

FirstGroup and Department for Transport agreement on termination of two rail franchises

December 10, 2020



FirstGroup plc has reached agreement with the Department for Transport on next steps for the South Western Railway and West Coast Partnership train operating companies, the latter of which comprises Avanti West Coast and the shadow operator for HS2 (together, Avanti).

As announced on 20 September, these two companies are currently operating under Emergency Recovery Measures Agreements which were put in place by the DfT to provide continuity for rail passengers and the industry during the coronavirus pandemic.

The ERMA for Avanti is in place to the end of March 2022 and the SWR ERMA is in place to the end of March 2021. Both can be extended by a further half year at the DfT's discretion.

As previously stated, the ERMA required the train operators and the DfT to agree whether any payment is required to terminate the pre-existing franchise agreements, and if so how much, based on a pre-coronavirus trajectory financial model.

The DfT and FirstGroup have agreed that no termination sum is required for Avanti, which commenced operations in December 2019 and was performing well prior to the pandemic.

Agreement has also been reached for a termination sum for SWR, which requires a further FirstGroup contribution of £33.2m. This represents the Group's share of parent company support and additional funding commitments under the franchise agreement, less amounts already paid into the operating company, and which will be paid at the end of the ERMA term.

The full exposure to SWR performance bonds and parent company support has already been provided in the accounts. The pre-existing franchise agreements will therefore terminate at the end of the ERMA term for SWR and Avanti. Agreement of the termination sums significantly reduces the overall financial risk within the First Rail franchise portfolio.

Following agreement of the termination sums we are now negotiating new directly awarded management contracts with the DfT, which will come into effect at the end of the ERMA, under which each incumbent train operator will deliver passenger rail services. The DfT has indicated that these new National Rail Contracts would last to 1 April 2023 for SWR, and to 1 April 2026 for Avanti, each with extension periods of up to two further years at the DfT's discretion.

First Group's TransPennine Express (TPE) rail franchise is also operating under an ERMA, and the process to agree the franchise termination sum for TPE has been extended to the end of January 2021 by the DfT. As also previously announced, the existing Emergency Measures Agreement for Great Western Railway (GWR) has already been extended to June 2021.

Commenting on the announcement, FirstGroup Chief Executive Matthew Gregory said: "We welcome this agreement, which marks a further evolution of the contractual framework for our SWR and Avanti train operating companies, both in the context of providing resilient services throughout the coronavirus pandemic and also a more sustainable long-term approach. These new directly awarded management contracts will focus on passengers and operational performance, with a more appropriate balance of risk and reward. We look forward to working constructively with the DfT to make this a reality, and to use our expertise and understanding of the needs of our customers to deliver improvements that we know passengers want.

"We have acted flexibly to ensure continuity of service while implementing social distancing, as well as enhanced cleaning protocols and innovative technology to improve the customer experience. Passengers and employees alike can be confident that our trains are safe. We are now operating around 90% of the rail services we were prior to the pandemic. We will continue to bring all our experience to bear alongside Government and industry partners to deliver the next phase of recovery of the rail network."

Photo credit: Avanti West Coast

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