Richard Brown report calls for rail franchise overhaul

The Government must urgently strengthen its capability for letting rail franchises, cut their length and set clear guidelines on how much capital is required from bidders, according to a critical report.

The Transport Secretary pulled the auction just hours before he was due in court to face a legal challenge from Sir Richard Branson's Virgin Rail Photo: AFP

By Alistair Osborne, Business Editor

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The review, commissioned from Eurostar chairman Richard Brown in the wake of the West Coast rail bid fiasco, also tells the Department for Transport to re-start the suspended competitions for three other franchises as soon as practical arguing "there is no credible case for major structural change".

Mr Brown stops short, however, of insisting the franchise process is taken away from the DfT. He proposes three options, the "simplest and quickest" of which is to leave responsibility within the department – but under a single "franchising director" who is "responsible for specifying and procuring" all franchises.

His alternatives are establishing a franchising team as an "executive agency", similar to the Highways Agency, or a "standalone organisation" such as the former Opraf – the body that let the then 25 franchises over a two-year period from 1995.

Asked why he stepped back from a recommendation, Mr Brown said it was a decision for government. “If you are running an organisation, having someone else come along and tell you how to run it is not appropriate,” he said.

Even so, he was forthright about what needed to be done following the West Coast debacle that has so far cost the taxpayer £55m from such things as recompensing bid costs and legal advice.

Transport Secretary Patrick McLoughlin pulled the competition in October – after FirstGroup had outbid incumbent Virgin Rail – following the discovery of “significant flaws” in the DfT’s handling of the bid.

Mr Brown said the 14-year West Coast franchise was a “huge contract by any standards”, with its gross value “well in excess of £20bn”. But there was “a sharp asymmetry between the capability and resources of bidders and that of the department”. He urged the DfT to “bring in a range of experienced individuals” with procurement and commercial expertise.

He also recommended cutting the average length off all but “smaller and more stable franchises” to only seven to 10 years – a reversal of the longer contracts championed by former rail minister Theresa Villiers – though there should also be a pre-contract deal for a three-to-five year extension if performance criteria are met.

He added that bidders should not be on the hook for risks over GDP growth. But, to prevent “gaming” – where bidders offer hefty premium payments loaded to the end of the contract – there must be clear guidelines on capital requirements, which rise in relation to the ambition of the revenue forecasts. Capital must also be put up “in the form of bonds and parent company support”.

Mr Brown said he expected the DfT to publish its plans for the suspended Essex Thameside, Great Western and the Thameslink franchise bids by next month.

The report was welcomed in the industry. Ed Thomas, director at KPMG’s transport advisory group, said it was “a welcome dose of pragmatism” after “six months of turmoil for the UK’s train operators”.

The Brown review follows the report by Centrica chief executive Sam Laidlaw into what went wrong with the West Coast bid. Last month he told MPs that there was “a lack of any one senior reporting officer gripping this project”.