses the Royal Border Bridge on the East Coast Main Line.

around a third and that the next two bids were neck-and-neck at around the £1bn mark.

Will the new franchise raise that amount? It is hard to see why it should. Strip out the £300m or so of GNER's emotional attachment, and the harder heads of the railway industry thought the ECML was worth around £1bn. That was before the July 7 bombings and before the rise in energy prices, which will see the current for traction bills rise by 65 per cent. These lower bids had, apparently, also factored in the cost implications of GNER's most famous bugbear – open access.

And if a new realism takes the shine off the ECML, the jewel in the crown, what will it do for the round of refranchising already in the pipeline? The new East Midlands franchise will be built around the Midland Main Line, a long-standing payer of premia to the DfT.

Similarly, Cross-Country, which should already have been handsomely profitable, has been redrawn – to the detriment of the paying passenger – with the obvious aim of creating yet another profitable island on the railway network. What premia they attract remains to be seen, but they will almost certainly be lower than before the hardest heads of all, the money men, price in the extra risk that everyone can now see surrounds taking on a rail franchise.

So that means fewer pounds than expected coming in, but the same amount of cash as expected going out to keep the regional – and London and south-east commuter – TOCs afloat. That means another set of numbers to factor into the High Level Output Statement and Statement of Funds Available later this year. The SoFA will almost certainly have to read 'less than expected' which, in turn, will feed into some interesting decisions around the HLOS.

There is nothing wrong with expecting profitable parts of the rail network to subsidise the loss-making parts: British Rail did it with some aplomb, using its three great routes, ECML, WCML and

GW to support and finance each other in a cycle of renewal. The newest one attracted the extra custom, and supported the higher fares that allowed the oldest one to be modernised. But when that system is extrapolated to premium payments of £1.3bn over 10 years, it is a system that simply cannot survive. Just as privatisation magnified and exposed the dangers of poor interfaces and inadequate maintenance, it is now beginning to expose the dangers of over-optimistic financing to offset the additional costs that the system itself has created.

Bluntly, Northern, Scotrail and their companions cost more to run than they did as part of the state railway system because privatisation is a more expensive way of running the railway. There is an argument that the benefits outweighed these extra costs. If the profitable sections of the railway become more profitable as a result of being in private hands, it is possible to see some sort of equilibrium. But, unfortunately, GNER's failure makes that look less and less likely to be the case. And in the meantime, someone still has to pick up the subsidy bills.

It may be that the answer is fewer, bigger franchises. If you want the privatised railway to emulate BR, with a stable, self-supporting core surrounded by a 'social railway' that taxpayers buy because it is seen as a good idea, then possibly what is needed is one large intercity franchise which could renew itself because it would be big enough in business terms to support itself while it did so.

The idea of individual lines managed by individuals for individual passengers is one of those things that looks appealing as party political propaganda. But maybe it does not actually work in real life – look at the current state of franchising to see the drawbacks. The industry now runs a system that anyone from the outside would struggle to understand. A company acknowledged to be the market leader effectively goes bust because it is saddled with huge premium payments that it felt compelled to offer to stay on the job.

Across the other side of the country, another company is awarded another whopping subsidy –

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about equal to those premium payments, oddly enough – to compensate it for higher track access charges brought about by the modernisation of the infrastructure it uses, even though it is seeing double-digit growth and wants to extend its fleet of trains to provide more seats.

A third franchise doubles the number of passengers carried but still needs a subsidy for similar reasons. Little wonder that few people outside the railway industry are able to understand it. It begins to look increasingly like a system that can never get itself out of hock.

Which brings us back to GNER. There seems little doubt that the management team want to preserve the brand. And, while, when the deadline for expressions of interest closed, they would not say whether they had mounted a bid, there seems equally little doubt that they are still in the race.

GNER's PR team was issuing a statement, but only if you asked for it, which spoke about approaches received and options being explored while declining to confirm one way or the other what was happening.

The best bet has to be that the management team has found a partner – most likely from outside the industry – and that loose ends need tying up before the formal announcement. The killer quote is one which says the management team has 'no intention of standing on the sidelines' while the future of the ECML franchise is decided.

Which seems to be the clearest confirmation anyone needs that GNER may be down, but it is not yet out. There is more, about doing the right thing by both its staff – which is threatening industrial action to counter any redundancies – and its customers, who, you may remember, signed a 30,000 signature petition in support of the last franchise bid.

Fine words. But as First, Virgin, National Express and Arriva circle, it will take a few impressive rabbits pulled out of the hat to ensure the survival of those famous blue trains...

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