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Richard Branson insists rail franchises should kick out underperformers

Sir Richard Branson has said Virgin Rail could provide 'massively' better value than state-run East Coast

Gwyn Topham, transport correspondent
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The Virgin boss has long coveted the east coast mainline from London to Edinburgh, which is to be awarded next year. Photograph: Getty Images/Bloomberg

Future rail franchises should include provisions to boot out underperforming train operators, according to Sir Richard Branson, who said that Virgin Rail could provide "massively" better value for taxpayers than the current state-run East Coast.

The east coast mainline from London to Edinburgh, a prize the Virgin boss has long coveted, will be the next big rail competition, to be awarded next year, after the government announced a number of extensions to the current franchises – including allowing Virgin to retain its west coast service until 2017.

However, Branson said he did not welcome the new deal as it delayed investment. "We would have ideally liked to be able to bid for the west coast sooner."

Speaking in Edinburgh, where his Virgin Atlantic airline yesterday officially launched its first domestic services, Branson claimed to have "transformed" the west coast mainline. "The subsidies the government had to put in were enormous. Now the government are net beneficiaries. We can absolutely do an awful lot better than the current management team on the east coast. The east coast has stagnated."

He added: "The feedback we get is that East Coast passengers would like to see a change. We have years of experience in building companies, how to get people working for us really motivated and steamed up.

"If you just work for the government you don't get people hungrily trying to make a real difference."

He said he could not promise to match the payments made to the government by the current East Coast trains, run by the Department for Transport's arms-length company, Directly Operated Railways. In the last three years it has returned more than £600m to the DfT in premium payments and profits.

He indicated he would expect the franchise to make "massively" more money under Virgin, but a significant amount would be invested back into the line. "We'd want to invest considerably in improving the track, trains, and speed times," Branson said.

He reiterated a note of caution after the west coast franchising fiasco, which saw Virgin involved in legal tussles with the DfT after a botched process led to rivals FirstGroup being awarded the London-Manchester-Glasgow route. "We have to be sure that the rules of engagement are different from last time."

He added: "Kicking out private companies if they're not performing would be an excellent added twist to the next franchise."

Even without the east coast franchise, Branson's rail and air empires both now link London and Scotland. Virgin Atlantic's first domestic services, branded Little Red, officially launched yesterday with between three and six daily return flights to Heathrow from each of Manchester, the Scottish capital and Aberdeen. It has taken over the slots taken from British Airways by competition authorities after bmi was swallowed up by the national carrier. While bmi haemorrhaged money on the routes, Virgin expects most of the domestic passengers to feed into its global long-haul network.

New chief executive Craig Kreeger said: "Bmi didn't have the network that we connect to, nor the brand and the customer service we have. We don't expect [Little Red] to be by itself hugely profitable but to add total value to our network - by creating local traffic, but mostly by connecting these three airports to the world."

Virgin Atlantic reported an £80m loss last year, and losses are anticipated to exceed £100m this year. Kreeger said that Little Red would be "part of the turnaround story in the two-year recovery plan."

He said there could be some redundancies but no wholesale job cuts at the airline.

Virgin is pinning its major hopes on a tie-up with Delta for a transatlantic joint venture, plans which it will submit to competition authority scrutiny in the US and Europe in coming weeks. "That's a major strategic shift that says in light of the new competitive market we find ourselves in, we need to do some things differently."

However, Branson remained bullish. Asked about rival Willie Walsh's "knee-in-groin" wager that Branson would not be heading Virgin Atlantic in its present form in five years, the Virgin boss said: "The bet is certainly on."