

Island Line – Technical Advisory

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Document Control

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Disclaimer

This document and its contents have been prepared and are intended solely for Isle of Wight information and use in relation to Technical Advisory for the Island Line Franchise. Atkins take no further responsibility for the use of this data by external parties.



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- 2) Positioning of the Island Line
- 3) Key financials
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- 8) Themes for discussion

Current franchise

Please note that the financials quoted are estimates only based on combination of public information and Atkins' judgement. They should not be quoted outside of this presentation or without this caveat.

Overview of the current franchise

1: Island Line operator

- Island Line part of a wider rail franchise, South West Trains
 - South West (SW) rail franchise administrated by the Department for Transport (DfT), started in 1996
 - Stagecoach has won all SW franchise competitions in 1996, 2001 and 2007
 - Current SW franchise contract started in 2007, ends in June 2017
 - Stagecoach operates under South West Trains (SWT) and Island Line (IL) brand.
- Previous Island Line franchise
 - Operated under a separate franchise agreement from 1996 to 2007
 - Stagecoach was the operator
 - Merged with SW franchise in 2007 SW competition

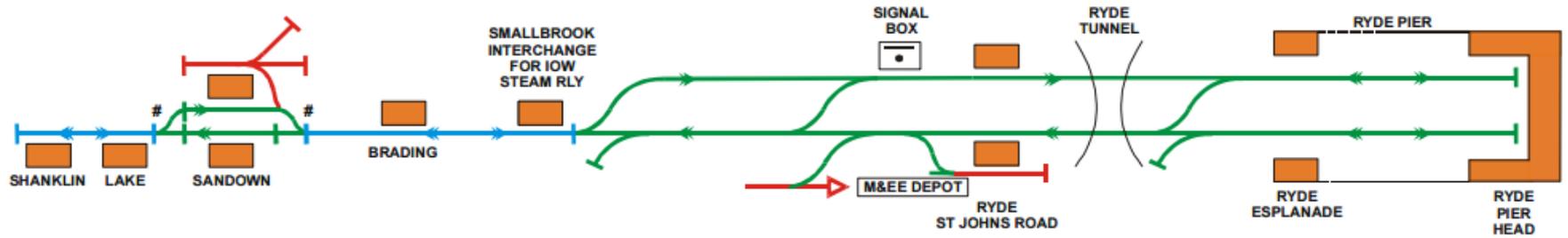
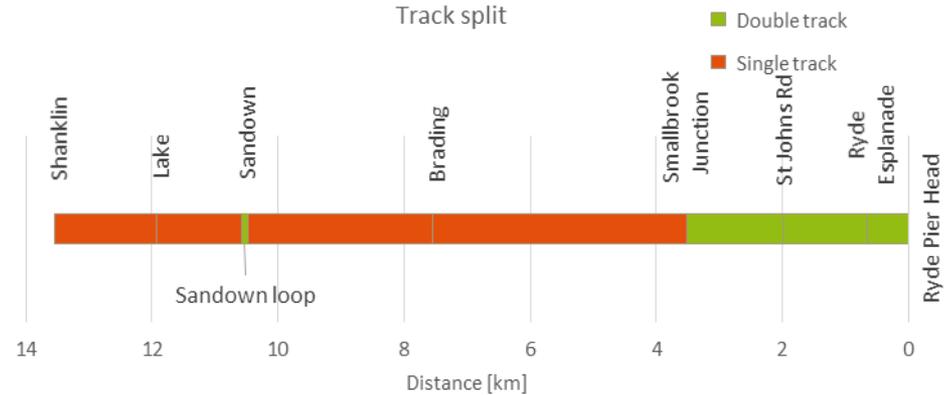
Note:

A rail franchise is a contract between an operator (franchisee) and the DfT for the provision of rail services under agreed set of requirements. Rolling stock is usually leased from rolling stock companies (ROSCOs)

