Dear David

Since the Secretary of State's announcement in late November that your current franchise agreement is likely to end three years early in 2020, there has been much speculation and argument about the causes of this apparent franchise failure.

While it is widely acknowledged, including by the Secretary of State¹, that Inter City Railways Limited overbid for the franchise, delays to promised and planned infrastructure works—particularly those to enable the Intercity Express Programme (IEP) rolling stock and associated capacity and journey-time improvements (see below)—have been cited by Richard Branson and others as the root cause of Vtec's inability to achieve its revenue projections and financial obligations beyond 2020 under its current agreement, making a renegotiation inevitable.¹

We have been unable from publicly available sources to piece together a clear picture of what works were promised, planned and subsequently delayed, and which delays might have substantially affected your planning assumptions and revenue projections. You will therefore appreciate our desire to shed light on this, in the interests of open and transparent scrutiny.

On letting the franchise in 2014, the Department for Transport announced a number of service-improvement commitments, including:

- 23 new services from London to key destinations, with 75 more station calls a day;
- 3,100 extra seats for the morning peak time by 2020;

¹“Clarity on Virgin Trains East Coast media reporting”, Richard Branson’s Virgin blog, 5 January 2018; “East Coast franchise renegotiation inevitable”, Modern Railways, August 2017
• across the entire train fleet there will be 12,200 additional seats—a 50% increase;
• 65 state of the art Intercity Express trains brought into passenger service from 2018, totalling 500 new carriages; and
• journey times from London to Leeds reduced by 14 minutes, and from London to Edinburgh by 13 minutes.

We should be grateful if you would set out:

1. a list of Network Rail projects necessary to enable each of the above commitments;
2. your understanding, at the point of taking on the current franchise, of the planned completion dates for each of these projects;
3. the dates of any changes to completion dates for relevant projects, and your understanding of the reasons for these changes; and
4. the effects, in each case of a change to a completion date, on your ability to hold to the commitments listed above.

We would be grateful to receive this information no later than Wednesday 17 January.

I look forward to hearing from you.

Lilian Greenwood MP
Chair of the Transport Select Committee
19 January 2018

Dear Lilian,

Thank you for your letter dated 15 January. I am happy to answer your questions and provide clarity to your Committee to the best of my ability.

I would like to open by reaffirming the successes that have already been achieved by the Virgin Trains East Coast (VTEC) team. We have already invested more than seventy million pounds in the franchise; more than was invested during five years of the previous operator. We have introduced additional or new services to Edinburgh, Leeds, Stirling and Sunderland, provided hundreds of new car and bicycle spaces, upgraded our website, introduced free films and TV on board, and completely refurbished our entire fleet inside and out – some of these enhancements being over and above the obligations in our Franchise Agreement.

With regard to your specific questions, I have enclosed a table as Appendix A, which shows the key Network Rail (NR) infrastructure enhancements that the Office of Rail and Road (ORR) decided in the last periodic review that NR was obliged to deliver and upon which we were mandated by DfT to bid and commit in our franchise agreement. Appendix A shows the original dates for delivery and how those dates have been changed and then our best, current understanding of NR’s anticipated delivery dates.

NR projects required to deliver our commitments

1. It was in March 2013 that the then Secretary of State announced the commencement of the East Coast Mainline (ECML) franchise proposition, with the Department for Transport (DfT) procurement process commencing on 21 March 2014. Bids were to be submitted by 19 June. The DfT announced its intention to award the ECML contract to VTEC on 27 November 2014, with the Franchise Agreement being signed on 9 December 2014. The franchise commenced operations on 1 March 2015.
2. The DfT required bidders to agree to operate a specified timetable, including with new trains it had bought, and this is therefore reflected in our Franchise Agreement.

3. As our bid accepted the timetable mandated by DfT, VTEC has a franchise obligation to deliver an enhanced train service, with faster journey times from the timetable change date in May 2019 (this effectively increases the service pattern from typically 5 trains per hour on the East Coast Main Line to 6 trains per hour, each way) and then again from May 2020, when this increases to 13 trains every two hours. In order to deliver this, the key infrastructure enhancements referred to above and in Appendix A have to be completed. ORR’s Control Period 5 (CP5) Final Determination (i.e. its last periodic review of NR’s financial settlement) obliged NR to deliver most of them as part of the "East Coast Connectivity Fund" (ECCF); they were included by NR in that periodic review process in NR’s Strategic Business Plan from January 2013. The individual schemes within the ECCF needed to run the timetable are as follows:

- Kings Cross station throat remodelling;
- Grade separation (between freight and passenger trains) at Werrington near Peterborough;
- ‘Four tracking’ the railway between Huntingdon and Woodwalton;
- An additional platform at Doncaster station; and
- North East freight loops (Northallerton).

4. In addition, York (station) north throat remodelling was a committed project as part of the ECCF, albeit to improve timetable robustness and performance, rather than to add to the capacity.

5. The schemes listed in paragraph 3 are required to allow VTEC to operate the timetable mandated by DfT and included in our Franchise Agreement. Each ECCF scheme has various, different delivery dates as identified in Appendix A.

6. In addition, VTEC contracted with the DfT in its Franchise Agreement to operate a new train service between London Kings Cross and Huddersfield from May 2019; however due to uncertainty over the Trans-Pennine electrification it is not yet clear when this will be possible.

