

# Transport Committee

## Oral evidence: Coronavirus: emergency measures for the railways, HC 918

Wednesday 18 November 2020

Ordered by the House of Commons to be published on 18 November 2020.

[Watch the meeting](#)

Members present: Huw Merriman (Chair); Ruth Cadbury; Robert Langan; Chris Loder; Karl McCartney; Gavin Newlands; Greg Smith; Sam Tarry.

Meg Hillier, Chair, Public Accounts Committee, attended the Committee.

Questions 1 - 119

### Witnesses

**I:** Dominic Booth, Managing Director, Abellio; Steve Montgomery, Managing Director of First Rail, FirstGroup; and Katy Taylor, Chief Strategy and Customer Officer, Go-Ahead.

**II:** Chris Heaton-Harris MP, Minister of State, Department for Transport; Peter Wilkinson, Managing Director, Passenger Services, Department for Transport; and Neil Hart, Deputy Director, Passenger Services, Department for Transport.

Written evidence from witnesses:

- Go-Ahead Group ([REF0087](#))
- FirstGroup ([REF0091](#))

## Examination of witnesses

Witnesses: Dominic Booth, Steve Montgomery and Katy Taylor.

- Q1 **Chair:** This is the Transport Select Committee's evidence session on coronavirus: emergency measures for the railways. The session links to a wider inquiry that the Committee has launched on reforming public transport after the pandemic.

Today, we will be talking about the situation on the railways, the big financial shortfall, the passenger shortfall and what that will make the railways look like for the future. In our first panel, we have the train operating companies represented. Will each of the witnesses introduce themselves?

**Katy Taylor:** Good morning. My name is Katy Taylor. I am the chief strategy and customer officer for Go-Ahead. We run Govia Thameslink Railway and Southeastern Railway, two London commuter train companies that used to carry about a third of all passenger journeys in the UK pre-pandemic.

**Steve Montgomery:** I am Steve Montgomery, the managing director of FirstGroup's rail division. We currently operate South Western Railway, Great Western Railway, TransPennine, West Coast Partnership, which is Avanti West Coast and the shadow operation for HS2, and Hull Trains, which is our open access business.

**Dominic Booth:** I am Dominic Booth, managing director for Abellio in the UK, operating five passenger railway services. They are currently ScotRail, Merseyrail, East Midlands Railway, West Midlands Trains and Greater Anglia, as well as a large London bus operation.

- Q2 **Chair:** Good morning, and thank you all three for being with us. We know these are very challenging times for you and for your staff.

I want to start by getting your reflections on the past, the last eight months and perhaps a glimpse into the future for the train operators. I will ask each of you to take one of those three strands and reflect on the following.

You have helped to double rail passenger numbers and you have successfully removed taxpayer subsidy from train operations as a result. You have watched passenger numbers and the business model collapse over the course of this year. There is some concern that you may be sidelined as a new Government model approaches for how the railways will be run. Can I ask each of you to consider those points? Can we start with Steve, on the past?

**Steve Montgomery:** If you go back in history for some of us who were there when privatisation started, when the then Government were setting up privatisation, it was very much a railway that was in decline at that moment in time. It was set up to take it off the Government's books. Some people thought that the industry would run down even further than it was at that time. When the private sector became involved in rail



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franchising, it very quickly realised that there were opportunities to try to bring rail to people who maybe had never considered it in previous times, and had fallen out of love with it, if we are perfectly honest.

Privatisation allowed us to bring forward innovation and new ideas on how we could attract customers to rail travel. That required a number of key interventions: replacing old and dilapidated rolling stock, improving the customer experience and making it accessible for all. That was obviously a key area for us. Over the years, we have gradually changed the mindset.

There were an awful lot of empty trains running. Obviously, you had your commuter periods, but there were a lot of empty seats throughout the day. Very quickly, the private sector was able to bring in ideas on ticketing and selling value-for-money fares. There were new ticketing ideas with off-peak fares and advance fares. All those different types of ideas brought in new customers. Over the years, as you said, we doubled passenger numbers. That has taken a lot of time and effort, but there has been an awful lot of agility in the private sector to recognise and bring skillsets to the industry that maybe it previously lacked under the old BR model.

What we see now is an industry that had probably grown to the maximum before the pandemic, and was very much at the peak, falling into the next phase of where it needed to go. What we have seen in the past is a very successful model that worked but was starting to see some strain in the latter stages.

**Q3 Chair:** Thank you, Steve. Dominic, what have you had to experience this year?

**Dominic Booth:** As everyone knows, it has been a very turbulent and traumatic year. What have we been doing across industry? Crucially, we have been providing vital services for essential journeys on an ongoing basis since the pandemic struck. I speak on behalf of all my colleagues, I am sure, when I say that we are very proud of the frontline staff who have played a key role in providing those services. We have done that through collaboration and close working with the trade unions, and the Rail Industry Coronavirus Forum is a good example of that. We have worked closely together to allow things like staff training to continue in difficult circumstances.

It has been an opportunity for us to show the agility that was mentioned earlier in the ability to flex timetables. We have changed timetables to meet demand and colleague availability at least five times over the last few months. That demonstrates that we can be fleet of foot when we need to be.

We have continued with the very ambitious programme to modernise the train fleet across the United Kingdom. That has been ongoing, albeit making sure that we train colleagues safely, and that ambitious investment programme has continued. Obviously, there has been a focus



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on enhanced staff and passenger safety through enhanced cleaning regimes and additional cleaning of touch points at stations and in passenger vehicles, as well as in staff accommodation. We make sure that when customers are travelling they follow Government guidelines on wearing face coverings, social distancing and the like, so that people making essential journeys can do so safely.

On top of that, we have been working on transition from the old contracts to the emergency contracts that we are largely on now, and looking to move to future contracts per the Williams review guidelines that we will no doubt talk about later. That has been a key piece of work over the past few months. It is very much turning our mind to how we can win customers and passengers back to the railway, which is much needed, when Covid circumstances allow. How are we going to win those passengers back? How are we going to reimagine rail travel and make sure that we can increase patronage as quickly as possible when circumstances allow?

**Q4 Chair:** Thank you, Dominic. Katy, what are your hopes and fears with regard to private operations going forward?

**Katy Taylor:** Dominic touched on getting customers back on to the railway, and making sure that they feel it is safe and clean for them to use. That is the most important thing. Until we have people back on the railway, it is not going to provide good value for money either for taxpayers or for passengers.

In order to do that, we absolutely need to make sure that we are reimagining the railway in the right way for passenger needs. We need to stop thinking about commuting in the way that we used to, as some sort of tortuous experience, but maybe think about it as travelling to collaborate. It will happen on fewer days of the week, but it will happen perhaps at different times. That presents a big opportunity to flatten the peak and move some of the cost that goes into providing the peak into providing more services off-peak.

We also need to think about the on-train experience. People are going to be less tolerant of very crowded services, so we need to reimagine that. What does travelling to collaborate look like? How can we make that a more enjoyable experience?

Going back to what Steve said about private operators, we absolutely have the ability to generate passenger growth. We have generated that historically. We need decisions to be made as close as possible to the customer, and that is much easier for an operator to do than for any other particular body.

There is a point around incentivisation. As private companies, we are very much incentivised to drive revenue and reduce costs. We are going to need that to make sure that the railway is fit for the future. I think you are able to incentivise private operators through their contracts.



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There is also something around ticketing and needing to recognise that customers will want a different ticketing regime. Season tickets have been reducing for a number of years. We can only see that massively accelerating. We need to reimagine what the ticketing regime could be, and we could deploy private operators to make sure that we create the right products for customers, because we are incentivised to generate revenue and to bring customers back to rail.

**Chair:** I am grateful to all three of you for setting the scene with longer answers for the opening. We will now go to a more quickfire way of dealing with it. We want to talk about the contracts that you have mentioned. These contracts differ, in the sense that, rather than you taking the risk and reward, you are being paid a fee to run the railways. We want to talk about the performance measures in those contracts to get value for money. I am going to hand over to Meg Hillier, who is guesting with us as Chair of the Public Accounts Committee. A warm welcome to you, Meg.

**Q5 Meg Hillier:** Thank you, Chair. I am keen to learn more about the emergency recovery measures agreements. The Department has talked about there being tougher performance targets. Could you each explain briefly what those tougher performance targets are, and how they are tougher than under the emergency measures agreements?

**Katy Taylor:** There are performance regimes around financial performance, operational performance, customer experience and collaboration. The performance measures are largely subjective in how they are to be measured by the Department for Transport. We know that the management fee is somewhat dependent on how you score against those measures, but there are no objective numerical numbers behind the measures.

**Q6 Meg Hillier:** Do you think they are tougher?

**Katy Taylor:** I would say they are different. The management fee is certainly smaller. They have not been judged yet, so we have not had the outcome of the DFT's decision on how we have performed against them. It is quite hard for us to see whether they are harsh or not. In fact, Go-Ahead has one train company—Southeastern—on an EMA, and we have GTR on an ERMA. We have not yet had the results where we reported against those measures, so I cannot really answer that.

**Q7 Meg Hillier:** As you say, it is very subjective, and perhaps the other witnesses could pick up on that. The collaborative behaviour, which accounts for nearly a quarter, at 22.5%, of the fee, is difficult to judge. How would you set measures on how you should be judged on collaborative behaviour, which is a very loose phrase?

**Katy Taylor:** On the measures around collaborative behaviours, clearly the two biggest people you need to collaborate with in large part are Network Rail and the Department for Transport. You could probably put some measures in there around how quickly you can resolve issues, how quickly you can move projects forward and how quickly you can resolve



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issues about performance. You could probably put timescale measures behind that. That is probably how I would go forward with measuring collaborative behaviours.

**Q8 Meg Hillier:** Can we go to Mr Montgomery on the same points?

**Steve Montgomery:** I think Katy picked it up. You could look at what we have already done on collaboration, particularly with Network Rail, in changing timetables. It is the ability to do that in the future and how we make it more efficient to carry out engineering operations, working with Network Rail and giving them easier access to the network. We have been able to change far more quickly than we have probably done in the past. I think that is really important. Working with the DFT, it is important to understand the needs, particularly as we come through—

**Q9 Meg Hillier:** Sorry to interrupt, Mr Montgomery. I think we all recognise that it is important, and indeed vital, for the smooth running of the railway. Ms Taylor suggested that there should be time constraints or targets on resolving issues and that sort of thing. She has come up with a quick list on how you could be measured against it. How do you think you should be measured on collaborative behaviours, for example? That is nearly a quarter of your management fee.

**Steve Montgomery:** I think a lot of it is evidence based. Under the EMAs, we have had to provide a lot of evidence where we are seen to be collaborative. It is providing them with pieces of evidence about what the Department sees as important. We gather a lot of evidence working with Network Rail, and provide that to the Department.

**Q10 Meg Hillier:** Could you explain? Could you give me an example of how you have evidenced good collaborative behaviour?

**Steve Montgomery:** There is an example with Avanti West Coast at Camden. The overhead lines were in need of urgent repair. Normally, the planning process would take weeks, if not months, to carry out. The team at Avanti and the Network Rail team very quickly drew up an access plan to the network, where we were able to stop services and carry out those repairs in a far quicker time than we had done previously. I think that was a good way of working with Network Rail, taking a lot of the long processes out of what we normally do as an industry.