Overview of the current franchise

2: Railway infrastructure

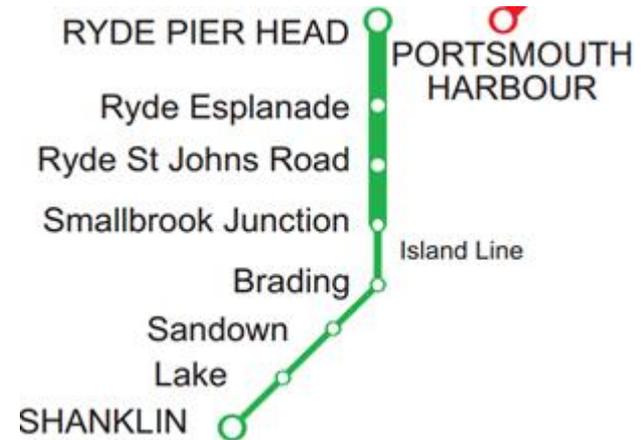
- Length: 13.4 km (8.3 miles)
- Mainly single track: 74%
- Layout restricts services to 20 min pattern using Sandown loop



Overview of the current franchise

3: Stations and train services

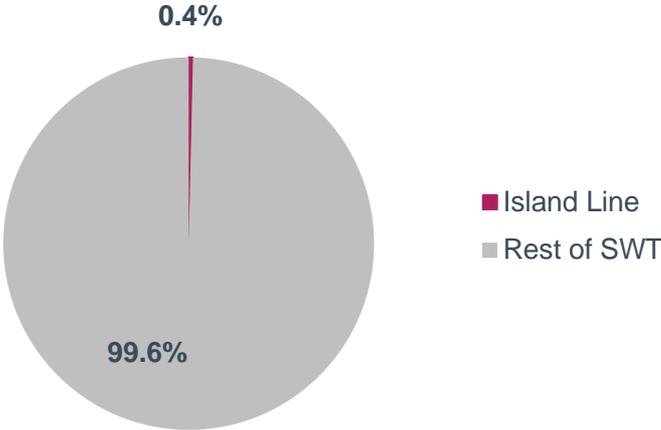
- Stations:
 - 8 stations
 - Staffed stations: Ryde Pier, Ryde Esplanade and Shanklin
 - Smallbrook Junction is a platform for interchange with steam railway, no pedestrian access to the platform
- Service:
 - Mon-Sat: 5:35-23:00 / Sun: 6:35-23:00
 - 20/40 min service pattern
 - Average travel time of 23 min



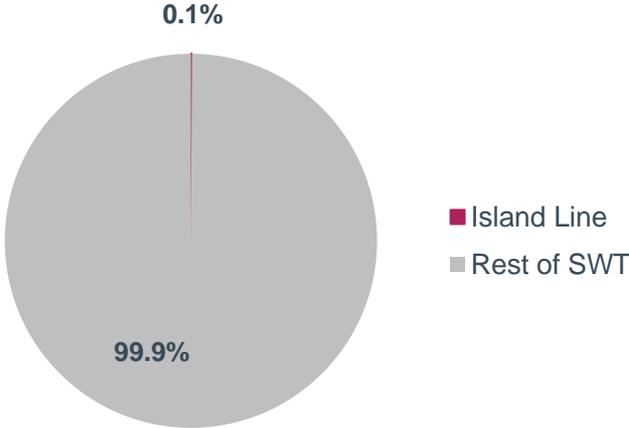
Estimated overview of current franchise

4: Island Line in SWT

Estimated passenger journeys 2013-14



Estimated revenue 2013-14



Sources: ORR, Atkins estimated figures for the Island Line

Key financials

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Key financials

5: Summary of Financials (estimated)

- Costs exceed revenue
- IL need subsidies to cover costs
- CAPEX assumed to only two years into the franchise from 2018/19

Please note that the numbers are rounded outputs of estimates

REVENUE
Passenger revenue
Other revenue
TOTAL REVENUE

OPEX
Staff Costs
Other Costs
Station & Depot Cost
OPEX TOTAL

CAPEX
Capex Infrastructure (Cost spread over 25 years)
CAPEX TOTAL

MARGIN
Operator margin (at 3.5% of Revenue)

Subsidy
Subsidy per journey

Journeys (Estimated)

New Franchise Period	
Total (7 Yrs)	
nominal from 2017/18	
£	7,300,000
£	150,000
£	7,450,000

-£	15,200,000
-£	16,300,000
-£	3,100,000
-£	34,600,000

-£	2,600,000
-£	2,600,000

-£	260,000
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-£	30,100,000
-£	5.1

5,900,000

Key financials

6: Revenue

- Revenue driven by passenger revenue
- Ryde St Johns Road car park managed by SWT

	2014/15	
REVENUE	nominal	
Passenger revenue	£ 940,000	98%
Other revenue	£ 20,000	2%
TOTAL REVENUE	£ 960,000	

Key financials

7: Costs CAPEX

- If approximately £13million monetised over 25 year period to cover any unknown works on
 - Ryde Pier structure repairs, flood related repairs, signalling and track updates.