7. A key part of the franchise agreement is the introduction of new InterCity Express Programme (IEP) trains procured by the DfT. It is mandated in the Franchise Agreement that we manage the introduction of these trains, known as Azumas, into service. They are central to the new, enhanced service. In addition to the infrastructure enhancements which ORR’s review required NR to deliver, DfT and NR agreed a specific package of infrastructure enhancements to allow the Azuma to run. This is a well-defined agreement where some of the work is either complete or has seen significant progress (for example, power supply upgrade south of Doncaster and platform extensions).
8. This "Intercity Express Programme (IEP) Infrastructure Output Specification" (agreement between DfT and NR) commits NR to delivering an adequate power supply to utilise the new rolling stock from 2018. Again, DfT mandated the new service be run with the (mostly electric) Azuma and so our Franchise Agreement commitment was based on timely delivery of the necessary infrastructure specified in this agreement to allow for full IEP operation in the full, enhanced timetable from May 2019. We understand that this central element of the infrastructure will also not be delivered on the entire route on time. It is still not clear when there will be sufficient power to operate a full (electric) service on the London-Edinburgh route, i.e. to deploy the Azuma as mandated by DfT and hence deliver the faster journey times to Leeds and Edinburgh.

Planned completion dates of these schemes

9. At the time we submitted our bid all of the above schemes were scheduled to have been completed by the end of the period covered by ORR’s periodic review of NR’s finances (31 March 2019), allowing the timetable enhancements we committed to in our Franchise Agreement from May 2019.

10. Naturally, before committing to these things in our Franchise Agreement, our bid team (and I am sure other bid teams) met with senior representatives of NR and examined the various documents published by NR and ORR and the agreement between NR and DfT which confirmed the outputs and timescales associated with enhancement work to be completed by NR. These infrastructure enhancements provide the capability necessary for the implementation of additional services, which are fundamental to our contract with the DfT for the May 2019 timetable and franchise premium payments to Government.

The changes to the dates and reason for this

11. Each scheme has a different delivery date as identified in Appendix A. Our understanding is that NR’s implementation of the Hendy Review from November 2015, in an updated Enhancement Delivery Plan (EDP) in March 2016 approved by the ORR, reprioritised a number of its schemes nationwide. ORR’s approval did not address the subsequent financial consequences of these changes. Shortly after the release of the post-Hendy EDP, in March 2016, VTEC told the DfT that NR’s failure to deliver the promised committed projects and development of railway infrastructure on the ECML would likely prevent VTEC from delivering several of its future obligations under the Franchise Agreement and so naturally affect the finances of the franchise.

The effects of the re-prioritisation of the NR schemes on VTEC’s ability to deliver its promises

12. To honour its Franchise Agreement commitment, VTEC submitted its application to the ORR for track access rights to operate its contracted 6 trains per hour timetable from May 2019.
However, because the ECCF schemes are not now scheduled to be completed in full until (at best) May 2021, these were not granted. Instead, the ORR granted VTEC Firm Rights to operate 6 trains per hour only from May 2021 and only Contingent Rights (i.e. rights NR must honour only if there is sufficient capacity) for the same services from May 2019. In addition, the ORR has granted VTEC Firm Rights to operate its additional 0.5 trains per hour (to Middlesbrough) only from May 2021, with Contingent Rights from May 2020. So, it can be seen that the deferral of the ECCF schemes in the post-Hendy EDP, fundamentally, means that the additional services, faster journey times and full and efficient operation of the Azuma trains that VTEC contracted with the DfT to deliver from May 2019 are no longer deliverable. The inability to operate the additional train services will of course also have a knock on impact upon VTEC’s ability to provide the promised additional seats from May 2019. At best the additional services will be delivered from May 2021 (although due to uncertainty on the delivery of the York (station) north, North East freight loops (Northallerton) schemes and power supply upgrades, achieving additional services north of York and faster journey times to Leeds and Edinburgh is still unclear even then).

I hope this letter answers your questions around the wider context of infrastructure delivery.

Yours sincerely,

David Horne
Managing Director, Virgin Trains East Coast

Attachments:

- Appendix A - Stagecoach and Virgin understanding of latest position of ECML Connectivity Fund and other committed Projects at January 2018
### Appendix A - Stagecoach and Virgin understanding of latest position of ECML Enhancement Schemes at January 2018

<table>
<thead>
<tr>
<th>Relevant key works</th>
<th>CP5 anticipated completion date (2013)</th>
<th>EC Programme Board anticipated completion date (May 2015)</th>
<th>NR’s letter to ORR anticipated completion date (Oct 2015)</th>
<th>Hendy/EDP (March 2016) and/EC Programme Board anticipated and indicative completion date (May 2016)</th>
<th>NR letter to ORR (20 Sept 2017)</th>
<th>Current anticipated delay compared to CP5</th>
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<tbody>
<tr>
<td><strong>East Coast Connectivity Fund</strong></td>
<td></td>
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<td>North East freight loops</td>
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<td>Mar 2020</td>
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<td>York north throat works</td>
<td>Dec 2017</td>
<td>May 2020</td>
<td>Dec 2020</td>
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<td>Peterborough works (Fletton to Peterborough upgrade and Werrington grade separation)</td>
<td>Sept 2018 (Werrington)</td>
<td>Dec 2020 (Werrington)</td>
<td>Dec 2020 (Werrington)</td>
<td>Dec 2020 (Werrington)</td>
<td>Dec 2020</td>
<td>&gt;2 years</td>
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<tr>
<td>4 tracking Huntingdon-Woodwalton</td>
<td>Sept 2018</td>
<td>Dec 2020</td>
<td>Jan 2021</td>
<td>Dec 2020</td>
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<td><strong>Other ECML enhancement schemes</strong></td>
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<td>Huddersfield electrification</td>
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<td>End of 2022</td>
<td>n/a</td>
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<td>Power supply</td>
<td>Not part of Hendy scope and assumed to be capable by August 2018 as part of Intercity Express Project (IEP) Infrastructure Output Specification</td>
<td></td>
<td></td>
<td></td>
<td>TBC</td>
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