**Q11 Meg Hillier:** Thank you; that is helpful. Dominic Booth from Abellio?

**Dominic Booth:** Of course, performance, customer satisfaction and financial are, by definition, easier to measure parameters. My colleagues have already commented on this, but what I would add is looking at both inputs and outputs. In terms of inputs, are forums set up appropriately involving multi-agency where necessary? We have mentioned a couple of them already; for instance, the Rail Industry Coronavirus Forum with the trade unions has been working on how we move industry forward but keep colleagues safe while doing so. We have joined the recently set up Rail Revenue Recovery Group so that expertise can be pooled to think about, as Katy mentioned, a reimagining of rail products going forward and winning passengers back.



Looking at inputs is one way of measuring. Looking at outputs, we have mentioned the numerous timetable changes that have been made. There have been far more than would happen in normal industry cycles, so there is the ability to demonstrate agility in working closely with Network Rail and trade unions to deliver numerous timetable changes. There are outputs in terms of ongoing introduction of new trains and new services through things like the setting up of training bubbles, so that people can carry on with driver training and we can introduce new trains. If I were devising the measures, I would look to put a sequence of inputs and output measures in place.

**Q12 Meg Hillier:** Finally, briefly to each of you, you have run rail contracts for some time and you have made profits on them under the arrangements. We are now in extraordinary times, yet nearly a quarter of your management fee is on what most ordinary citizens would probably think should happen anyway—that you liaise properly with the Department for Transport and with Network Rail, and that you work with the unions and support your staff. Do you think it is a bit generous to be paid a quarter of your management fee for the sort of normal professional behaviour that most people would expect to be part of your normal operation?

**Katy Taylor:** I think you are right to say that being collaborative should just be part of our normal business as usual. I would like to think that we all do that. However, we also perform towards the contract specified by the Department for Transport. If they want us to dial something up or if they want us to do more of something, putting it into a contract is going to drive those behaviours. That is what any good partner or any good contractor would do.

On the fees we are being paid, it is a fairly small management fee. It would be no different even in these constrained times from people providing other contracts, such as school meals and bin lorries. They receive a management fee for the service that they provide, and that is what we are doing. Being rewarded for the right behaviours means it is better for the customer. Ultimately, what we are trying to deliver is the best service to customers, to get them back as quickly as possible and to reduce the burden on the taxpayer.

**Steve Montgomery:** I think Katy has covered most of it. The fact is that with the management fee we are using expertise. We are taking it from across each of our owning groups and bringing it in. The management fee is something that we think is appropriate at this moment in time.

**Dominic Booth:** You are right to say that collaboration should be the norm when working in any industry, but we are in very unusual times. The type of collaboration that we are talking about now is above and beyond. I have mentioned the Rail Industry Coronavirus Forum, where we are working very closely with the trade unions, and recognising that colleagues have a legitimate fear on occasions. Putting in place safety, cleaning and working regimes, with working bubbles, is way out of the norm, I would say. It is that type of above and beyond rather than the



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expected levels of collaboration. It is going above and beyond to solve problems in these very unusual and difficult times.

**Meg Hillier:** Thank you for that. Taxpayers will make up their minds.

- Q13 **Chair:** Before we move on to cost efficiencies, I want to ask about the current contracts—the ERMA. This is a yes or no question for each of you. For all your franchises, have you executed and agreed the ERMA with the Department for Transport?

**Katy Taylor:** Yes.

**Dominic Booth:** Yes, for the three franchises that fall under the DFT aegis.

**Steve Montgomery:** Three of my franchises are on an ERMA: SWR, TP and West Coast Partnership. Great Western remains on an EMA.

- Q14 **Chair:** Why is that for GWR?

**Steve Montgomery:** GWR was just caught up as we were moving into direct award three at the start of the pandemic. It was a slightly different variation to the contract. The DFT has kept us on an EMA until June 2021. We will have further discussions at that point with the DFT.

- Q15 **Chair:** We have been trying to get our hands on copies of the ERMA from the Department for Transport, and we are still waiting, but we look forward to doing so. Within them will we find terms that clearly set out the targets that you have to meet in order to get that portion of your fee?

**Dominic Booth:** You will see the targets in terms of the parameters that were mentioned earlier on: a 0.5% management fee and then up to a further 1% based on performance against the four parameters of performance, customer satisfaction, financial management and collaboration.

- Q16 **Chair:** Who determines if you have met them?

**Dominic Booth:** Katy mentioned it earlier. At the moment, how those are measured remains subjective. There are no specific numbers, if you were looking for a numeric target as an example. What we are going through is the measurement system in the previous EMAs. We are all going through that now. We are going to get a determination from the Department for Transport of how they think we have scored against parameters under EMAs. I guess that will give us some guidance as to how they intend to score those four parameters in the ERMA. For the time being, they remain a little subjective.

- Q17 **Chair:** I will not take too much time, but this is quite crucial and it is going to be relevant to termination costs as well. Does the Department come up with how it thinks you have done, and then you agree with that, or is there a dispute mechanism if you do not agree, in which case it can end up in court? Who starts off valuing your performance?



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**Dominic Booth:** We start off by submitting our evidence: "This is how we think we have done against these criteria." It is ongoing; the Department monitors how we are doing all the while anyway on a daily, weekly and monthly basis. Formally, we submit and say how we think we have done at the end of the EMA, if you take our process for instance: "This is how we think we have scored." The DFT will consider that and give us a score.

**Katy Taylor:** We have not had any feedback yet from the first round of EMA evidence that has been submitted to understand where we scored against the EMA criteria. We are collecting evidence against the ERMA contracts around those four areas, which we will then submit to the DFT against those criteria. We have not had any feedback yet, and because it is subjective we do not yet know whether what we submitted is perfect and we are all going to get top scores or not.

Q18 **Chair:** You still have not been paid the fee for the first six-month contract EMAs, which expired at the end of September. You have provided the information to say, "This is how we should be paid," but you are still waiting for the Department to agree or disagree.

**Katy Taylor:** Yes.

Q19 **Meg Hillier:** I just want to check this. Probably only one of you needs to answer. The Department has a system whereby you can input your comments through a portal. How is that working? Do you get the right level of engagement through that, given what we have just heard?

**Chair:** I think that might be for termination costs.

**Meg Hillier:** Yes.

**Chair:** Does the same system for termination cost inputs, where you can challenge, also apply for the performance fee on the ERMA and the EMAs?

**Katy Taylor:** My understanding is that the evidence for the EMAs and the ERMA is more through a discussion with the franchise team. It is more of an ongoing dialogue. You produce information and they might ask you extra questions. You are doing it continually, even though you do not necessarily get the final feedback which says whether you have achieved the right level. You get general feedback. My feeling is that it is very different.

**Meg Hillier:** I was concerned, Chair, that it did not seem to be like that, but that is good to hear.

Q20 **Chair:** Are you not a bit concerned that you have not been paid your fee yet? You must have cashflow issues; everyone does. Are you not concerned and chasing up the Department to say, "We haven't been paid for running the railways as well as we have over the last six months"?

**Steve Montgomery:** There is a process put in place where we are told when we will be advised of the fee. The payment of the fee follows at a later stage.



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Q21 **Chair:** When do you expect to get paid?

**Steve Montgomery:** We do not have the payment date at the moment. Certainly, we hope to find out how we have scored later this month or early next month.

Q22 **Gavin Newlands:** For clarity, if nothing else, I want briefly to explore the differences in the performance metrics in Scotland versus those we were talking about just now.

The agreement with Transport Scotland, as far as I understand it, has tougher penalties. There is a service quality incentive regime, which covers 35 stations and on-train quality service areas, such as timetables, train cleanliness, and staff service. Many of them have target levels of 90% or higher.

We have the ScotRail operator and the former ScotRail operator with us today. Can you tell us the difference in those performance metrics from a train operator's point of view, and whether you think they offer better value for both the taxpayer and the travelling public?

**Dominic Booth:** Obviously, there are two different Governments overseeing this and two different regimes, as you correctly say. The principal difference is that our English businesses were on what is called ERMA—emergency recovery measures agreements—and in Scotland we remain on a version of the EMA, the original agreement.

The most substantial difference between them is that in Scotland there is no initial management fee. It is set at zero, whereas in England it is set at 0.5%, so there is a small upfront management fee or guaranteed management fee, I should say, and that is absent from Scotland.

The measures that Transport Scotland choose to use are ones that they feel very passionately about and that have worked well over the years for station cleanliness, station presentation and the like. They are two different regimes or measurement systems that have developed differently over many years. You referred to the previous franchise as well. There are different processes, but probably the substantial difference is that the small management fee that is paid under ERMA is absent in the Transport Scotland arrangements.

Q23 **Gavin Newlands:** Do you think those arrangements would offer value for the travelling public and the taxpayer? It might be slightly more difficult for yourself as an operator.

**Dominic Booth:** We are being paid a small management fee to continue to provide crucial services, whether they are in Scotland or England. Rest assured, we are not going to be making money on these contracts with that type of tiny management fee, or even an absent one in Scotland. That cannot cover our management overheads, let alone make a contribution to profits. That is the crucial thing. We understand that these are unusual and difficult circumstances. We are fine with that. We know that we have to play a role in providing vital and crucial services, and we are happy to do that during these difficult times.



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**Q24 Gavin Newlands:** Can I put the same question to Steve?

**Steve Montgomery:** You might get a background noise in a second; an alarm is going off.

As Dominic says, the performance regime and the service quality regime in Scotland is a different beast altogether. It is much more measured, with a lot of KPIs. What we have under ERMAs is slightly more open—

**Chair:** I think Steve has a fire alarm test. If it's not a test, Steve, do leave us. It's an important session but not that important.

**Steve Montgomery:** Sorry about that. As I was saying, the Scottish regime has a lot of KPIs. The scheme under the ERMAs is more open and very much evidence based, and we are trying to provide that additional information through this period of time. To be clear, it is something that we always worked through the franchises with, in terms of station cleanliness, customer information, and so on. Those things already happen.

**Gavin Newlands:** I could dig a bit deeper, but I am conscious that we need to move on.

**Chair:** We are now going to move to running a cost-efficient railway during the pandemic. I will hand back to Meg.

**Q25 Meg Hillier:** Mr Booth, you have fewer passengers, but you have to run big services. You have Covid safety to think about. How is it possible to run like that and actually continue to manage on the finances? Have you looked at running fewer services, particularly focusing on when key workers would have to travel but reducing services at other times of the day?

**Dominic Booth:** Yes, indeed we have. We work very closely with the client, whether it be Transport Scotland or the Department for Transport, on that. As I mentioned earlier, we have already changed the timetables five times in some of our franchise contracts. They have been responses, sadly, to much lower demand. We were down to as low as 5% of passenger numbers in the very early part of the pandemic. Typically, across the industry, we are at about 28% or 30% during the current English lockdown.

Of course, we have adjusted services from the point of view of demand, allowing for social distancing on board. The other parameter is clearly around staff and colleague availability, whether that is through being ill with Covid or shielding.

**Q26 Meg Hillier:** Obviously, you are going to discuss this with the Department, but do you yet have an idea of what an optimum service would be and how you could make that stack up financially? We have the English lockdown and we have had the Welsh lockdown. There are different lockdowns and different rules at the moment. We are going to be living like this for some time, so do you have a vision of what an optimal service would be and how you could make it financially



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sustainable?

