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Rail franchise changes under fire

By Rose Jacobs


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Two UK train operators have hit out over changes that the government has made to its rail franchising plans in the wake of the West Coast fiasco.

Stagecoach said it was disappointed by a decision to cancel the contest to run the Great Western service, announced by Patrick McLoughlin, transport minister, on Thursday, as well as to restructure the Thameslink franchise.

National Express is considering legal action over the government's refusal to compensate Great Western bidders for their costs, as it did for the cancelled West Coast contract.

"We're extremely disappointed by the unfair and inconsistent decision," National Express said on Thursday. Bid costs can run into the double-digit millions for big, complex franchises such as Great Western.

Both groups were shortlisted for the franchise, with Stagecoach also competing for Thameslink. The third contest suspended after the West Coast franchise problems emerged was for a 15-year contract to run the Essex Thameside. That will restart this summer, largely unchanged from the original proposition, said Patrick McLoughlin, transport secretary.

Stagecoach, alongside peers, had urged a quick return to the rail franchising schedule, arguing that the system was not broken. But while this was agreed by Richard Brown – the chairman of Eurostar who conducted a review of the system after the West Coast problems emerged – he also questioned the terms of the Great Western contract.

"I do not believe that the current value proposition is the right one for the Great Western franchise," he said in redacted portions of a report published this month and released on Thursday.

Analysts estimated that the government's decision was positive for FirstGroup, the incumbent Great Western operator and a shortlisted bidder, because it delayed the day that the highly leveraged company might potentially lose the franchise and the cash it generates.

But Gerald Khoo at Espirito Santo doubted whether a 28-week extension granted FirstGroup, or a further two-year extension being negotiated, would fundamentally change the board's decision, expected in the spring, on whether to cut its dividend. "The extensions are not going to be hugely profitable or cash-generative," he said.

Tim O'Toole, FirstGroup's chief executive, said: "The extension of First Great Western and First Capital Connect [part of the future Thameslink franchise] provides continuity and consistency for our passengers and enables us to continue to deliver considerable improvements to services."

Mr Brown's concerns with the Great Western contract centred on the problem of risk-sharing on a franchise due for disruptive upgrades. He also suggested that the Thameslink franchise would benefit from "having elements akin to a management contract".

Mr McLoughlin's decision came a day after MPs blamed ministers for the West Coast fiasco – a judgment that the transport secretary rejects.