

BUSINESS COMMENTARY Alistair Osborne



Virgin's cheap shot to deny rail mess

Finally, a good thing to say about Chris Grayling's "strategic vision" for the railways — the one built on letting Virgin Trains East Coast off £2 billion and plunging rail franchising into chaos. At least it's produced a decent blame game.

And guess what? It doesn't even involve him — or at least not at the start. The man now on his second stint as transport secretary, after 27 seconds as Tory party chairman, was at the justice department when the east coast contract was awarded in December 2014. So even the Virgin-badged operator, 90 per cent-owned by Stagecoach, can't blame Mr Grayling for its lunatic bid: an offer to pay £3.3 billion to run the London-to-Edinburgh services for eight years from March 2015.

Instead, it's blaming Network Rail — at least to judge by a letter from Virgin east coast boss David Horne to Lillian Greenwood, the transport committee chairwoman. Mr Horne says that in March 2016 Virgin told the transport department that "Network Rail's failure to deliver the promised committed projects" would "likely prevent" it delivering on its contract, naturally affecting "the finances of the franchise".

The Virgin/Stagecoach combine had agreed to run faster and more frequent services from May 2019 (up from five to six trains per hour each way), with further timetable boosts from May 2020. And that depended on two key things: new trains, plus the extra power to run them; and track upgrades, including raising capacity at King's Cross station and in the northeast.

Virgin says some projects are now three years late — the pretext for its talks with Mr Grayling, who arrived at transport in July 2016 and has now let it wriggle out of its contract three years early. But Network Rail, in its own letter to Ms Greenwood, tells quite a different story.

It says these projects were at "an early stage of development", without "committed" funding. In short, Virgin should never have bid on the assumption they'd be done. As it puts it: "Network Rail was not asked to endorse the final assumptions used by the successful east coast bidders at the contract award stage" — something it's now insisting on. So, while works for the 2019 timetable are on track, those for the one from 2020 — underpinning £2 billion of now forgone payments to the taxpayer — have barely started.

What happened? Well, one theory is that the bit of the transport department responsible for state-owned Network Rail forgot to talk to another part letting franchise bids. The upshot? Virgin/Stagecoach was encouraged to bid on the basis of upgrades that were never going to happen — an issue compounded by heroic assumptions of almost 10 per cent-a-year passenger revenue growth, twice what's occurred.

The transport department, then run by Sir Patrick McLoughlin, denies any such confusion, insisting that the Virgin combine made infrastructure assumptions at its own risk. But, either way, blaming Network Rail for a bid already in trouble is a pretty cheap shot — even if it makes Virgin feel better.

