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Rail franchises face complete overhaul

By Mark Odell



Patrick McLoughlin, secretary of state for transport

A complete overhaul of the rail franchising timetable was announced on Tuesday, including plans to privatise the state-run East Coast mainline, as ministers seek to draw a line under six months of chaos in the UK rail industry triggered by the West Coast fiasco.

In order to avoid a clash with a new competition for the West Coast mainline, Virgin Rail's contract to run services on the London to Glasgow route will be extended by almost two-and-a-half years to April 2017.

The competition to run a new East Coast franchise will start immediately, with the new operator taking over services from February 2015. It was taken back into state ownership in 2009 after National Express walked away from the franchise.

In all, the revised schedule will see the extensions granted to 13 of the existing 16 franchises as the government tries to smooth out the retendering schedule to avoid having to relet more than three or four contracts a year.

The West Coast debacle forced Patrick McLoughlin, transport secretary, to overhaul his department and rail franchising policy, a move that disrupted the busiest period of retendering since privatisation in the mid-1990s, which saw 12 of the 16 franchises due to expire by 2015.

The government was forced to scrap the West Coast contract award and three other competitions for rail franchises that were due to expire this year, sending shockwaves through the industry.

Mr McLoughlin said the new programme "would provide long-term certainty to the market". Senior executives had warned that without a quick resolution investors would lose confidence in the sector.

The move comes a day before the 50th anniversary of the Beeching report, which led to the closure of a third of the rail network in the 1960s.

In the wake of the debacle, incumbent Virgin Rail was given an extension to the West Coast franchise until the end of 2014 amid concern that a longer period could run foul of European procurement law. Ministers have now decided the chances of a challenge are minimal.

The other option under consideration would have been to keep the East Coast main line in state hands until after the election. Conservative ministers were less keen on that option amid concerns that they would be promoting state ownership.

The first two contracts that will be relet under the new timetable will be Thameslink and Essex Thameside by September 2014. These are two of the three competitions cancelled as a result of the West Coast debacle.

The third, Great Western, which is due to expire later this year, will get a three-year extension before it is relet as a management contract rather than a franchise. Thameslink will also be tendered as a management contract for up to eight years rather than a franchise. This will see the operator paid a fixed fee rather than take some of the risk in return for a share of profits.

The decision to let the two as management contracts was one of the recommendations of the Brown review, published earlier this year, into overhauling the franchise process. Both are undergoing a lot of disruptive engineering work and Thameslink is also due to be enlarged.

Ministers had been struggling with how to deal with the retendering of the West and East Coast contracts – two of the country's long-distance franchises – because of the sensitivity around them.

The latter, which is state-run, was due to expire at the end of this year, with West Coast expiring 12 months later. This would have led to the two competitions running concurrently and the results possibly clashing with a general election in 2015.

The Brown review recommended there should be no more than three or four franchise renewals per year to avoid overstressing officials.

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