	2014/15
CAPEX	nominal
Capex Infrastructure (Cost spread over 25 years)	-£ 500,000
CAPEX TOTAL	-£ 500,000

Sources: Atkins estimated figures for the Island Line

Note: Numbers are rounded to the 4th digit and may not equal absolute total

Currently estimated without inclusion of optimism bias

Key financials

8: Subsidies

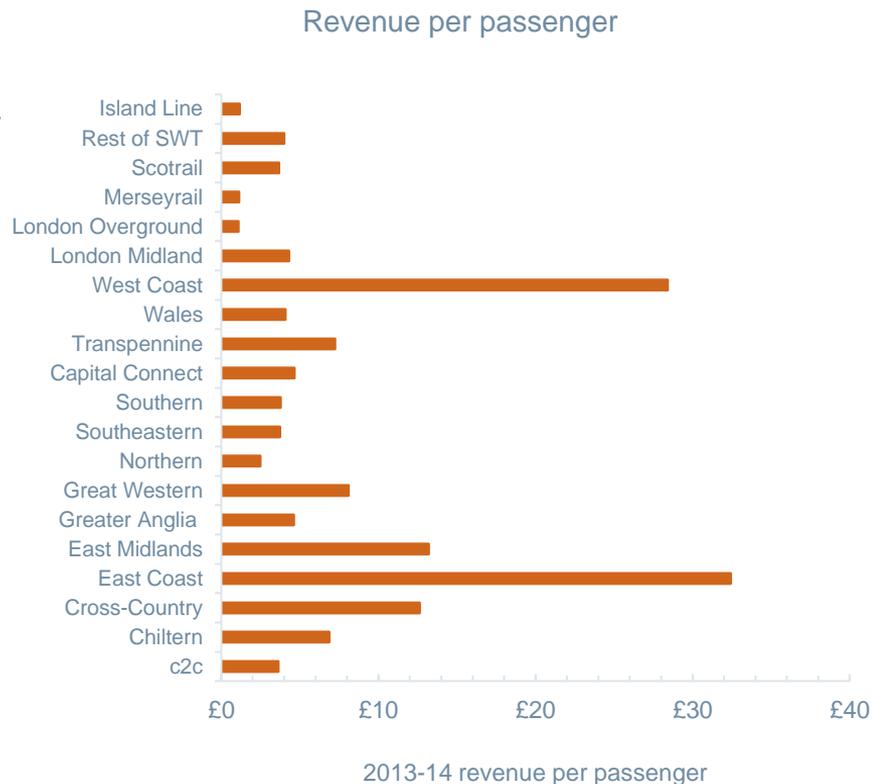
- Subsidies main income source of Island Line
- Required to cover cost/revenue imbalance
- Margin estimated at 3.5% of revenue

	2014/15	
MARGIN	nominal	
Margin (at 3.5% of Revenue)	-£	30,000
Subsidy	-£	3,970,000
Subsidy / Journey	-£	5.0
Journeys (Estimated)		790,000

