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Virgin Rail seeks reasons for franchise loss

By Rose Jacobs



Virgin lost its franchise to run the West Coast service to FirstGroup, which put up more than £200m in guarantees

Virgin Rail is pushing the government to provide detailed feedback this week on why it lost the contest to run the lucrative West Coast rail franchise.

The company wants a quick response so it can decide, before the deadline of August 28, whether to call for a judicial review of the franchise process for the line, which connects London Euston with Birmingham, Manchester and Glasgow.

The franchise was awarded to FirstGroup last week after the UK's biggest public transport group by revenues promised to pay the government £13bn in premiums during the franchise period of almost 15 years. The offer was about 15 per cent higher than Virgin's, the second-highest bidder.

Sir Richard Branson, whose Virgin Group owns 51 per cent of Virgin Rail to Stagecoach's 49 per cent, called the decision "insanity" and warned that his rival's aggressive traffic and revenue projections could lead to default on the deal.

Speaking at the weekend, Tim O'Toole, FirstGroup's chief executive, rejected Sir Richard's claims that the franchising process was in need of a rethink. He said that, after years of tweaking, "we're right on the cusp, perhaps, of better operations and better delivery ... It would be a shame not to play out this hand and see if we've got it right this time."

FirstGroup's intends to work closely with infrastructure owner Network Rail on the West Coast line to improve the service. It is making a list of adjustments to the infrastructure it believes would improve operations and is willing to spend some of the £350m it has earmarked for investment during the next five years on helping to fund those projects.

The Department for Transport told Virgin Rail on Friday that, according to its scoring

mechanism, Virgin's bid was rated behind FirstGroup's on customer service as well as price, but ahead on "deliverability".

But beyond that, the company wants to know what sort of guarantees the government has demanded of FirstGroup, including whether there is a promise – as in Virgin's bid – of not instituting compulsory redundancies. "We look like sore losers in this but genuinely Sir Richard feels these questions are being unanswered and finally someone's prepared to ask them," said Virgin Rail.

The DfT said "the department offers feedback to all franchise bidders on their bids", but declined to comment on timing.

Sir Richard may have trouble persuading his partners at Stagecoach to sue the government since the latter group has more to lose in irritating its biggest customer. The West Coast mainline was Virgin's last hold in the UK rail system, while Stagecoach runs SouthWest Trains and East Midlands and has made the shortlists in two upcoming contests for 15-year contracts to operate Great Western and Thameslink.

FirstGroup – the incumbent on both those lines – is also on those shortlists, as well as one for the smaller Essex Thameside franchise. Mr O'Toole said on Sunday that the company's business plans envisage having two franchises, meaning it would bid less aggressively for anything above and beyond that.

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