**Dominic Booth:** Those are discussions we are having with Government at present: what should be the future size and shape of the railway? We remain very confident about winning the majority of passengers back, as I am sure my colleagues agree. We have to work hard to do that when Covid circumstances allow. We expect to be able to win back around 75% on a like-for-like basis for passenger journeys. Within that, there will be quite a lot of change, as Katy referred to earlier; for instance, travel-to-work patterns will be substantially different. Trying to look to that future is crucial. It is difficult, but we need to do that. We do not want to see a permanent transfer of people to the roads, not least because of the climate change agenda and congestion.

It is a combination of winning back, let's say, the vast majority of our passenger numbers, but then recognising the future role of rail in the climate emergency agenda, which is going to play an even greater role than it has recently. Forecasting the future is difficult, but we think a combination of winning back a very healthy chunk of our previous patronage, added to an enhanced role in the climate change agenda over the next several years, calls for quite a substantial and large-sized railway to remain.

Q27 **Meg Hillier:** I would be interested in what the others have to say about the 75% figure, which seems quite optimistic from where we are sitting right now. We talk about it being financially sustainable. My job on my Committee is to count the money and make sure that there is no waste. With a transport hat on, there are potential public benefits, which Mr Booth has touched on, contributing to tackling climate change, safety and all sorts of reasons why you might travel by train otherwise.

Ms Taylor, do you think we need to look at the definition of financially sustainable in a different way? What is your projection for the number of passengers you think will be back on trains? Do you agree with the 75% figure that Mr Booth picked out?

**Katy Taylor:** On financial sustainability, I think you definitely have to look at what rail delivers outside just taking one person to visit their family or to collaborate with their colleagues at work. It is about economic growth. We talk a lot about cities and how to make sure that they maintain their heartlands and do not become doughnut cities, where there is nothing happening in the middle. Rail contributes a huge amount to economic development.

There was the Prime Minister's announcement today about his 10 priorities for a green recovery. One of those is about active travel. Active travel fits particularly well with public transport. People who catch public transport get 26 minutes more exercise a day than people who commute by car, not to mention climate change, air quality and all of those things. It actually contributes more than just taking people from one place to another place. We need to look in the round at what it delivers. Stations generate quite a lot of economic growth for the towns where they belong.



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On your point about passenger numbers returning, several of us also run bus companies. We saw passenger numbers prior to the second lockdown reaching around 70%. That was bearing in mind that there was still social distancing and pockets in the various tier systems. I am pretty confident that once people are enabled to choose how they want to live their lives, as opposed to following Government guidelines, lots of them will choose to return to their offices to see people.

Q28 **Meg Hillier:** There is more optimism than I expected. Finally, Mr Montgomery, do you think 75% is about right?

**Steve Montgomery:** I think we will see a gradual return, given our experience between both lockdowns. There is clearly a market. People still want to get out, particularly for leisure. The commuting business is the one that we believe will be flatter, but there is a lot of opportunity to bring people back again. I think 75% is a reasonable target that we would start to work towards over the next year, once social distancing starts to be eased. Social distancing is the current challenge for us.

Q29 **Chair:** To conclude this part, very briefly and in general terms, your fee is based on a percentage of your costs. Is that correct?

**Steve Montgomery:** Yes.

Q30 **Chair:** In that case, there really isn't any incentive to reduce your costs.

**Steve Montgomery:** The costs were set pre-pandemic. That figure was set pre-pandemic, so there is still the opportunity to reduce costs.

**Dominic Booth:** We said that one of the criteria we are measured on is financial performance. The DFT is looking for us to behave as what it calls a good and efficient operator. That is very much around making sure that we control costs in these difficult times.

**Chair:** You might lose that percentage because you have not controlled costs, but you still get a bigger amount because it is based on a percentage of the costs you have not reduced. Let us move on. We have covered that well and we have 21 minutes remaining. We are now going to move to passenger demand and fare reform.

Q31 **Sam Tarry:** This is a question to all of you in turn. You may have seen recently that Imperial College suggested that rail demand may not fully recover until 2025. Transport Focus also recently published some research that showed that welcoming back more passengers will be very heavily dependent on your staffing levels. That research interviewed current and former passengers about what would make them feel safe travelling by train, and crucially identified the vital role of staff in managing station flows.

The key bit I want to think about in addition, because it often gets left behind, is accessibility. The Association of British Commuters has indicated that because of staffing shortages 16.8% of British stations are not considered accessible.

The question I would like all of you to answer in turn is whether you



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would agree with Transport Focus and ABC that your staff—your employees—will be central to recovery and building passenger confidence in rail travel. Perhaps we could start with Abellio.

**Dominic Booth:** I think that is a fair statement. Staff are on the frontline and are the key touch point for passengers currently and, as they return in numbers, hopefully, in the not too distant future. Of course, staff involvement and staff ownership of the railway is a crucial aspect.

It starts with making sure that staff themselves feel safe and that they are operating in a safe environment, but clearly making sure that the environment for passengers is conducive as well. At the moment, that is around making sure that we have enhanced cleaning, both in staff accommodation and on our passenger vehicles. In due course, it is going to come down to decisions for Government around, as Steve mentioned, reducing social distancing at some stage in the future to allow passengers to return en masse, hopefully some time next year. That is what we would all like to think. Of course, our frontline staff remaining confident, but also diligent, is crucial in making sure that passengers practise social distancing, wear facial masks and coverings and assist with cleaning wherever possible. That is a crucial part of the task.

You mentioned assistance for passengers who need it. The industry has embarked on a huge modernisation programme for accessible rolling stock. The new trains we are bringing in for Greater Anglia, and shortly on Merseyside as well, have moveable steps at the door that meet the platform, for instance, so that we can get level access. There is a huge raft of investment going on. Access to the so-called Access for All funding continues, even during these difficult times, for the fitting of more self-operated passenger lifts and the like, so that we can continue to modernise this Victorian bequest and make the railway fit for the modern world. That continues, as do Passenger Assist facilities where people can call in advance. We will continue to provide assistance where it is needed. All of those things are crucial in winning passengers back and bringing passengers back in big numbers.

Q32 **Sam Tarry:** Thank you. Ms Taylor, is there anything you would like to add?

**Katy Taylor:** We have continued throughout the pandemic to provide accessibility help for anyone who needs it. Normally, pre-pandemic, we would have about 4,000 people with accessibility needs across the GTR network. That fell roughly in proportion to customer numbers falling. We have three lots of teams that help customers: station teams; teams on board our trains; and teams who are mobile, and can go around providing additional assistance. That continues.

Dominic mentioned passenger numbers, confidence and safety. The Transport Focus data very clearly shows, and has shown for a long time, that customers who are taking rail express significant confidence. About 88% of them feel confident that it is safe and clean to travel by train. However, people who have not made a journey since the pandemic began



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in March represent about 43% confidence in transport. We have a larger issue with perceptions of safety on transport than with actual safety and cleanliness.

**Q33 Sam Tarry:** Mr Montgomery, would you like to add anything on that question?

**Steve Montgomery:** Only that our staff have been and will be part of the recovery of the industry. Staff have stepped forward during these difficult times and dealt with the customers who have been travelling with us. Accessibility is very important. The good news is that the funding we have in the industry at the moment is still ongoing. We continue to spend on trying to make more locations accessible for everyone. It is vitally important that we continue that investment.

**Q34 Sam Tarry:** I have one quickfire question. In a recent press statement, the CEO of Go-Ahead, David Brown, welcomed the ERMA and the stability that the agreement brings for colleagues continuing to provide, to quote him, "a safe and reliable service." To clarify from all of you, representing your different train operating companies, are there any plans, given the cuts in service levels that are likely to happen potentially later on as we continue through the crisis, to cut staffing numbers, jobs or conditions on any of the franchises?

**Katy Taylor:** No, there are no plans currently. Our colleagues are massively important to the running of the railways. We obviously always look for efficiencies that we can manage, but, as we have pointed out already, customers will have different needs going forward. We need to work out what those different needs are. We cannot do that now while we are in the middle of a lockdown. We need to do it as passengers start returning. Then we need to make sure that the railway is fit for the future and that our colleagues' roles are relevant to what customers need.

**Dominic Booth:** No plans at present, as Katy has outlined.

**Q35 Sam Tarry:** Hopefully it is the same for you, Mr Montgomery.

**Steve Montgomery:** Yes, it is the same answer in most cases, with the exception of Hull Trains. As you appreciate, it is not covered under the current Government arrangements. We have had to make 27 people redundant, unfortunately, at Hull Trains during this period.

**Q36 Chris Loder:** Before I start, I declare my interest in having previously worked for subsidiary companies of two of the witnesses. I refer the Committee to the Members' register.

The questions I have for the witnesses probe a little more into the demand aspect. The profile of demand, if you do it by time of day, in many cases shows that the peak times are quieter than the off-peak times—or should I say even before the peak times? Do you think this is because the fares structure does not help us in that respect, with peak fares and so on? Do you think the Government should take the opportunity to roll out fares reform and digital ticketing, given the circumstances we are in?



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**Dominic Booth:** Prior to the pandemic, we were talking very actively about fares reform. There was lots of conversation with DFT around that. I think the crisis has changed life forever going forward, not least in travel-to-work patterns and behaviours. The need to modernise and transform fares is more crucial than ever. None of us can absolutely forecast the future or just how much a return to office-based working, if I can use that phrase, there might be. Right now, obviously, demand levels are very much determined by Government advice to work from home where possible. The numbers we are dealing with now are not a full guide to the future, but I think I would agree with you that there is a call to action to bring that reform to the table, such that we can win passengers back in big numbers.

It is going to call for a test and learn-type approach. That is the truth of it. As we see new behaviours emerging and we start to understand them, we need the agility to test and try new products to see where the take-up is. We may need to move to dynamic pricing, such that on your first journeys you pay a certain price, but as you travel more often you start to get a discount on price kicking in over time. They are the sorts of products that we are familiar with in other parts of our lives. The answer is that it is difficult to absolutely forecast the future, but now is the time to bring forward reforms and, in my opinion, to go to a test and learn type of approach.

**Steve Montgomery:** I think the point you make regarding peak times is valid. We were already starting to see the peaks flatten off from what we had previously seen. During the pandemic, the movement of customers has been quite interesting. We have seen people travelling earlier. There are a lot of journeys during the day. The traditional peaks have been a lot quieter. Some of the office-based workforce are clearly not there, but there is a need to try to understand that more. It was a trend that was already happening. Fares reform will go some way to do that, particularly on how we modernise ourselves to pick that up, with part-time season tickets and those types of ideas in the future.

Digitalisation is vitally important in those products because they are very difficult to manage otherwise. We have to make sure that we embrace digitalisation. We sometimes get caught up as an industry with trying to deal with 100% of everybody—that there has to be a solution for all. We need to make sure that we pick up the maximum number of customers under digitalisation, with special measures for the small number who do not have that access.

Q37 **Chris Loder:** To be clear, Steve, you think that now would be a good opportunity for us to embrace that reform and for the Government to roll out some of the changes in digital ticketing.

**Steve Montgomery:** Yes, I think we have a great opportunity at this moment.

Q38 **Chris Loder:** Katy, could I ask you the same question?



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**Katy Taylor:** To answer your direct question, yes, it is absolutely the right time for the Government to do fares reform while we are in the position of trying to attract back as many passengers as possible. It is the perfect opportunity.

To build on what Steve and Dominic said, I think the pandemic has massively accelerated digitalisation already. Far fewer people use paper tickets; up to 70% of people use digital. We have quite a lot of technology out there already. We have mobile ticketing on barcodes. We have contactless in the London areas. We have smart cards outside London. We already have most of the technology to do this; we just did not necessarily have the volumes using those technologies previously. We are on that journey, and we could accelerate it by having a better set of tickets to buy on those mediums. We have already spoken about moving people off the peak and flexi seasons, and I think that will help us to attract people back.