Size of Island Line

9: Passenger revenue

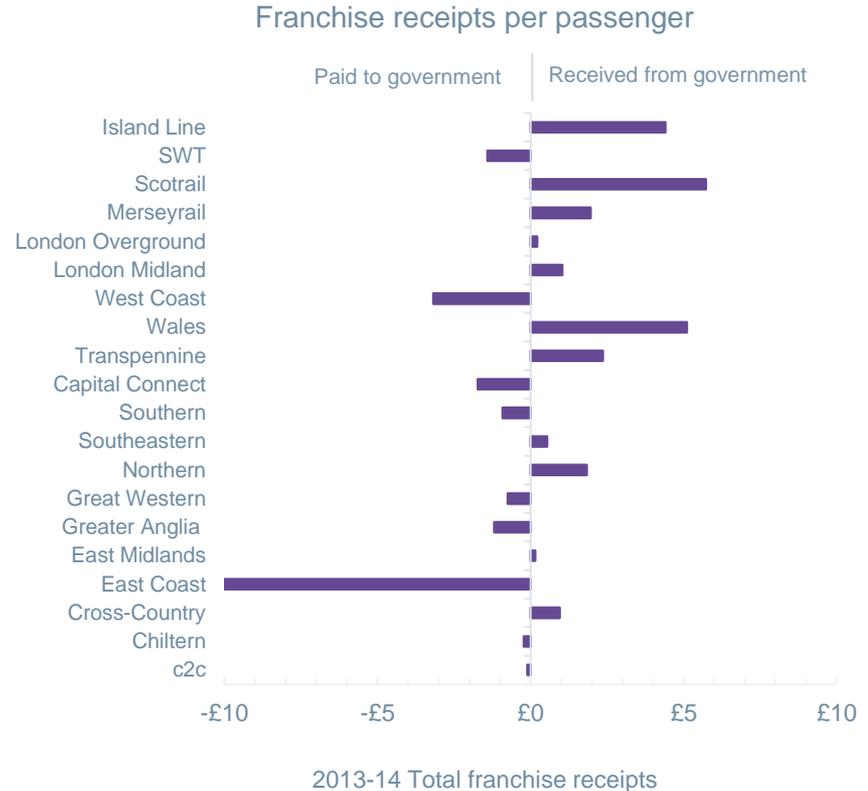
- Island line has a low revenue per passenger
- Very short distance operator
- Very small share of SWT total revenue and journeys



Size of Island Line

11: Subsidies

- Island Line needs subsidies
- Overall, SWT pays money (“premium”) to the government
- High level of subsidies per passenger for IL



Financial drivers and competition

Please note that the financials quoted are estimates only based on combination of public information and Atkins' judgement. They should not be quoted outside of this presentation or without this caveat.

Main financial drivers

12: Passenger revenue

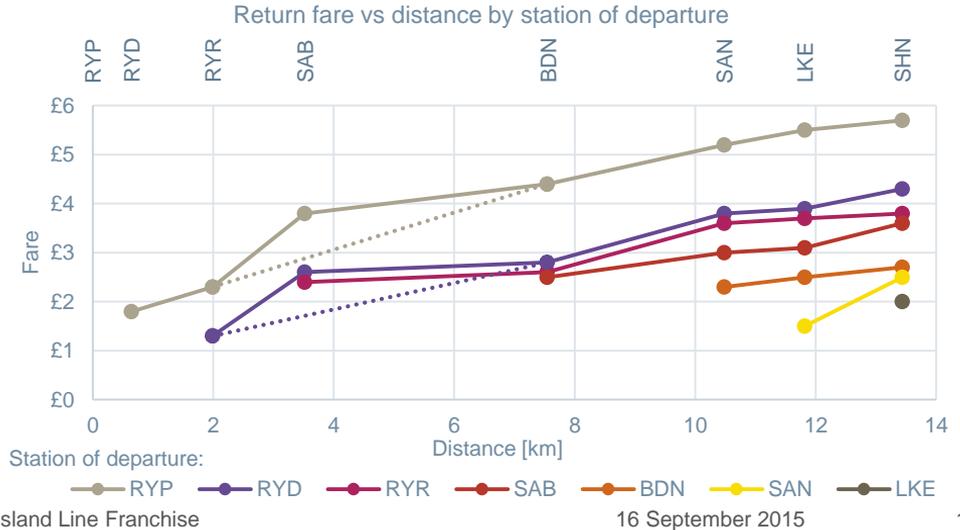
Single, return, weekly and monthly travel cards available

- Return fares: uplift of 20p to £1.4, mainly 23%-38%* more than single
- Ratio weekly/singe: 5
- Higher fares to tourist steam railway at Smallbrook

Single fares by origin-destination (£)

		Origin						
		RYP	RYD	RYR	SAB	BDN	SAN	LKE
Destination	RYP Ryde Pier (RYP)							
	RYP Ryde Esplanade (RYD)	1.30						
	RYP Ryde St Johns Rd (RYR)	1.80	1.10					
	RYP Smallbrook Junction (SAB)	2.80	2.10	1.50				
	RYP Brading (BDN)	3.00	2.30	2.10	2.00			
	RYP Sandown (SAN)	3.70	2.80	2.60	2.40	1.50		
	RYP Lake (LKE)	3.80	3.00	2.80	2.70	1.80	1.10	
	RYP Shanklin (SHN)	4.30	3.50	3.10	3.00	2.20	1.80	1.20

