

FirstGroup signs new National Rail contracts for South Western Railway and TransPennine Express

May 20, 2021



FirstGroup plc has announced the agreement of National Rail Contracts with the Department for Transport for its South Western Railway and TransPennine Express train operating companies. The new NRCs will commence on 30 May 2021, when the current Emergency Recovery Measures Agreements come to an end.

- New NRCs for SWR and TPE have a two-year term to May 2023 with options to extend by up to two further years to May 2025
- FirstGroup bears no revenue risk and very limited cost risk under an annual budget agreed with DfT; there is also no significant contingent capital risk
- Annual fees on NRCs consist of a fixed management fee plus performance fee based mainly on the delivery of customer-focused performance metrics

National Rail Contracts are a new contract structure for agreements between train operating companies and the DfT and the contracts for both SWR and TPE are among the first wave of NRCs to be announced.

NRCs replace the previous revenue risk-based franchising system. The NRCs have a primary two-year term to the end of May 2023 for both SWR and TPE, and both have an option to be extended by up to two further years at the DfT's discretion.

Under the NRCs the DfT will retain all revenue risk and substantially all cost risk. For the Group's 70% share of the First MTR joint venture for SWR the fixed management fee is £3.3m per annum and there is the opportunity to earn an additional fee of up to £9.9m which is the maximum attainable performance fee. For TPE the fixed management fee is £2.3m per annum and there is the opportunity to earn an additional fee of up to £5.2m which is the maximum attainable performance fee. The punctuality and other operational targets required to achieve the maximum level of performance fee are designed to incentivise the highest level of performance for customers.

The NRCs achieve a more appropriate balance of risk and reward between FirstGroup and the Government. They carry no significant contingent capital risk, with the Group's contingent capital for both the SWR and TPE NRCs totalling £15m, 50% of which is bonded. There are limited scenarios in which this contingent capital can be called upon, primarily in the event of early termination of the contracts by the operator.

Both train operating companies will work collaboratively with industry partners and stakeholders to build back patronage, while delivering plans to upgrade the service offering. These plans include the introduction of flexible commuter tickets and continuing to facilitate a move towards electronic and mobile ticketing, smartcards and improved apps for both companies.

FirstGroup's ambition is to be the partner of choice for low- and zero-emission transport. The Group recently became the first bus and rail operator in the UK to formally commit to setting an ambitious science-based target for reaching net zero emissions by 2050 or earlier. Sustainability is at the heart of the NRCs and both SWR and TPE will develop a decarbonisation policy and roadmap towards achieving net zero emissions in accordance with this goal.

As the largest UK operator with four passenger rail contracts expected to run to at least 2023, FirstGroup is well placed to benefit from the Government's transition of the passenger rail industry to a commercial structure which is lower-risk and more predictable. The transition to a new model is expected to create a successful railway system that works better for passengers and taxpayers, while generating more resilient and consistent returns for shareholders.

As previously announced, the West Coast Partnership ERMA is in place until the end of March 2022 and there are discussions of an NRC with duration of up to 31 March 2032 (with the core and extension periods to be determined). The existing Emergency Measures Agreement for GWR has already been extended to June 2021, and the underlying GWR direct award runs to 1 April 2023 with an extension option of up to one year.

Commenting, Matthew Gregory, FirstGroup Chief Executive, said: "We welcome the announcement today by the Secretary of State of a plan for the future of the UK rail industry with the expertise, innovation and experience of private sector rail operators at the heart of the model. The National Rail Contracts agreed for SWR and TPE leave us well-placed for lower risk, cash generative rail operations on those two networks. We have long called for this transition to a new contract structure with a far better balance of risk and

reward, and which benefits customers by a clearer focus on performance, including the introduction of a new set of passenger service metrics.

“As the country begins the process of ‘building back better’ the essential role of public transport has never been clearer and our leading position in the sector means that we have an important role. Our rail services have a vital part to play in driving economic growth, combating climate change and supporting the development of vibrant and sustainable communities.”

Photo credit: TransPennine Express