Q39 **Robert Largan:** Building on what Chris said about flexi ticketing, which all the panellists agree is something we need to look at, I am keen to understand the barriers. It is all very well and good for us to say, "Yes, we want to go ahead with smarter season ticketing and part-time season ticketing," but what are the big barriers in the way that prevent it from happening so easily?

**Dominic Booth:** I do not think there are any big barriers from a technological point of view. These are concepts that we see in other parts of our lives, of course. It is not that. The biggest difficulty, to be honest, is choice; it is trying to understand just what revenues will flow from the products, what demand will come back and making choices around that. There is a big choice obviously for Government around who pays for the railway, and balance between the passenger paying and the taxpayer paying. Any substantial changes around that would, I am sure, cause nervousness with DFT or Treasury.

As I mentioned earlier, I think the answer is to adopt a test and learn type of approach, trying new products and seeing what they look like. The future is uncertain, but it is ripe for change. The best way to approach it is not with fear but with test and learn experimentation. If a product is not right, put it back on the shelf. Where products are proving good and generative, grow them and do more.

There is no particular barrier. This type of technology is around in other parts of industry. It is around making sure that, first, market demand is understood and then the financial consequences, and striking the balance. It is a difficult choice for Government, obviously, between the passenger paying and the taxpayer supporting.

Q40 **Robert Largan:** Steve, do you agree with what Dominic said? Do you think a pilot scheme somewhere would be the best way to kick this off?

**Steve Montgomery:** I very much support what Dominic said. There is an opportunity during these times, and we have to embrace it. It is something that was maybe not thought of or encouraged previously. We



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now have to take this opportunity to see how to get customers back and what meets future customer needs.

**Q41 Robert Largan:** Katy, the same question to you.

**Katy Taylor:** I don't have anything to add. Technically it takes a couple of months to get this stuff developed and over the line. We could launch live to customers fairly soon, if we wanted to do that. Obviously, it is for the Department for Transport to agree to the types of tickets and approve the expenditure to do that. As soon as we get the go-ahead, we are keen to move forward with it.

**Q42 Robert Largan:** Katy, to pick up something you said in your opening comments, we are not just looking at smarter ticketing; we also need to look at how the timetable is going to work if we have less peak travel and, as you say, flatter peaks. Not only is there going to be the opportunity to have smarter ticketing; hopefully there will be an opportunity to have smarter timetabling. It would be interesting to have your thoughts on what kinds of opportunities that might present. In particular, I am very interested in how we can extend the timetable to support the night-time economy more. Is there an opportunity, if we do not need quite as many peak services, to have some later running trains?

**Katy Taylor:** I definitely think there is, if we can move some of the cost that goes into the peak to elsewhere in the day. What we have seen a little bit through this is that shift patterns are changing, along with the way people work and live. They are doing earlier shifts. They are finishing later.

You mentioned the night economy. It is also about weekends. People who rely on services Monday to Friday find that the service does not exist or not at that frequency at the weekend, especially on a Sunday. Services finish a lot earlier on Sundays. If we could make the railway a bit closer to a 24/7 railway by moving some of that cost elsewhere, it would be really positive for all the reasons we spoke about earlier. If we want to move people out of cars regularly for lots of their journeys, having a wider spread of services more available to people all the time is a positive step towards that.

**Robert Largan:** Thank you.

**Chair:** We have very little time left. We want to talk about the future and how much it will cost to terminate the past. Meg will look at replacing ERMA's with direct awards.

**Q43 Meg Hillier:** It is a huge challenge. We have 14 months or so before the first terminations come to fruition after this staggered timetable. That is a very tight timetable to issue direct awards. Are you engaging with Government to help shape that? I am going to ask one of you to elaborate and then see if the others agree. Mr Montgomery, are you engaging with ideas for what a direct award might look like?



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**Steve Montgomery:** That process is just starting. To correct you, the ERMA's finish for some companies on 31 March 2021, so we have a very short window.

Q44 **Meg Hillier:** A short window? That is an impossible window, isn't it, to have a full, proper direct award?

**Steve Montgomery:** It will be very challenging. As I said, we are starting to engage with the Department.

Q45 **Meg Hillier:** You say, "very challenging". You are being very polite. In your experience, have you ever seen a direct award offered so quickly, except for a rescue package for things like East Coast?

**Steve Montgomery:** I have not experienced one being delivered that quickly. Clearly, the EMAs were put in in a very short period of time. These awards have slightly more detail. We would expect more detail in them. It is something we have to work extremely hard with the Department on to try to pull something together if we are to meet the deadline of 31 March. There is a certain period extension that the Department can call upon, should we be running behind.

Q46 **Meg Hillier:** I have to go to the other witnesses on that timetable, Chair. Do either of you have companies on that 31 March deadline?

**Katy Taylor:** Ours are September and October 2021. It is just less than 11 months.

Q47 **Meg Hillier:** I had somehow misread 2022 as the earliest. This is incredibly challenging. I am worried about taxpayers' money. If there is rushed contracting by Government, it is often bad contracting. You and the passenger ultimately pick up the problems of that. Are you working on designs with the Department about how to move to direct awards?

**Dominic Booth:** We are just at the very early stages of that. We are working on the termination process for the old franchises. You are right; they would be very accelerated timescales. Our three are in September 2021 and the end of March 2022, so we have a little bit longer, but certainly for the first ones off the rack, it will be very quick.

The only thing I would say, given the negotiations previously around direct awards, is that the huge subjectivity in discussions around passenger revenue forecasts will not be there in these types of direct awards because it is not envisaged to transfer revenue responsibility directly to the contractor, as it was previously. That is a huge change that could make the process a little bit easier, but I agree with you that March will come round very quickly for some of these contracts.

Q48 **Meg Hillier:** Ms Taylor, do you have any experience of doing it at this pace? With the best will in the world, the DfT does not always get it right. It has to be careful of cosying up to you too much in order to make sure it is protecting taxpayers' and passengers' interests. Do you think you have something to offer in how to shape these direct awards?



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**Katy Taylor:** I think the biggest thing we have to offer, which is where we started this conversation, is around revenue incentives and passenger growth incentive. That is not in the current contracts, which makes perfect sense in the current environment, but if we want to get out of this pandemic and get people back travelling, and make the best of the private operators in the industry, we need good passenger growth incentives. We need to be output focused rather than input focused. Earlier, we looked at some of the ScotRail incentives. We want outcome ones. Are we getting passenger growth? Are passengers satisfied and having a good journey experience? It is that rather than input measures. All the content and all the ideas are there. It is just making sure that there is enough time to shape them into a contract that everyone can agree is going to deliver exactly for taxpayers, for passengers and obviously for the companies.

**Meg Hillier:** I will leave it there, Chair, because of the time.

Q49 **Sam Tarry:** Can I come in briefly, Chair? I know we are tight on time. Thinking about how Government could design those awards, particularly in terms of the financials, one of the things that concerned me was that with the ERMAs, although they said they were going to have tougher performance targets, lower management fees and that the fee would be set at about 1.5% of cost base before the pandemic began, in actual fact the train operating companies—if they were awarded their full management fee measured against the Government cost base—would still make a profit in the region of £228 million across all train operating companies, in my estimation. That is a significant sum.

If we are designing these contracts, how are we and you going to ensure that we are getting best value for taxpayers during a time when we have fewer passengers, and less revenue? Can I put that to Dominic Booth, given the number of franchises you cover?

**Dominic Booth:** The cost of the railway is largely fixed. What we have to do, as industry and Government, is look to what size and shape of railway we want in the future. What size and shape of railway can we afford, and what size and shape of railway do we need in the short term, but looking out to longer-term requirements?

As I mentioned, it is all part of the climate change agenda and among the difficult to forecast things. It is very important that the size and shape argument is had, and that then we look for efficiencies in the structure as it looks, and drive efficiencies, whether it be principally from back of house, wherever possible, or infrastructure costs and the like. As was mentioned earlier, it is about right-sizing train services for the days of the week or times of day that prove to be different. That is the crucial agenda. As Katy said, it is making sure that whoever is brought in as contractors to deliver that is incentivised to drive out more of those costs and win back more passengers as soon as we possibly can, such that the cost of the railway overall and the cost to the taxpayer is minimised.

The payment of a very small management fee, whatever Government outsourcing model is chosen, will be required. The types of fees that we



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are talking about during emergency measures agreements—we all accept these are unusual times—are unlikely to attract contractors downstream. Supermarkets work on 5% or 6% margins. There will have to be a decent incentive regime remaining in place. There is so much to go at in terms of the industry cost base and winning passengers back, and that is the crucial part of the agenda.

**Chair:** We now have some questions about termination costs, to ensure that there is no windfall involved for franchises that were not going to deliver and are now receiving a fee; and about how the termination costs will be calculated and, indeed, whether you will be able to agree with the Department.

Q50 **Meg Hillier:** Companies have had the offer from the Department. You have to get your last comments in by mid-December. How is that going for you? You are in mid-negotiation, so you are probably going to say that it is all going swimmingly. Practically, given that we are going to be going through a lot of these changes over time, while this is a specific termination agreement, there may be lessons that could be learnt. How has it gone for you, Katy Taylor?

**Katy Taylor:** It might not be the shortest answer because, of our two franchises, Southeastern is on a different contract. As Steve mentioned for GWR, it was put on an EMA franchise. That carries on, so it does not have a termination payment. GTR's termination payment is zero because of the way the franchise was, and the position it was in, so actually there is no change.

**Dominic Booth:** It is an area that we are extremely concerned about. We were promised by the Department for Transport that franchises would not suffer during the termination for the onset of Covid and the Government policy around Covid. We are hoping that the process proves true to the fact, and that we have transparency, fairness and reasonableness in determining termination fees.

We have had some concern around that. I am pleased to say that we have now secured an extension of time. The original process was going to finish on 13 December. We have now had an extension to 29 January, but we are still looking for a better level of transparency.

Q51 **Meg Hillier:** When was that extension granted?

**Dominic Booth:** It was a week or two ago; I cannot remember the exact date.

Q52 **Chair:** That is interesting, Mr Booth, because we received a paper just yesterday telling us that franchises must provide final representations no later than 14 December 2020. Then there is a period of time for the Secretary of State to see what adjustments need to be made, and then you have seven days to accept. In fact, you are telling us that the first date should be 29 January.

**Dominic Booth:** No. To be correct, I am talking about the end of the process. The end of the process that was previously envisaged was 13



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December, with the Secretary of State determining the outcome. The end of the process for the Secretary of State to determine is now 29 January. You are absolutely right that the submission of our evidence is 14 December. The previous process envisaged an end date of 13 December. We now have to submit all our evidence by 14 December, and the Secretary of State will determine by 29 January. The end of the process has moved by about six weeks.

**Q53 Meg Hillier:** How have you found the online system? It does not seem like personal management of the contract. You are putting information into a system and getting responses back. Is that working?

**Dominic Booth:** It is difficult. Obviously, we are bound by what we can say on these matters, but in my opinion complex matters require human dialogue to resolve them. Going through a system is not usually the way one would do these things. Yes, we have concerns about that. All I can say is that we do not recognise some of the numbers that have come out so far from the previously strong and healthy contracts we had in place. We are very concerned about the process. We look for fairness and reasonableness in it. We look for increased transparency, and we would like human dialogue.

