FINANCIAL TIMES

April 18, 2013 9:49 am

State-run railway beats private rivals

By Mark Odell, Transport Correspondent

The state-run East Coast mainline has emerged as the most efficiently run rail franchise in terms of its reliance on taxpayer funding, raising questions about a recent government decision to privatise the operation.

A new analysis by the Office of Rail Regulation, the industry watchdog, has found that the intercity line that links London to Edinburgh requires much lower government funding than any of the 15 other franchises that are let by the Department for Transport to the private sector.

The study, the most comprehensive financial assessment of the industry since privatisation, looked at the funding of the passenger services and the cost of maintaining the infrastructure by Network Rail.

Many of the train operators, specifically the long-distance operations and the commuter services in the southeast, generate enough profit to make premium payments to the government. But these are offset by the cost of other unprofitable franchises, serving the English regions, Scotland and Wales, and the huge cost of maintaining and upgrading the rail network. This sees the taxpayer contribute £4bn net to the annual £11.6bn cost of running the railways.

The ORR found that among the rail franchises that make net payments to the Treasury, the East Coast mainline, which has been run by the state since November 2009, is reliant on just 1 per cent of government funding once cost of infrastructure is taken into account.

That compares with 13 per cent for the West Coast mainline, the country's other north-south intercity franchise operated by Virgin Rail, a joint venture between Sir Richard Branson's Virgin Group and Stagecoach, which was at the centre of the debacle last year that plunged the rail industry into chaos.

The reliance on state funding of the other nine franchises that make net payments to the government ranges from 3 per cent to 36 per cent.

The study is published just weeks after Patrick McLoughlin, transport secretary, announced a new rail franchising timetable, that included plans to return the East Coast to the private sector. The move was designed to draw a line under the months of chaos in the UK rail industry triggered by the West Coast fiasco.

Ministers justified the decision to proceed with the privatisation of East Coast by arguing that it needed “revitalising now”. Mr McLoughlin told MPs at the time: “Now it is the right time that we invite bidders to put forward proposals for investing in and improving services.”

The move had been opposed by Labour, who argued that the East Coast should remain under state control to provide a benchmark for the other privately run franchises.

The opposition seized on the analysis from the ORR. “Considering the East Coast service makes one of the highest annual payments to government, receives the least subsidy and is the only route on which all profits are reinvested in services, it makes no sense for the government to prioritise this privatisation over getting the rest of the industry back on track,” said Maria Eagle, Labour’s shadow transport secretary.

The Association of Train Operating Companies rejected the ORR’s benchmarking of the financial performance of the franchise operators as “a vast oversimplification”.

“Train companies operate in different markets and under different franchise agreements, signed at different periods. Levels of investment in infrastructure and rolling stock vary between routes and over time,” it said.

A spokesman for the East Coast main line welcomed the findings: “The facts speak for themselves. We are proud of our record of improving customer satisfaction to the highest level ever on the line and ensuring consistently better train punctuality as well as delivering £640m to the taxpayer over the last three and a half years.”

A spokesman for the DfT said: “The East Coast has done an admirable job in difficult circumstances but recent reliability of services has not been as high as the government would expect and overall performance levels have plateaued. We now need to address that. A long-term stable partner for the franchise will be best placed to drive investment and innovation opportunities which will deliver significant benefits to both passengers and taxpayers for years to come.”

PM will not move to right, say allies

Lunch with the FT: Nick Candy

RBS rebuked over yen Libor manipulation

Matilda, Shubert Theatre, New York - review

Lenders lead the rally in Europe

GlobalFoundries challenges Taiwan in contract chipmaking

MetroPCS investors support revised offer