

**From time to time, This Column tries to predict the future. But rarely do its forecasts come to pass quite so quickly – that is, if current reports are confirmed.**

Last week, as City gloom deepened about certain transport groups, we suggested that if any rail franchises were at risk they were most likely to be those providing intercity services, because business travellers in particular are either travelling less or tending to downgrade from First to standard class.

Indeed, we concluded: *'We do suggest that the risk is greatest in the long-distance sector. If there are casualties, expect them there.'*

A week is a long time on the railways, but it gives us no pleasure to report that the first of those casualties now seems to have occurred.

As you will have read elsewhere in this issue, National Express East Coast is understood to have given up the unequal struggle and drawn up Heads of Terms for the replacement of its franchise by a DfT management contract, which will presumably run until the franchise can be let, yet again.

The railway from King's Cross to Leeds and Edinburgh is starting to take on an ominous graveyard hue. If the latest reports are right, it has now seen off two franchises in little more than three years.

Back in August 2007, when the NXEC franchise was announced, there was comment at the time that the total premiums payable under the new contract were even higher than those due from the late lamented GNER.

The figures most usually quoted were £1.3bn (GNER) and £1.4bn (NX).

But these tended to hide the reality. Because the NXEC franchise was to be shorter (seven years and eight months as against ten years), the daily average premium was considerably higher – £500 000 a day as against £350 000 from GNER.

£150 000 is a lot of passengers, particularly when you must make allowance for the costs of carrying them.

While extra passengers can be accommodated on existing services the revenue from their tickets is almost all profit, apart from the minor cost of processing the transactions.

But as soon as you start running more trains, up go the costs.

In fact, £150 000 implies that 3000 passengers would be required, assuming an average yield of £50 each, and these would fill six or seven trains.

And, of course, none of this revenue would help to swell the profits of National Express: it would all be needed simply to pay the DfT bill.

Now it seems that the recession has spelt disaster for the NXEC business plan, which was firmly based on continuing growth, and everything is back into the melting pot.

What, for example, becomes of the much-discussed SLC2b, with its extra trains to Leeds and new services to Lincoln, Harrogate and ideally Bradford?

What happens to the leases for Class 180 Adelantes?

What, indeed, happens to National Express? There is an enduring rumour that if you lose one franchise, you lose

any others you may happen to have. In the case of NX, this could imply an uncertain future for c2c and NXEA.

But although the DfT East Coast contract does appear to contain a 'lose one, lose all' clause, this does not necessarily have to be enforced.

It is hard to see how penalising NX would help the DfT, which would then have not one abandoned franchise howling on its doorstep, but three.

So we can probably regard NXEC in isolation. But one pertinent question remains to be asked. Why did neither the bidder nor the Department take into account the mere possibility that passenger growth might tail off?

Cap and collar is intended to help, but this wouldn't come into operation on NXEC until 2011 or thereabouts, and NX would have had to keep afloat until then all by itself.

But although NXEC overbid, it was not the only one. It is said that Arriva offered even more (and is probably very glad now that it was ruled out on the 'deliverability' test).

In the end, however, the responsibility must be shared by the DfT, which does have the benefit of Treasury advice when it assesses bids.

But if even HM Treasury can be caught out (see Northern Rock, etc., etc.,) then perhaps we should not be too surprised if others are too.

We will make one more prediction: the days of overinflated bids for rail franchises are over, at least for now.

Which reminds us: we wonder how things are going with the South Central contest? Don't hold your breath. ●

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