**Q54 Meg Hillier:** I take that point very clearly. In terms of the fairness and reasonableness you talk about, do you think it is right that you should take your share of the pain, given the extraordinary circumstances that we are in? This is taxpayers' money we are talking about. Have you gone into negotiations with that in mind?

**Dominic Booth:** Yes, absolutely. The basic concept of looking to a pre-Covid trajectory and how a business would have performed over time is only right and proper. I say that as a citizen and as a taxpayer as well. If businesses were going to get into difficulties and money would have flowed to the Treasury, of course that should still happen. As I say, we do not recognise some of the approach that is currently being taken, but, yes, fairness and reasonableness work both ways.

**Q55 Chair:** On the basis that the Secretary of State gives his final determination on 29 January, I understand that there are seven weekdays for you to then determine whether you accept the termination sum. What happens if you do not accept it? Is there an independent method of dispute resolution, or is it off to court? How does the contract or agreement allow for that?

**Dominic Booth:** At the moment, if you decide not to accept it, the proposal is that you would go back on to your franchise agreement and the consequences, whatever they might be, would then follow. As to reference to court, of course that is always something that we keep under consideration, but we do not want to get into that type of process. We want fairness and reasonableness. We see that as a two-sided process, as was just mentioned. If it is about where moneys would have flowed and should flow, that is fine. Where they should not, then—

**Q56 Chair:** I accept that, but you might feel that ultimately you either accept



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an amount or go into a franchise agreement that quite clearly is not financially viable because there are no passenger numbers where there once were. That is almost holding a metaphorical gun to your head, isn't it?

**Dominic Booth:** We obviously hope that that is not where we end up. We are engaged with DFT on this matter.

**Chair:** That was more my comment than expecting to get a response. Finally, we are going to ask about the future and what your views are, if you have any, on an arm's length body to run the railways.

Q57 **Chris Loder:** I am keen to ask the witnesses their views on the Williams review and an arm's length body to run the railways. Initially, do you have any views you can contribute on that?

**Dominic Booth:** We were very supportive of the Williams review prior to Covid. We think the basic thrust remains very valid, not least the setting up of an arm's length body. Williams has been delayed, and we would like to see industry reform come to the fore and come forward.

We think the creation of an arm's length body is crucial and that it should look equally over the infrastructure side of industry and the train operation side of industry. We would look to its having independence from DFT, from Network Rail and from ourselves, so that it can display the sort of agility and the overriding whole-industry cost management that we referred to earlier in this meeting. The sooner, the better.

Q58 **Chris Loder:** Are you confident that there is a strong place for the private sector to have a role in the railways going forward?

**Dominic Booth:** There should be because we know where the cost efficiencies are. We know how to win passengers back. We have talked about the 25-year history of creating a passenger revenue outcome that was the envy of Europe, so absolutely there needs to be and there should be a place. We are hopeful that there will be, and we really want to play our part in the next phase of this great industry.

**Steve Montgomery:** Without repeating everything Dominic said, we are very supportive of an arm's length body. It is vital for where the industry is going in the future; we need that independence to be able to move it forward in a sustainable way.

**Katy Taylor:** My only addition would be the importance of devolved decision making, so that decisions that affect customers are made as close as possible to the customers they affect. You would not want any other body to remove that and to be more centralised in its decision making because that would probably mean poorer outcomes for customers and communities. As long as whatever body is set up is all about devolved decision making, and is very much focused on the customers and communities that it serves, we will be okay.

Q59 **Chris Loder:** On 8 October, the directors general of the DFT Rail Group sent a letter to the chief executive of Network Rail asking him to look at



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the capacity allocation workstream on the east coast main line, but made it clear that it should be done from the perspective of a neutral single guiding mind. Does it concern you that the Department has asked the chief executive of Network Rail to undertake that piece of work rather than, say, a private sector business? I wondered if you had a view on that.

**Steve Montgomery:** On whether it could be a private sector business, probably not, because obviously we have competing needs on those lines or routes with other operators, so you need an independent body.

Q60 **Chris Loder:** Indeed, but the letter is asking the chief executive of Network Rail to undertake a capacity allocation review, but not in his capacity as chief executive of Network Rail. Does it not give you any cause for concern that it is not done by a completely independent body at this stage?

**Steve Montgomery:** I was probably more surprised about why it had not been allocated to the ORR.

**Katy Taylor:** The important thing is that you need to make sure that people who know the customers and know what customers want are in charge of making some of those decisions. Yes, I would be surprised if Network Rail was leading all of those decisions because they are not close to the customer. I cannot comment about that specific instance, but you absolutely need people who are dealing with customers, and have done the research, and have contact and conversations every day, to be in those conversations.

**Dominic Booth:** We want to see the establishment of a guiding mind set up as soon as possible, so that we can break into the future agenda, whether that be cost control, new service requirements or digitalisation and the like, as we have mentioned, and looking at that as a whole industry. We want to see that coming forward. In the short term, it is for Government to decide whether they want to kick that off with the chief executive of Network Rail. I guess that is a place where you can lodge it, but we would like to see it being set up as soon as possible per the Williams recommendation of its being arm's length and sitting above the infrastructure leg of industry and the train operation leg of industry, balancing between the two of them. We would like to see it come soon. I cannot disagree with a move towards that, but we would like to see proper independence and a full balance as soon as possible.

**Chair:** That concludes the evidence for the first session. A big thank you, Katy, Dominic and Steve for giving us such full answers. I wish you and all of your staff the very best. We thank all your staff for everything they are doing to keep the railways running. Thank you very much indeed.

### Examination of witnesses

Witnesses: Chris Heaton-Harris, Peter Wilkinson and Neil Hart.

Q61 **Chair:** We now move to our second panel. My apologies that we are, unlike the railways, running late. Would each of you introduce yourself?



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**Chris Heaton-Harris:** I am Chris Heaton-Harris, Minister of State with responsibilities for rail at the Department for Transport.

**Peter Wilkinson:** I am Peter Wilkinson. I am the managing director of passenger services in the Department.

**Neil Hart:** I am Neil Hart from DFT. I am head of ERMA contract design at the Department.

Q62 **Chair:** Minister, I do not think I have ever said this to you, but I cannot hear you too well, and also you, Mr Hart. Mr Wilkinson, you are spot on.

We have had a very interesting session with the train operators, and you heard some of that. Minister, the last 25 years have seen rail passenger numbers double, and the cost of rail services has transferred from the taxpayer to the passenger. From a position where the taxpayer gained a net £400 million by the end of 2018, the taxpayer stands to pay out up to £9 billion for this financial year. Is this sustainable for the taxpayer, or will rail services or costs have to be radically reduced if passengers do not return?

**Chris Heaton-Harris:** Thank you for inviting me along today. At the end of the last session, you very kindly thanked the people working on our railway. This is my first chance to say publicly a huge thank you to everybody who has worked on our railways and kept them running very smoothly throughout this period. That includes officials in my Department, people in Network Rail, the train operating companies and the workforce in general. They have been really exceptional in this period of time. Thank you for your comments about them.

On your question, I guess I should thank you for outlining what privatisation and bringing private sector operators in to run our train operating services has achieved over the last couple of decades. In the time period you mention, there has been an increase of over 4,000 services per day. Between 2017 and 2025, 8,000 new carriages will be delivered. That represents around £15 billion of private sector investment.

We all know the statistics from the last nine months. In February this year, the railway had one of its busiest months ever. Two months later, it was carrying less than 5% of those passengers and we operated a much reduced timetable, but one that was still resilient enough to get key workers to where they needed to be and to help our economy move forward. As we moved to our new-normal summer, leisure travel picked up quite strongly and we increased the level of service a number of times to allow people to travel in a socially distanced manner on a sparkling clean railway. Freight has continued throughout the period.

The passenger railway was only able to operate and respond like that because the Government believed it was beneficial for our nation and backed it with taxpayers' cash. The yet to be fully finalised figures for the EMAs—the emergency measures agreements—put the amount of taxpayers' money put in at £4.07 billion. On your question about whether



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it is sustainable, I am not a fortune teller but I know that our railways figure highly in delivering on some of the key elements of this Government's agenda of connecting people and places, levelling up, decarbonisation and cleaner air.

The Treasury has allowed us to enter into ERMA—emergency recovery measures agreements—contracts that last up to 18 months, giving us some little time to plan for the future. Who knows? If vaccines and testing bring confidence back to people and markets, maybe people will return in decent numbers to our railway, but no one can be sure at this point in time. That is why we need to reform, as your previous speakers and questioning alluded to, to put the passenger first. The railway will need, probably for the first time in its history, to fight for its passengers to come back to it.

**Chair:** Thank you for the opening remarks.

Q63 **Sam Tarry:** To pick up the question about the amount of money that has gone in, Minister, how much of that sum will be paid out to private sector operators in profits. The thing I would like you to explain clearly is how the current emergency measures offer better value for money for the taxpayer than, for example, using the operator of last resort, which the DfT has itself said is more than capable of taking over all the franchises.

**Chris Heaton-Harris:** That £4.07 billion is essentially all operational costs that would be paid in any circumstances, so it does not particularly matter who is running the railway. They are the costs of the railway. You heard in the previous part of the session from Steve Montgomery, Katy Taylor and Dominic Booth that lots of the costs are fixed.

I do not think you would have got much better bang for your buck by taking all those companies into the operator of last resort. I am pretty sure that the operator of last resort, while we built up capability, would have struggled with that amount of change at the time. We have made sure that, essentially, railways continue to run smoothly throughout this period. I would say that the right choices have been made by going into the ERMA's.

Perhaps Neil or Peter could talk about why the £4.07 billion is not money being tipped into private sector business and the owning companies' profit margins.

**Peter Wilkinson:** I can help with that a little bit, Minister. I completely echo your points. The moneys you have talked about are what it would cost under any model for us to continue to provide those train services.

I understand the question that was asked. It is a fair question. It is important to say that the Department is not buying profits. That is not what we are in the business of doing. We are paying a very small management fee to cause the private operators to operate those services on our behalf. There is an enormous amount of work that goes into running a railway that is not always visible, which those operators do on our behalf. For example, they have to run the payrolls; they have to



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manage all of the HR; they have to deal with thousands of suppliers; and they have to buy fuel and maintain the trains and the depots. There is a management overhead that goes into the running of any railway, and it is for them, as efficient operators, to manage the totality of the sums of money. To the extent that they make any profit, that is a matter for them.

- Q64 **Sam Tarry:** Perhaps you could explain if there has been any sort of appraisal process of costs, or modelling that supported the decision not to use OLR to take over more, or even just to switch the management arrangements in terms of most of the franchises. You would have the power, given that it has all been switched to National Audit Office. It is essentially a public system run for a 1.5% management fee. Has there been any kind of internal appraisal process about the decision not to go with that option that you could explain to us?

**Peter Wilkinson:** Yes. Obviously, at all stages throughout this entire pandemic, we have looked at a number of options that are open to the Department. You are quite right that the operator of last resort sits there as one of those options. We had to look at it in the context of a very fast, unfolding crisis in which we lost almost all our revenue and patronage, certainly in the early part. I should point out that revenue and patronage are falling again as we speak.

We obviously looked at bringing it back in-house under the operator of last resort. We looked at a number of different types of contract models, but our internal appraisal methodology ascribes a certain amount of value for money to the continuation of a system in which we value the private sector's innovation and continuity of experience in running a very complex rail system.

