




Floor 6 Friars Bridge Court  
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London SE1 8NZ

Telephone: 020 7620 5180  
Email: 

2 February 2016

Dear Mr Pugh

### **Island Line**

I have been asked to respond to the queries you have raised in your email regarding the Island Line cost/revenue base. I am the Finance Director for Stagecoach South Western Trains Ltd and I am responsible for populating the data room to assist bidders in their franchise bid submissions; I am therefore best placed to respond to the issues that you have raised.

1. I can confirm that the revenue numbers quoted reflect the income that relates to Island Line services.  
The amounts quoted purely reflect income that relates to passenger journeys on the line between Ryde Pier Head and Shanklin. You may be aware that there is a national income allocation system that allocates income across TOCs and therefore the income values quoted include passenger income relating to journeys made on the Island Line services where the tickets are sold:
  - a. on the Isle of Wight at Ryde or Sandown
  - b. elsewhere at national rail stations
  - c. by 3<sup>rd</sup> parties (including travel agents, Wightlink etc.)
2. The values exclude income for tickets sold on the Island that relate to journeys on other entities (other TOCs, Steam Railway, Wightlink, etc.) The amounts shown also exclude commissions.
3. The staff costs for the Island Line were £2093K for 2014/15 (forecast at £2,276K for 2015/16) and include pension contributions and NI payments payable by the Company.
4. The staff costs only relate to staff who are based 100% of their time on Island Line activities. There is no provision whatsoever for management overheads (including Finance, HR, Marketing) – these are all borne directly by SSWT.

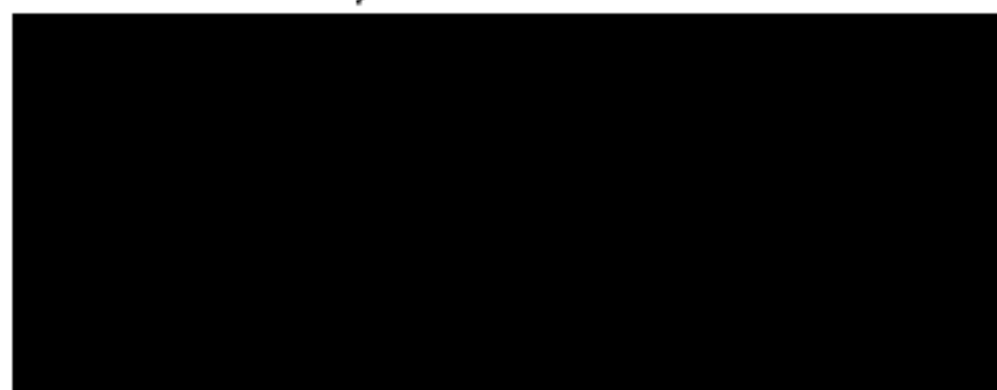
For your information, we are forecasting total expenditure for directly attributable Island Line costs of £5,750K for 2015/16. This includes the cost of staff, materials to maintain the units, track maintenance costs, insurance, utilities (including electricity to operate the trains) and the Infrastructure Lease Contract with Network Rail.

The most significant cost escalation relates to the Infrastructure Lease arrangement, where the contract expires in March 2019 and Network Rail recover costs through a lease charge, which recovers the cost incurred by the end of the lease. The most recent contract renewal point was 1<sup>st</sup> April 2015, when the lease charge increased by £863K p.a. from £1,324K p.a. to £2,187K p.a.

The lease charge will increase further in subsequent years as Network Rail will have a shorter time period to recover expenditure incurred.

I trust that this information is of use to you.

Yours sincerely



**A C West**  
**For Stagecoach South Western Trains Limited**