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Crossrail private finance plan scrapped

By Mark Odell and Jim Pickard

A £1bn private finance initiative for new trains for the Crossrail rail project was scrapped on Friday in a blow to George Osborne's attempts to revive investment in essential infrastructure through the use of a government guarantee.

The order for 600 carriages was the first scheme selected for a guarantee by the chancellor in July that was designed to unlock lending by banks which have become ultra-cautious about providing financing following the credit crunch.

Critics had warned that the guarantee would have little effect on many projects as it would not reduce the cost of borrowing.

Government sources said the issue with the Crossrail guarantee had been a one-off because of the terms of the tender, which meant the project would become classified as "publicly owned" if the guarantee was used for most of the financing.

As such the government, which was already providing 30 per cent of the overall cost, could only guarantee the portion up to 49 per cent, leaving some £500m exposed.

Officials insisted there were no wider implications for the £40bn guarantee programme set up by Mr Osborne, under which scores of projects are being considered for state backing.

Maria Eagle, Labour's shadow transport secretary, said the decision was "yet another humiliating transport shambles".

The procurement of the trains for the £15bn Crossrail east-west London rail project, which is under construction, will still go ahead but will be fully financed through the public sector.

Transport for London, which runs Crossrail, was due to cut the shortlist of four bidders – Germany's Siemens, Canada's Bombardier, Japan's Hitachi and CAF of Spain – to two by the end of the month. The decision to scrap the PFI is not expected to delay that decision for too long.

Boris Johnson, London's mayor and head of TfL, had previously argued that Crossrail rolling stock should be fully financed on balance sheet. Senior managers at the transport body are strongly opposed to PFI deals following the debacle over the two contractors involved in the upgrade of the Tube network.

But Treasury officials had up until recently insisted that the project should remain a PFI so as to keep it off balance sheet.

There was strong speculation in the industry that the Treasury had backed TfL's decision to take the financing back "in-house" after comparing the four bids that went in late last year.

Bombardier and CAF are thought to have been in the lead as they had offered to build the trains more cheaply. However, Hitachi's and Siemens' access to cheaper funding sources had allowed the Japanese and German bidders to put in lower overall bids.

The financing issue was one factor that Bombardier, the owner of the UK's last remaining train factory, complained about when it lost out to Siemens on the Thameslink train contract in 2011. The ensuing furore led the government to promise to do what it could to favour UK-based manufacturers.

TfL said on Friday that it was concerned that structuring Crossrail as a PFI would lead to the same long delays encountered by Siemens on securing the financing for Thameslink and Hitachi on the InterCity Express programme, raising the embarrassing spectre of Crossrail opening in 2018 with no trains to run on it.

"Nothing must get in the way of this fabulous new railway and it is fantastic news that we can now crack on with buying the wonderful fleet of brand spanking new trains," said Mr Johnson.

Transport for London, which runs Crossrail, said the structure of the financing was still being discussed but that it would expect it to be a mix of direct government grant and debt raised by TfL through the bond market.

A Crossrail spokesman said: "Neither government or Transport for London know the content of the bids received in October nor do they have any information regarding the relative strength of the bids."

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