There are arguments that it is a little less complex because there are not so many people on it, but actually we are still running an enormous number of trains—in fact, most of the trains we were running prior to the crisis. It is still a very complex and busy system. We came to a view, in the round, that value for money for the taxpayer was better placed in maintaining continuity of relationship with our private sector partners.

- Q65 **Sam Tarry:** That is very interesting. Could you pick up on that, Minister? Why did you arrive at such a different conclusion from the Welsh Government? They said that they had to have an even greater role in rail services in Wales and the borders to reflect “the new commercial realities of the post Covid-19 environment.” That is quite interesting. They think that is the best way to have the most stable financial base to manage rail services as they emerge from the pandemic. Why did you arrive at such a different conclusion?

**Chris Heaton-Harris:** I do not know why the Welsh Government arrived at theirs, but I am sure it fits for their railway. We are talking of a different quantum of size for starters. *[Inaudible.]*

**Chair:** Minister, can you lean in a bit more? We cannot turn you up, so we are relying on you.



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**Chris Heaton-Harris:** We are talking about a different quantum of size for starters, and a whole host of change. Having seen, as the Minister, the experiences as Northern came into OLR and the amount of work that involved, I am absolutely sure that to do that ninefold, if not more, in one very quick hit would have stretched OLR and us to a point that I would not have been comfortable with, for continuity and a whole host of other reasons.

The Welsh rail system is complex, but it is much smaller than the amount of railway we are talking about. Overall, I was very happy to take the advice that was given to me by my Department.

Q66 **Sam Tarry:** I do not know all the detail about what OLR would be capable of, but it is interesting that even the Government have had to admit that under public ownership LNER passenger satisfaction levels over the last 19 months have risen. The bit that is being run publicly, without the same expenses in 1.5% fees being paid out, has the highest satisfaction levels. Would you like to offer a comment on that?

**Chris Heaton-Harris:** The latest information about passenger satisfaction across the whole of the network shows that it is very high across the board, even though far fewer people are travelling. Different franchises have different peaks and troughs in popularity. That is just the way it is.

Q67 **Chair:** We want to drill into some detail about how some of these contracts are operating. The ERMA's could end up taking between £3 billion and £5 billion of taxpayers' money just to get through to April. We have been trying to get hold of copies of the ERMA's for over a month, and we still do not have them. That was the reason why we were late coming to you; we are asking questions about contract terms that we could read ourselves and then ask you more detail. The latest promise is "as soon as reasonably practicable", which is lawyer speak for giving me the bird. When will we get a copy of those redacted contracts? Can I push you for a date, please?

**Chris Heaton-Harris:** First, there is absolutely no way that we would in any way give you the bird. These are quite big documents and there are elements of them that would need to be redacted, as you can understand, due to commercial sensitivity. I understand that we said we would do this as soon as possible. Peter, would you be able to give a rough date for the Chair?

**Peter Wilkinson:** I echo the Minister's thoughts. It is frustrating, and I understand the Committee's frustration, but they are very big contracts that are commercially very sensitive. We have to go through a process of redaction for very sound commercial reasons. We are working through that now as we speak with the train operators. In fact, the train operators have those contracts back. They are looking through our redactions, and we expect them to return comments on those and any further redactions they want in the coming weeks. I expect to be able to get ERMA's to the Committee early in the new year. I think, if I remember, it took us—



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**Chair:** Peter, I will interrupt you there. I find that wholly unsatisfactory. I used to redact contracts and it does not take that long. You sit in a room with the other party and you can redact them. I can lend you the black marker. It is not acceptable to hear that it will be in the new year. These are contracts with billions of pounds of taxpayers' money riding on them, and we still have not seen a copy. It is a lack of transparency for Parliament. It needs to be before the end of this year. I will leave that with you. Let's start to drill into the detail that we cannot, frustratingly, see. We want to talk about performance measures, first of all, as we did last time.

Q68 **Meg Hillier:** Minister, you have a huge challenge ahead. You are dealing with the ERMA's and going through that process. You have direct awards that will be starting to come in from next year, and you have huge plans to reform the railway, which we will come to a little later.

Are the emergency measures contracts doing anything to contribute to your plans for railway reform? The Secretary of State told the House that the ERMA's allow the Government "to make an early start on key reforms, including requiring operators to co-ordinate better with each other and driving down the railways' excessive capital costs." That is a very grand statement by the Secretary of State. Can you explain how the current negotiations on the ERMA's and the move to direct awards are delivering on that?

**Chris Heaton-Harris:** First, the management fee—as I think was drawn out in a session of your Committee, the Public Accounts Committee—is broken down into essential elements. There is 25% on operational performance, 22.5% on passenger experience, 30% on financial performance, efficiencies essentially, and 22.5% on—

Q69 **Meg Hillier:** Yes, we know that.

**Chris Heaton-Harris:** First, that means the companies are incentivised to work in a much more collaborative fashion than has been the case before. Secondly, the ERMA's do something that—

Q70 **Meg Hillier:** Let me interrupt you there, Minister. You talk about collaboration with each other. In fact, the collaborative behaviours that the companies told us about were with the DfT and Network Rail, which most passengers would expect to happen anyway. Perhaps you could touch on that.

The Secretary of State talked particularly about them co-ordinating better with each other. Can you give an example of how that is happening when they are all fighting and rushing to get their ERMA's agreed and working on direct awards? There is quite a lot going on for individual companies, let alone expecting them to co-ordinate better together. How are they doing that? Can you give an example of how they are doing that?

**Chris Heaton-Harris:** Yes, I can. There is cross-industry working with Network Rail, who put together the timetable, to sort out the timetable so that it is completely resilient. Indeed, different former franchise operators, different ERMA operators, have removed services—remember



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that lots of services run across other franchise networks—to ensure that the network as a whole is more resilient. Toxic trains, as someone nicknamed them, have been removed for the greater good of the whole railway system.

Freight paths have been able to be opened up, which has always been a real issue in the railways. We have been able to maintain and increase a healthy number of freight paths, which is very important for what we have been doing in the course of the last nine months in terms of the pandemic. The other thing that the ERMA's have done is end franchising. That is a very important step along the route to rail reform.

**Q71 Meg Hillier:** That is helpful. On ERMA's, I pushed our previous witnesses on collaborative behaviours in particular. They said that some of it was very subjective. They came up with suggestions about how you might measure performance requirements better. Do you think you have missed something there? Are you planning to tighten up performance in the remaining period?

**Chris Heaton-Harris:** Performance as in whether trains turn up on time—

**Q72 Meg Hillier:** That is easy; yes.

**Chris Heaton-Harris:** It is remarkably high.

**Q73 Meg Hillier:** But that is easy to measure, isn't it? It is the ones like collaborative behaviours. We had suggestions about how you might measure that better. Do you think you are going to take those on board?

**Chris Heaton-Harris:** I have always been open to what the individual train operating companies and owning groups have said on that. I am pretty sure that my officials will be able to give you a couple more examples of what we have been trying to encourage from the centre. There are various working groups that have been set up that involve the whole of industry. You might think this is something that should have happened ages ago, and possibly it should have, but it is absolutely happening now.

**Q74 Meg Hillier:** Minister, do you not think it is a little odd? You have a raft of experienced, although hard-pressed at the moment, officials. We are hearing from the train companies that there could be better ways of measuring some of these things, with empirical proper evidence, rather than this rather subjective list. Not all of it is subjective, but bits of it are. Do you think that maybe you have missed something? This is taxpayers' money of course. I know that you, as a former member of the Public Accounts Committee and as a Minister, watch that very closely. Do you think you have just missed a trick by not putting some tighter performance measures into the ERMA's?

**Chris Heaton-Harris:** No. In the time we have had, and working with the industry, I think we have a decent set of performance measures. They will constantly evolve when we move into the next batch of direct



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awards and the national rail concession contracts. They will evolve with the industry.

**Meg Hillier:** I will leave it there for now, Chair.

- Q75 **Greg Smith:** Good morning, Minister, and the DFT team. When we are looking at the pandemic going on, even with the current lockdown in England being lifted on 2 December, it looks likely that there will still be restrictions. The tier system seems the likely outcome, so there is still going to be a serious crunch on rail passenger numbers. I want to dig in a little bit about where the Department has been asking rail companies to reconfigure services, from timetable changes to potentially running fewer services, to try to recoup some costs. What have you directly asked train companies to consider as part of that?

**Chris Heaton-Harris:** Interestingly enough, we have had a number of timetable changes in the last nine months. When I first inherited my role as Minister with responsibilities for rail, I was told that a timetable change from start to finish could take potentially up to two years. The industry, working at massive pace and some stretch, has demonstrated that we can move a lot quicker on timetable changes and be very flexible too. In the past, I do not think that individual train operating companies knew their customers and passengers as well as they do now. We have all sorts of different types of measurements of who is travelling when.

I heard you talking in the previous session about the early peak hours, which are mainly construction workers heading to work, and then how people avoid the old peak hours in the morning and travel throughout the day. Each of the train operating companies has been identifying what those groups of people do and where they are travelling to and from, for all sorts of purposes.

We have written to the train operating companies about that. We have to be very careful, because people who drive trains, help trains function and signal for trains are also people who can get Covid. We have reasonably high levels of sickness. We want to be able to run a completely resilient railway that people can rely on being there when they expect it to be there. We have asked train operators to look at their services, and to see what best matches passenger demand, for future discussion.

- Q76 **Greg Smith:** From my own experience, I have seen timetable changes happen almost overnight. On my daily commute on the Chiltern line, timetable changes have come in again this week, and there seems to have been very little disruption. While I do not think anybody wants to see a reduction in any service, it struck me on my way in this morning that of the 58 seats in my section of the carriage there were seven passengers, and that was on a 7.30 train this morning. Last night, going home at around 10 pm, there were two people in the carriage, yet there are still two or three trains an hour on that service.

Where do you think the red lines would be for Government, given the level of taxpayer subsidy going into the railways at the moment? There are the other risks you have talked about, of staff shortages through



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Covid and needing to self-isolate. Where are the Government's red lines on what we could potentially have to go down to if the pandemic carries on much longer?

**Chris Heaton-Harris:** We have not looked at it in terms of what we would potentially have to go down to, as in cutting services. What we have looked at is what a resilient passenger service network would look like across the piece, and the train operating companies are the best people to model that. They have all the data that allows them to do that. As I have tried to explain, they have relationships with the passengers using the network at this point in time that we simply do not have at the centre. With the agreement of the Treasury, the recovery management agreements are currently running and we have some time to try, hopefully, to build back better, and build for the future and what is going to come for our railways.

As I tried to indicate, no one knows what is going to happen to commuter traffic. There is interesting work that I have seen by Transport Focus in this country, and research done in the States and in China, as well as plenty of other places, about how commuting has returned and the potential number of commuters per week who might return. There is a piece in that as to whether we can stimulate that a bit further with some type of fare reform.

As the people in the previous session said, we have fixed-cost fantastically expensive assets, and in any business you look to sweat them a lot better. You look to try to get passengers on them at different points in the day and fill them then. There are other ways that we can try to get revenues back in the future. We are not looking at cuts to service at this point. We are trying to look at how we respond to the demands of a future market, but no one really knows what it is going to look like.

Q77 **Greg Smith:** I absolutely appreciate that, but something that has been made clear throughout our inquiry is that the Department wants to see the train operating companies become "more financially sustainable"; I believe that is the term. Obviously, getting revenues back is the golden ticket, but if that cannot be delivered in a rapid way, and passenger numbers do not return at the rate that we want to see them return to the railways, what are the other measures that you want to see the operating companies deliver on for financial sustainability in the future?

