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## Go-Ahead eyes growth from buses

By Jane Wild

Go-Ahead said on Thursday that its bus operations would drive the profitability of the group as earnings from its rail business are set to drop sharply in the coming year, partly because of the hiatus in the government's franchising programme after last year's West Coast fiasco.

David Brown, chief executive of the transport group, said he expected the proportion of rail profits to fall from a third to a fifth by the end of next year, despite rising numbers of passengers. Its bus operations, which are performing well, make up two-thirds of its profits.

"We are increasingly not making much profit from rail," said Mr Brown.

In the wake of the West Coast debacle, the government announced in March a radical overhaul of the timetable for letting rail franchises – all the contracts will be renegotiated and most extended before retendering them.

Mr Brown said talks with the Department for Transport on extending the Southeastern and London Midland franchises have yet to start. Ahead of those talks, the DfT has activated a clause in Go-Ahead's Southeastern franchise, which is due to expire next April, to extend it by seven months.

Go-Ahead said the initial extension on Southeastern, which runs commuter services from London into Kent and Sussex, would be unprofitable as it is on the same terms as its current agreement but hinted that it would seek to extract better terms for the full extension to June 2018. "We want a fair deal," Mr Brown said.

Other unexpected costs, mainly from rising energy prices, would also hit rail profits in the year to the end of June, Mr Brown said.

Go-Ahead said its third franchise, Southern, which runs trains from London to the south coast, continued to face "challenging trading conditions" and would start receiving government support payments from September as it starts to fall short of its revenue projections.

The company is working on bids for new tenders to run the Docklands Light Railway and the Thameslink service.

Go-Ahead said it expected its bus business to continue making good progress towards reaching its operating profit target of £100m in the financial year to June 2016. However, it said the government's spending review next week posed a danger if bus subsidies were cut further.

"There's always that risk," Mr Brown said. "A lot of the departments are ringfenced but transport isn't. We hope to put a very good argument to the government."

The company will report its full-year results in early September.

Go-Ahead's share price closed 1.6 per cent down at 14.06p on Thursday.

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