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West coast rail hopefuls quizzed on cost cuts

By Mark Odell and Rose Jacobs

The first steps in the government's reform of the UK rail franchising regime were unveiled on Friday, with the four companies vying to run the west coast mainline asked to submit a cost-cutting programme as part of their bid.

The move is part of a wider government initiative to cut taxpayer support for the industry after a review, published last year, by Sir Roy McNulty that found the UK rail network was at least 30 per cent more expensive to run than European counterparts.

The call to identify areas for cost cutting is couched in "deliberately vague" language in an attempt not to antagonise the powerful transport unions, according to one rail executive. The McNulty report pinpointed labour costs as a key area that needed tackling.

Other changes to the franchising regime, include giving the winning bidder responsibility for running some of the bigger stations in the franchise, which links London Euston to Birmingham, Manchester and Glasgow. Although the main stations are excluded, the train operator is expected to assume responsibility for stations including Birmingham International, Crewe and Preston.

The operator will also get greater responsibility for timetabling services, which in the past have been tightly regulated, although the government continues to specify minimum service levels.

The government is also changing the mechanism for risk-sharing with government subsidies, which previously kicked in when the operator failed to meet agreed revenue targets, linked to gross domestic product instead.

The changes are contained in the detailed bid documents sent out on Friday to the four shortlisted bidders. The competition pitches two UK companies – FirstGroup and incumbent operator Virgin Trains, a joint venture between Sir Richard Branson's Virgin Group and Stagecoach – against two subsidiaries of foreign state rail groups: Keolis, part of SNCF in France, and Abellio, an arm of Nederlandse Spoorwegen, the Dutch operator.

The franchise, which will run from December 2012 for up to 15 years, is the first full one to be let since the government promised a shake-up of the rail industry after the McNulty report.

It signals the start of a busy three-years, with more than half the country's 19 franchises coming up for renewal amid increasing interest from foreign bidders.

The outcome of the competition is expected to give a good indication of how serious the government is about attracting big foreign rail operators into the industry. The winner of the franchise, which produced £750m in revenues last year and £40m in pre-tax profits, is due to be announced in August.

London-quoted transport companies earned a total of £6bn in annual revenues from their UK rail businesses. The 2010 takeover of Arriva by Deutsche Bahn gave the German state rail group about 10 per cent of the UK passenger rail network, while the Dutch and French state operators already have a foothold in the UK market through joint partnerships.

Abellio became the first foreign bidder to win a franchise last year, with a two-year deal to run the Greater Anglia rail franchise.