

FirstGroup lands cheaper deal to keep running west



FirstGroup will pay only £32.5 million of its excess profits to the Treasury under the new deal Fiona Hanson/PA

Robert Lea

Last updated at 12:01AM, October 4 2013

The Department for Transport has slashed the payments it will receive from First Great Western in an effort to keep the trains rolling to South Wales and the West Country.

The department granted FirstGroup a new 23-month deal yesterday to keep operating the London Paddington-based Great Western rail franchise that it has run since privatisation. The extension will mean that FirstGroup will pay only £32.5 million of its excess profits to the Treasury on what is one of the most lucrative franchises on the network.

The new contract was triggered by FirstGroup's decision to exercise its 2013 break clause on its original franchise licence, which had it scheduled to pay back a total of £800 million to the Treasury between this year and 2016.

The contract for the extension at about £17 million a year also represents a sharp cut from the £110 million in excess profits, or "premium", that First Group paid to the Treasury in the last financial year.

The Great Western franchise was supposed to be retendered after FirstGroup announced that it intended to hand the keys back. That competition was called off, however, after the collapse of the DfT refranchising schedule that followed the West Coast Main Line fiasco last year. To keep the trains running, the DfT's only options were to extend FirstGroup's tenure or nationalise the franchise, as it is did in 2009 with the East Coast Main Line.

During its time in charge of Great Western, FirstGroup has routinely underperformed in customer surveys. Its reputation had it branded as "Worst Late Western" by long-suffering commuters.

A spokesman for FirstGroup said that comparing the £32.5 million it would pay in the next two years to the £800 million premiums due in the previous contract was "unfair". He said that that contract had been signed in 2005, before the economic downturn and when new high-speed trains were supposed to come into commission. "The world was a different place then," the spokesman said.

The DfT said that FirstGroup was taking on an extra £150 million of costs in the new contract. Patrick McLoughlin, the Transport Secretary, said that under the deal FirstGroup was to introduce wi-fi more widely on its services and put in more standard-class seats at the expense of first-class seats. The company said that it was working on the plans.

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