Sources: Island Line Trains
*25th-75th quartiles



Main financial drivers

13: Infrastructure lease and maintenance

- Unique infrastructure agreement in the UK, to run until 2019.
 - Infrastructure leased to SWT by Network Rail (NR)¹, 25 years contract since 1994
Initially contracted to Colas Rail, employee transferred from Colas to IL in 2012².
 - Network Rail responsible for earthworks and renewal.
 - Operator own maintenance standards, applies own engineering oversight
 - Use of own standards saves premature renewal of tracks
 - Existing infrastructure arrangements are due to end in 2019, during next franchise

Main financial drivers

14: Staff

- Staff estimates need to consider shifts and relief
- Staffed stations:
 - Full time: Ryde Pier and Ryde Esplanade
 - Part-time: Shanklin

	2014/15	2014/15
STAFF Numbers		nominal
Staff Costs (Drivers)	5	-£ 250,000.00
Staff Costs (Station staff)	9	-£ 315,000.00
Staff Costs (Management)	3	-£ 180,000.00
Staff Costs (RS and Infra. Maintenance)	20	-£ 1,200,000.00
TOTAL	37	-£ 1,945,000

Main financial drivers

15: Rolling stock

- London Underground rolling stock build in 1938-40, refurbished in 1989-92, introduced in 1989 in Island Line¹, minor refurbishment in 2007
- 6 electric (EMU) trains of 2 coaches each, standard gauge²
- Assumed to be owned by Island Line⁵ since 2007 and to be transferred to next operator
- Operations
 - Run as two-car trains using third rail electrification
 - Train height limited by low ceiling of Ryde tunnel, cannot accommodate standard rolling stock⁴
- Not compliant with accessibility regulations (RVAR)², e.g. wheelchair users
- Good knowledge of rolling stock maintenance and running costs, unlike for new bespoke rolling stock
- Electro-mechanical spares can be made as currently

Integration and competition

16: Connections

- Pedestrian ferry connection to Mainland from Ryde

Service	From	To	Freq (min)	Travel time (min)	Fare Single. / Ret. (£)
Wightlink Catamaran	Ryde Pier	Portsmouth Harbour Stn	60, 25/35	22	12.20
					17.80
Hovertravel	Ryde Esplanade	Southsea Clarence Pier + Bus to Portsmouth & Southsea Station	15, 30, 60	10 (+12)	15.00
					18.50

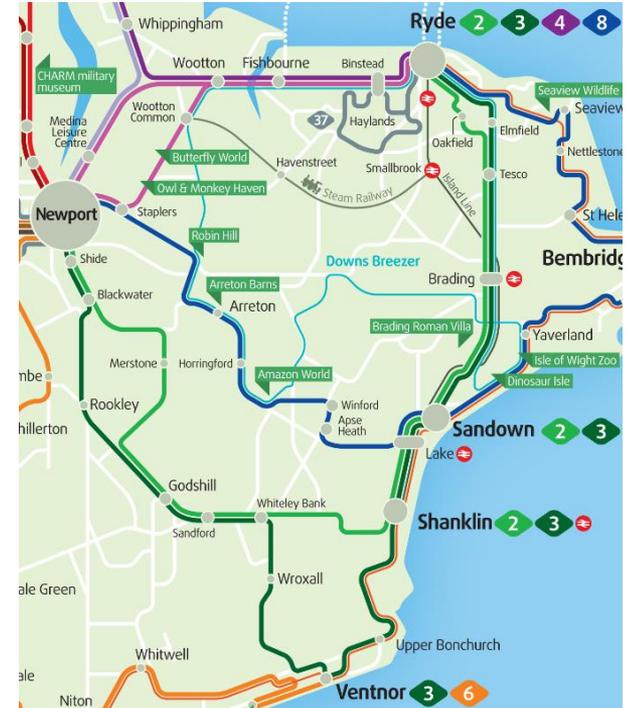
- Local buses

Line	From	To	Freq (min)
2	Ryde Esplanade, Shanklin, Brading, Lake	Newport / Shanklin / Bembridge / Ryde	30
3	Ryde Esplanade, Shanklin, Sandown, Brading, Lake	Newport / Ventnor / Shanklyn / Sandwown / Ryde	30
8	Sandown, Lake	Ryde / Bembridge / Sandown / Newport	30