**Chris Heaton-Harris:** As Dominic Booth said, there is a whole host of different things that can be done. There are lots of different things that can be done to both stimulate more custom and be more efficient in the way we run our railway. We have a whole host of carriages that are not suitable under current legislative requirements for accessibility. We are not at a point where we can do it yet, but I would like to see them removed completely from the network. It would save costs and make the whole network better to travel on for those who have accessibility issues.

There are different things you can do, but getting a resilient timetable is super-important. You have to put the passenger first, which helps build



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revenue—the golden ticket you mentioned. For example, West Midlands Trains ended up adding services in the middle of the pandemic. It was talking to its customer base, and it worked out that there were a whole host of nurses who worked in Birmingham but lived in Coventry. The train service did not fit the shift patterns that those nurses and medical staff were working. It was flexible enough to be able to change services to fit with those requirements.

The railway needs to be more flexible. It needs to understand its passenger base and look to work together to reduce costs. Our costs are fairly extensive, not just across the passenger service piece but across the enhancements and renewals that we have going forward. It must try to deliver better value for money for the taxpayer by accelerating some of those projects. In my experience on the Public Accounts Committee, which its Chair alluded to earlier, time seems to equal extra cost in engineering terms. We must do things a lot more efficiently across the board.

**Q78 Greg Smith:** Thank you. I cannot disagree with any of that, Minister, but to give us some feel for the level of cost, given the quite extreme expenditure that has been necessarily required through this period for the railways, what pressures are you now feeling from the Treasury as to where cost savings need to be? What is the level, or is the situation still the “whatever it takes” message from the Treasury?

**Chris Heaton-Harris:** No. The Treasury is being, as you would expect, very Treasury-like and wanting to make sure that it is getting bang for its buck and that taxpayers are getting value for money. I see that as very healthy pressure.

As you know, Project Speed has been set up in No. 10 to try to accelerate a lot of projects. We have an acceleration unit that my Secretary of State has set up in the Department for Transport. One of the big projects it is currently looking at is the Restoring your Railway project. To prove that there is interest and demand out there, just look at the public and political support for all the individual projects behind Restoring your Railway. There are some signs of hope that people still value their railways massively and are keen to return to them as and when they are allowed. The acceleration unit is looking at that to try to deliver things in much quicker time than people would normally expect a rail project to be delivered, and potentially trying to keep costs within the initial cost bracket, which would be almost exceptional in rail projects.

**Greg Smith:** Thank you, Minister. I could not let it go without saying, on restoring the railways, that the building of East West Rail is very important to us in Buckinghamshire, but before I get on to the other railway I will pass back to the Chair.

**Chair:** I thought you were going to mention HS2, Greg.

**Greg Smith:** I said before I get on to the other one.

**Q79 Chair:** About 35% of the costs of running the railway are on staffing and labour. Attempts previously to try to reduce that proportion have led to



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strikes, and perhaps the train operators did not have the will to reform that side of things. Do you think that the Treasury will be more inclined to do so, Minister?

**Chris Heaton-Harris:** I am sure that the Treasury is always keen to keep costs down. Equally, as you heard from your previous witnesses, we need a certain level of staffing to run the railways. We believe that we are at a pretty efficient level of staffing. I am sure there is always more that can be done, but I would like to think, based on the relationships we have with the trade unions in the sector now, that most of the ideas for efficiencies in that area can come from the people who work in the ticket offices, drive the trains and make the railway work as well as it has done over the last few months. This is one area where I think we can deliver some extra efficiencies.

I know that we are going to need more drivers going forward. People might try to spread scare stories about cutting the workforce or whatever, but when it comes to train drivers I know that across our network we need hundreds more to fulfil the plans we have for the future. It is a very good working environment, but there are always efficiencies that we can make.

**Chair:** Thank you for that. Let us move on to passenger demand and fares reform.

Q80 **Chris Loder:** Should the current situation with demand and our provision of capacity continue as it is today, how long can we go before we have to say that we cannot continue to subsidise the railway to the extent we are?

**Peter Wilkinson:** At this point in time, the Government's priority is to run as much capacity as required to provide a very resilient railway. That is the Government's policy, and I have had no indications that it is being required to change. Indeed, we need to run a significant amount of capacity because we are in a world of trying to manage social distancing. There are still a lot of people using our rail system.

The key at the moment is to put the health and wellbeing of our passengers and our frontline staff at the fore of our thinking. That means that we need to run the system in a way that is as Covid safe as we can make it. That is our priority, and it means running as much capacity as we can.

Q81 **Chris Loder:** Minister, that is clearly Government policy so far, but if demand does not return to previous levels, or even increase very much, at what point do you believe we will have to say that we have to reduce some of the train service frequencies and reduce capacity?

**Chris Heaton-Harris:** We have not yet got to the point when we need to look at that. Literally, there has been no conversation that I have had with the Secretary of State or anyone else to say that in X period of time we will need to cut services.

Q82 **Chris Loder:** So that I am clear, as it stands at the moment, the current



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view of the Government is that we will continue to subsidise the railways to the extent we are ad infinitum, as it stands today.

**Chris Heaton-Harris:** As it stands today, the Government have put taxpayers' money in to maintain a resilient railway, and we are going to bring forward a package of reform to change the railway and make it much more passenger focused. When passengers come back to the railway, and there is no reason to believe that they will not come back in good number in the future, we will need different ticketing options. I know that you have talked about that in this Committee in the past. As I keep saying to my passenger-facing colleagues, we will need to entice people back to the railway and to win our market. Once someone has travelled on a train once, they will realise it is now reliable and unbelievably clean and will continue to travel.

Q83 **Chris Loder:** You are basically saying that there is no cut-off date. That is the point I want to be clear on. There is no cut-off date.

**Chris Heaton-Harris:** Currently, no.

Q84 **Chris Loder:** In terms of the initiatives we mentioned a little bit earlier, specifically with fares, ticketing and so on, it is very clear that, if ever there was an opportunity to push through fares reform, digital ticketing and so on, now is the time to do it because the impact and the risk would be much less than in normal times. Are the Government committed to do that, and are they going to do it now?

**Chris Heaton-Harris:** Yes is the very simple answer; we are committed to do that. Are we going to do it now? I can point to pilots. Dominic Booth in the previous session said that the best way to do this was to run different trials. In a quieter and more benign time pre the pandemic, we had just started single-leg ticketing on LNER, with much more transparent pricing methods. That was seemingly popular, but we did not have enough time to collect data before passenger numbers fell off a cliff.

The answer is yes, we are committed to fare reform. We are in conversation with the train operating companies and a whole host of others as to what that might look like, and what it needs as a system going forward.

Q85 **Chris Loder:** Every time I talk to train operators about this, they say it is a DFT-led initiative and workstream. I suppose there is a feeling, certainly within the industry, that the ball is rolling and rolling to the point where it never goes into the goal. Is there a date by which the Department has targeted to fully reform the fares system in the UK?

**Chris Heaton-Harris:** No; there is no date that exists like that.

Q86 **Chris Loder:** Thank you. I would also like to ask whether there are any initiatives that the Government specifically have to encourage passengers back to the network. One of the concerns that I have had previously is that we have discouraged passengers from travelling by train a little bit too much. To bring them back, and therefore make our railways sustainable for the future, which is how I see it, are there any initiatives



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that you have in place?

**Chris Heaton-Harris:** There are a host. Some of them are in the category that you would wholly expect, such as trying to make the railway completely resilient and reliable so that the timetabled train that you turn up at the station to catch actually appears and runs at the time you expect it to. It is hard to underestimate how important that is.

Our trains are spotless now. They are remarkably clean. You only have to look at each of the individual train operating companies' web offerings and websites to see the various different cleaning procedures, because we know that passengers will not return to a dirty network in the future.

There is tons of research and development going on. The rolling stock companies are looking at how air conditioning units can be changed. There are lots of investigations into whether there is something anti-viral that you can do in the environment space. Then, of course, there is the fares and ticketing piece. I hope that all the members of the Committee who use a train will have found that this is a whole-industry approach; when you turn up at a railway station, the customer service has never been as good as it is at this point in time. That is because the whole industry knows that it has to win its market back.

**Q87 Chris Loder:** Will you commit, or have you committed, to put regional connectivity towards the top of your list of priorities to ensure that areas that may not have through services can have them?

**Chris Heaton-Harris:** I know you have a very big constituency interest in this. Yes, the whole point of having a resilient rail service, and the railways in general, as well as the point of the Restoring your Railway project, is to connect communities that have been cut off in the past. That will be all the more important for the future of our railways; I do not think anybody believes that 100% of the people who used to commute before Covid are going to come back, so we need to find new streams of revenue for our railways.

**Q88 Chris Loder:** Given what you have said so far, have you expected any operators to cut train services from the timetable as it stands today?

**Chris Heaton-Harris:** We get updates. Some have because of illness and sickness, some of it related to Covid. There have been occasions in the past—

**Q89 Chris Loder:** I beg your pardon, I meant on a planned basis for the future.

**Chris Heaton-Harris:** Quite possibly, but we want to make sure that places are still connected. As I tried to explain, but maybe did not do it well enough, we have asked the train operating companies to look at where their passenger demand is and to look at what services are required to service that demand properly. Then we can look at whether we need to extend services or whether we can afford to run slightly fewer or whatever it might be. We are at the early stages of trying to build that picture at the moment.



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**Chris Loder:** For your information, I know that some operators have indeed cut services from the timetable and I will very happily share those with you afterwards.

**Chair:** We want to look towards the future and what the organisation model will look like, who will be part of it, and how much it will cost to unwind some of the franchising arrangements. We will start with replacing ERMA's with direct awards.

Q90 **Meg Hillier:** You have a big challenge ahead, Minister. Direct awards will start playing out from next year. You have had the ERMA's in particular, and the EMAs, in the meantime. What have you learnt from the ERMA's about how you might shape the direct awards?

**Chris Heaton-Harris:** The ERMA's have been running since 20 September, and they have proven quite flexible contracts, which has helped drive a lot of collaboration. It was built into the contract for a purpose, but the industry was keen to do it anyway. I understood that this needs to be a whole railway approach to the response to both the pandemic and our plans for the future to rebuild confidence and revenue. There has been, as I said earlier, a whole host of cross-industry working groups—

**Chair:** Sorry, Minister, we have a bell ringing. Bear with us.

**Chris Heaton-Harris:** It is very weird not being there and yet hearing the bell. A whole host of industry working groups are operating and informing us. We are learning quite a lot.

Q91 **Meg Hillier:** You are learning a lot, but you have a very short time to implement it. Have you looked at the cost? There will be the termination arrangements and the ERMA costs. Are you expecting the direct awards to cost less than the ERMA's?

**Chris Heaton-Harris:** I genuinely do not expect there to be much cost reduction until revenues start to come back in a decent way. There will be various reforms, mainly because, as your previous witnesses said, huge amounts of the money that is expended on the railways are fixed costs. Even if you did not run a train, you are still paying for that train and you are still paying for the workforce. Our range is between £550 million and £650 million per period in the current ERMA settlement. I am looking at my officials to check that I got that right. Going forward, while we want to negotiate as toughly as possible, until passenger numbers come back, I do not think you will be reducing costs—

Q92 **Meg Hillier:** You mentioned passenger numbers. We had quite bullish projections from the previous witnesses that they think they could get back to 75% passenger numbers when we get back to living with Covid as a normal set-up rather than having lockdowns and so on. What data are you working on in the Department? I should make clear my scepticism about DFT data from the work I have done over the nearly 10 years I have been on the Public Accounts Committee. It is not always perfect. Perhaps you can be honest about what is imperfect.



