

October 19, 2012 3:13 am

Go-Ahead chief backs rail franchising

By Rose Jacobs and Mark Odell

The head of the UK's biggest train operator by passenger numbers has insisted that the country's rail franchising process is not broken in spite of the mistakes made in the West Coast main line competition.

David Brown, chief executive of Go-Ahead – which runs the Southern, Southeastern and London Midland lines – also warned that the government risked missing out on rail revenues and upgrades if the reports ordered following the West Coast debacle significantly slowed the busiest period for rail franchising since privatisation.

"They need to start cranking the handle as soon as possible," he said. "The franchise process does work. Most of it is not broken."

Amid the chaos surrounding the railways, Mr Brown also sought to remind investors that more than half the company's profits are derived from bus operations. He aims to increase profits by 40 per cent in the next four years.

The company is targeting £100m in operating profits from its bus divisions by March 2016, which it plans to achieve largely by pushing up passenger volumes and cutting costs.

The target did not include potential acquisitions, nor was the revenue growth dependent on significant fare rises, Mr Brown said. In the three and a half months to mid-October, organic sales at the company's non-London bus businesses rose 5 per cent, with traffic up 3 per cent.

Gerald Khoo, a transport analyst at Espirito Santo, said: "The new long-term bus operating profit target appears to us to be ambitious and challenging, but not impossible, at first glance."

Go-Ahead's shares rose 5 per cent on Thursday to 136p, taking the dividend yield to 6.3 per cent. Mr Brown emphasised that the dividend was covered by bus earnings, insulating it from a highly uncertain rail market that is now riskier following the West Coast fallout.

While none of Go-Ahead's rail franchises are up for renewal next year, the contest for Thameslink, for which it is a shortlisted bidder, has been delayed, pushing back the prospect of hundreds of millions of pounds in annual revenues.

Go-Ahead's rail bidding costs have fallen from an estimated £6m this financial year to £5m

as it sends home consultants it had brought on for the Thameslink contest.

However, Mr Brown did not see this as a silver lining. "I'll just spend it next year instead. And to be frank, I really wanted to spend it this year."

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