Integration and competition

17: Local bus competition

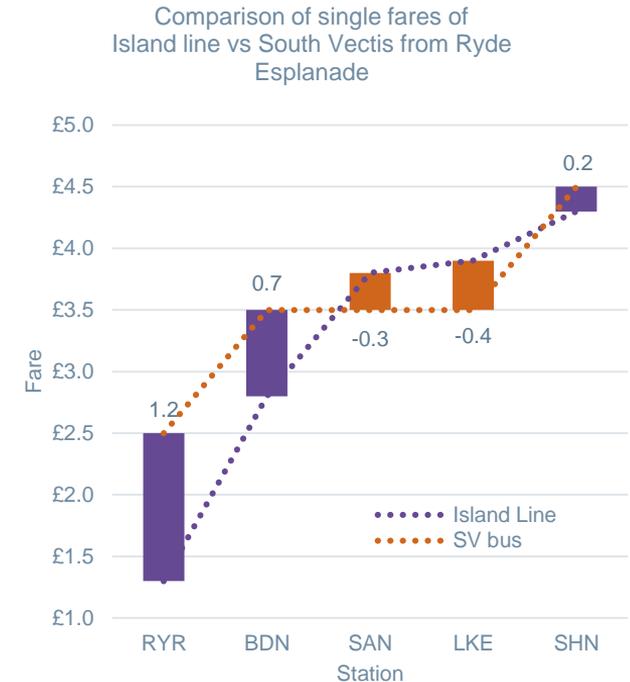
- Attractiveness of bus services
 - IL does not link city centres, buses do
 - Local buses run along parallel routes
 - Free bus pass for elderly
- Local buses (Southern Vectis)
 - 2 routes operate parallel to the railway: Line 2 and Line 3
 - Service pattern: 10/20 min
 - Travel time: 45 min
 - Flat single fares indexed on number of stops: £2.5/3.5/4.5
 - Unlimited day travel for £10.



Integration and competition

18: Bus fare competition

- Island Line fares are usually better value than bus fares for single and return journeys.
- But journeys do not always start/end at convenient locations (excepting Ryde pier)



Rail Franchising

Rail Franchising

19: Overview

- Programme set and managed by DfT Rail Executive: DfT specifies and runs procurement, within an affordability envelope agreed with Treasury
- Process revised post Brown and Laidlaw reviews in 2012/13
- Risk allocation between franchising authority and franchisee to optimise benefits to the Exchequer and incentivise bids
- Operator of Last Resort is DfT (Directly Operated Railways)
- Previous devolution deals have meant some risks retained by DfT, including Operator of Last Resort
- Franchise terms tend to be 7-10 years
- Procurement takes 24 months
- DT appoints external Technical, Legal and Financial advisors
- Franchise Agreement is between the Franchisee and Secretary of State
- Devolved Concessions in Scotland, London, Merseyside.
- Partnership agreement is a transitional phase for Rail North with Rail North and DfT to manage Northern and TransPennine on behalf of SoS, pending full devolution.

Five alternatives for consideration

Five alternatives

20: Scenarios

1. DfT continue to let the Island Line as part of the South West franchise competition
2. DfT let Island Line as a separate franchise
3. IOW UC let Island Line without infrastructure
4. IOW UC let Island Line with infrastructure
5. DfT/IOW UC partnership arrangement

Alternatives

21: Key dates

DfT have decided to replace the current South West franchise which includes the Island Line rather than reach an extension agreement with Stagecoach:

- OJEU date: November 2015
- PQQ date: Not known to date (likely to be same as OJEU)
- ITT date: June 2016
- Island Line service level expected to remain broadly as today although there will be period of stakeholder consultation by DfT and by bidders.

Scenario 1 – DfT let; IL remains part of SWT

22: SWT competition - SWOT

Strength	Least risk and effort to IoW UC – base-case option No cost to IOW UC
Weakness	Enhancements unlikely without IOW UC engagement/persuasion Central government control Island Line is tail of larger operation
Opportunity	Consultation process
Threat	HMT influence Existing infrastructure arrangements not maintained by incoming franchisee which is more likely in generic competition

Scenario 2 – Separate Island Line let by DfT

23: Separate Island Line - Considerations

DfT might let Island Line separately (in consultation with IOW UC).

Major DfT concerns:

- Insufficient time;
- Distraction to DfT team and bidders;
- Transaction cost;
- Limited commercial history – lower value;
- Value of stakeholder engagement – political football versus partners

However, DfT might specify that Island Line will be operated separately - and then let as separate entity after a period.

Scenario 2 – DfT lets Separate Island Line

24: Separate Island Line - SWOT

Strength	Low risk and cost to IOW UC Direction of travel towards devolution Potential continuation of local infrastructure maintenance
Weakness	Enhancements still unlikely without IOW UC engagement/persuasion Central government control
Opportunity	Consultation process First potential step to IOW becoming letting authority Time to develop partnership with DfT
Threat	Funding

Scenario 3 & 4 – IoW UC lets IL

25: Need to agree with DfT

18th April 2007 DfT offer letter mentions:

- i. A financial settlement from central government to match the forecast cost of subsidy
- ii. Funding for “the resources required to effect the transition”/transaction;
- iii. Comfort over financial sustainability of infrastructure arrangements

Other items not mentioned but needed:

- i. IOW UC to demonstrate capability;
- ii. Open book process so that DfT and IoW UC have a common view of all items;
- iii. Agreement over operator of last resort provisions (whose responsibility);
- iv. “No net loss/no net gain” protection for the operator and IOW UC
- v. Consideration as to how much involvement DfT will want in the franchise specification/competition;
- vi. How to ensure that the OJEU and South Western letting process is not adversely affected;
- vii. Whether there are other unknown legal issues – is DFT able to transfer its powers legally?

Scenario 3 – IoW UC lets IL without infrastructure

26: IoW UC lets IL without infrastructure - Considerations

Major IOW challenges:

- Insufficient time for complicated legal and financial settlement with DfT;
- Operation too small for serious competition;
- Transaction cost;
- Limited commercial history – lower value;
- Does IOW UC have a vision for railway?;
- Capacity and capability of IOW UC given other challenges;
- Unknown risks – “operator of last resort;”
- Transaction simpler without infrastructure as standard rail industry model but less reflective of IOW existing operations;
- Existing infrastructure agreement ends in 2019.

Scenario 3 – IoW UC lets IL without infrastructure

27: IL let without infrastructure - SWOT

Strength	Local control Risks from infrastructure reduced DfT “devolution” agenda.
Weakness	Lack of time to run a competition Insufficient time to reach an agreement with DfT
Opportunity	Chance to apply IoW UC Vision
Threat	Inappropriate agreement with DfT IOW political/management instability

Scenario 4 – IoW UC lets IL with infrastructure

28: IL let with infrastructure - Need to agree with DfT

Additional IOW challenges:

- More complicated legal and financial settlement with DfT;
- Higher transaction cost;
- Condition of infrastructure unknown;
- Few other costs to spread variances in cash impact of potential renewals;
- NR ownership of asset

Scenario 4 – IoW UC lets IL with infrastructure

29: IL let with infrastructure - SWOT

Strength	<p>Greater local control</p> <p>Biggest win for DfT “devolution” agenda</p>
Weakness	<p>More complicated competition</p> <p>Longer time needed to reach an agreement with DfT</p>
Opportunity	<p>Greater chance to longer term lower costs</p>
Threat	<p>Greater need for agreement with DfT</p>

Scenario 5 – IoW Business Unit

30: IoW services managed in discrete Business Unit

Additional IOW challenges:

- Needs Agreement between IoW UC and DfT;
- Staff time;
- Rail expertise required;
- Partnership needed between IoW UC and DfT.

Scenario 5 – IoW Business Unit

31: IoW services managed in discrete Business Unit - SWOT

Only difference shown

Strength	<p>Greater local transparency</p> <p>Step towards DfT “devolution” agenda</p> <p>Allows time to develop longer term transfer of control and funding</p>
Weakness	<p>Time needed to reach agreement with DfT</p>
Opportunity	<p>Greater involvement in the franchising process for IoW</p> <p>Influence on longer term transfer</p> <p>Builds knowledge of the franchising process locally</p>
Threat	<p>Greater need for agreement with DfT</p> <p>Risk of failure to agree Business Unit management and reporting arrangements in time</p>

Themes for discussion

- Has IOW UC got an affordable vision for the franchise?
- IOW UC require active cooperation of DfT and an open + professional relationship;
- IOW UC cannot afford to let the IOW UC without ongoing support from DfT;
- Any agreement with DfT will be complicated by DfT obligations/needs and will transfer risk + need time to be negotiated;
- Infrastructure arrangements are unique with a risk from backlog of renewals work;
- DfT cannot tolerate any delay to SWT competition – but might carve out arrangements for Island Line;
- Devolution agenda;
- Transaction costs.