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**Chris Heaton-Harris:** Having spent five years on the Public Accounts Committee, I am equally sceptical about data, which is why I happily pass this to Peter.

**Paul Wilkinson:** It is a very fair question, Meg. Our data is imperfect. At the moment, all we can project, based on our analysis, are a number of scenarios. We have a low case, a central case, and a high-case scenario. I tend to agree with you that the numbers you have mentioned, getting back to 75% in any short period of time, look quite bullish. There is no question in our mind that with the ERMAs and the direct awards that follow, if we get the incentives right with the train operators—they are a very key part of this—we can get them to detect early where their market is coming back and play to that market and be incentivised to grab it back. That is really important. While we can make quite serious inroads into railway costs, there are still a lot of variable costs in the industry such as fuel, wi-fi and other contracts.

The bottom line is that we need to get passengers back on the railway to maintain a financially viable system. There is a lot of analysis going on, and I share your concerns about data, but it is not easy because we have never faced this kind of situation before. We are working from a blank sheet.

Q93 **Meg Hillier:** There were problems with the data before. When you went through the franchising model, one of the reasons it was not working, among many, was that you would do a data analysis, and by the time the franchise operator took over it was often at least 18 months out of date. Are you having a dynamic arrangement with direct awards that will take account of passenger numbers?

What form are the direct awards contracts going to take, so that the taxpayer is not—picking up on Chris Loder's points—continuing to fund ghost passengers when there are real passengers coming in and paying fares? How are you going to make sure? Are you doing an open book arrangement? Could you talk through, Mr Wilkinson, how you are going to shape those contracts, the first of which will be out within months?

**Paul Wilkinson:** We are in the process of designing a contract at the moment, and we are doing a lot of consultation work on its design with the industry. Operators are having an input into the shape and design of that contract, as are many other parties, including Transport Focus, for example. It is a very good question. The answer is that the intended form of contract going forward will look nothing like the previous franchising agreements. Those franchising agreements were long overdue a major overhaul.

Q94 **Meg Hillier:** If time was available, I could repeat endlessly the problems with the franchise agreements, but this Committee and my Committee are very aware of those. What are you going to have in the direct awards that will protect the taxpayer and maintain service?

**Paul Wilkinson:** The key answer to your question is that the new contracts will be a much more change-hungry vehicle. Franchise



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agreements were very staid and very difficult to change in life. There was no agility in them whatsoever. The new contract form will allow us incrementally to fold in incentives to attract growth on the railway according to what will be quite fast-moving market changes. With those contract forms, we will be much more agile in our ability to change and drive change.

Until we know how the course of the pandemic runs out, it is still the case that the Government will bear most of the risk for a considerable period of time. We want to fold back into the contracts in due course the right incentives for the right outcomes. Earlier, somebody mentioned moving to more outcomes-driven bases for contract measurement and contract award. The new contracts will do that. They are intended to be much more agile in life.

**Q95 Meg Hillier:** Will you have open book accounting with the companies, given that it is a direct award? Who will monitor the data? Will you rely on them to gather it, and, if they do, are you going to verify it, or will DfT collect and analyse data?

**Paul Wilkinson:** Open book is a very specific term. In truth, we already have as much of an open book policy now through our ERMs as we have ever had. We have more transparency about the costs inside train operating companies, and we have much more rigorous contract management oversight of those contracts, and we intervene.

**Q96 Meg Hillier:** That is on the ERMs, but are you going to carry that through to the direct awards?

**Paul Wilkinson:** Yes, we will.

**Q97 Meg Hillier:** On data?

**Paul Wilkinson:** There are already requirements in the ERMs for train operators to be explicit about sharing data with us; it is one of the areas of collaboration. It was something we were struggling to get at under the franchising system. They are now required to share with us a vast amount more data, and that will continue under the direct awards. What you do with the data is a separate question, but we will have no shortage of data coming to us for us to be able to undertake the kinds of analysis that will be required to understand how dynamically our market is changing and coming back.

**Q98 Meg Hillier:** When do you expect to go back to a competitive contracting process for the railways? You have direct awards. Covid rumbles on. Do you have a date in mind, Minister?

**Chris Heaton-Harris:** I do not have a date in mind. I do not expect the direct awards—the national rail concession contracts—to be extra-long in franchise length terms, but train companies would like a bit of stability, I am pretty sure. I expect them to be more than 24 months in length. When we move to the more public service contracts at the end of that, I would like very much to see that.



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**Q99 Meg Hillier:** We have not seen much competition in recent franchising. There are two bidders if you are lucky, and usually the incumbent wins. I will not repeat all the problems with franchising. The market has not worked. How can you be sure that there is going to be room for a market in future?

**Chris Heaton-Harris:** *[Inaudible.]* stopped working. That is why franchises have been terminated within the ERMA.

**Chair:** Can we ask you to speak up, Minister? It is really hard to hear.

**Meg Hillier:** We can't hear you.

**Chris Heaton-Harris:** Franchising stopped working, and that is why they are terminated within the ERMA themselves. They were inflexible. They became contracts that very few people could understand—

**Q100 Meg Hillier:** With respect, Minister, we know what is wrong with franchising. When are you going to move beyond it? You and the Secretary of State have said that you want to see competition. How is that competition going to be any better than the failed competition in franchising? Is it because they are going to be more agile contracts? There may be good reasons why you think it can work; just convince me.

**Chris Heaton-Harris:** Yes, it is for some of the reasons that Peter outlined; they are going to be agile contracts. There is actually quite a competitive market waiting. One of the reasons we keep on talking to and are very happy to work with the train operating companies we have—more companies are interested—is that, when we eventually go to compete, we want as many people competing as we can possibly get. The whole market in the United Kingdom pre-Covid was a fundamentally healthy one.

**Q101 Meg Hillier:** That is an aspiration. We probably need to see more flesh on those bones.

On the direct awards, you are working at pace now. We have not yet heard any detail about what they are going to look like. The first will be out within months, or weeks if you take a shorter view of it. How can you convince taxpayers and passengers that it will be a fair deal for the taxpayer? I know we are in extraordinary times, but how are you going to guard against poor contracts? Let's face it, the Government have some challenges with contracts, which I do not need to lay out to you.

**Chris Heaton-Harris:** Can I please bring in Neil at this point to explain some of the things we have already built into the ERMA contract that we have learnt from the past? Peter has explained the agility, where we hope to learn as we go along for future contracts.

**Neil Hart:** The first point is that we have been working on the direct award contracts for a number of months; we are not starting from a standing start today. In terms of things that we have learnt from the ERMA and the EMAs, one of the key things that stands out is the need for slightly longer-term stability, and to use the private sector's budget



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capability and budget management. That is something we will look to implement in the new NRC direct awards over a period of time.

To make sure that the taxpayer gets the very best value, we are seeking for the NRCs, the direct awards, to have risk where it is best able to be managed at that point in time. Revenue risk will stay with the Department. Cost risk will start with the Department, with ways of incentivising around margins. When we move on to the passenger services contracts that are competitively let, we will reconsider where risks should best sit, in order to have a competitive market for competitions and use some of the private sector competed value add. That is the trajectory from where we are today and what we have learnt from ERMA.

**Q102 Meg Hillier:** Can I go back to the point about passenger numbers? We had a good discussion about that; Mr Smith, Mr Loder and others asked about it. As passenger numbers, hopefully, go up again, how are you going to make sure that the direct awards reflect that and that there isn't deadweight money going into the scheme that is being paid for by taxpayers through the Department? Is there going to be a clawback or a taper?

**Neil Hart:** All the revenue earned through the direct awards will be passed to the Department, and there will then be a scoring system to give a judgment at the end of the year as to how well we think the operator has done in revenue management, ensuring low ticketless travel rates and those sorts of areas. Every penny that is earned comes back to the Department, and the operators are incentivised to earn as much as possible through the fee structure.

**Chair:** We want to ask about franchise termination sums and how they will work in practice.

**Q103 Robert Largin:** I am fully aware that this is a market-sensitive topic, so I understand that what the Minister and officials can tell us might be limited. When it comes to these termination sums, Minister, have the train operators accepted the Department's calculations of the sums that they will need to pay to end their franchises, or have there been disputes in that area?

**Chris Heaton-Harris:** I will pass to my officials, who will be able to give information on that.

**Neil Hart:** We have not yet reached the point where the operators are obliged to agree or disagree, so we are still following our process, which gives them an amount of time to do that. There is a large number of questions being asked by operators as to how we have calculated those sums, and that is all part of the proper process. We have had meetings with the operators and presented to them. We have released information and will release more information in the coming days. We are still at that point in the process, rather than the point at which operators have signed up, or not.



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Q104 **Robert Largan:** Given that, are you confident that an agreement will be made with the operators by 13 December, the target date?

**Neil Hart:** The 13 December date has now changed to 29 January.

**Robert Largan:** Definitely not, then.

**Neil Hart:** We are absolutely confident in the process that we are following being fair, reasonable and transparent, and that it gives them the best opportunity to understand how we calculated the numbers and how we have reflected their representations. We are giving the operators the very best possible chance to understand and sign up to those termination sums. They are not obliged to, and it is entirely within their gift. I would not want to speculate as to how likely they are to sign up, or not, but we are certainly following the process that gives them the best chance to.

Q105 **Chair:** You have given us the date of 29 January. That must be the date when the Secretary of State will give the franchisee the final number. They then have seven weekdays to agree, or they end up back in the franchise. Is that correct, Mr Hart?

**Neil Hart:** I do not have the exact dates in front of me, but that is my understanding.

Q106 **Chair:** I have to hand it to you. It is a great bit of commercial negotiation from the Department; any train operator that takes back a franchise with those passenger numbers will have to dig into their parent guarantee and hand it over. The dice are very much loaded in favour of the Department, and standing up for taxpayers' money, which is a great thing. Is there a danger, though, that it ends up in court? Is there a danger that the train operators will walk away from running trains in the future, which will diminish competition?

**Paul Wilkinson:** You are absolutely right. Some of it is in the gift of the operators at the end of the day. There is some risk that we cannot reach agreement and that they go back on to their original franchise terms. As you rightly say, that would mean, in any case, that they would put in more than the sums of money that we might settle for through our process.

We are very confident in our process. We have built a very robust and transparent process. A great deal of public sector professionalism has gone into its design. It is intended to be fair and reasonable, which is why, as Neil said, there is a good deal of challenge and counter-challenge going on between the Department and operators. We are absolutely exposing all of our assumptions in our modelling, so that they can come back and say, "No, we don't subscribe to that, we don't believe in that number, and here is our evidence as to why." But, at the end of the day, a number has to be arrived at. This is very important money for taxpayers. These are sums of money that we say they would have had to put into their businesses to keep them sufficiently liquid if the virus had not come along.



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In order to make sure that we are not state-aiding those businesses, it is a fair transaction from the taxpayer's point of view. It is right that we take a reasonable and balanced view, and that is what we are trying to do. I am absolutely certain that, if we end up in a courtroom, our process will stand scrutiny.

**Chair:** This Committee has been critical before about the use of taxpayers' money. This strikes me as an example where, notwithstanding the extraordinary times, you have had the ability to come up with a pretty smart way through to ensure that value for money is preserved.

Q107 **Meg Hillier:** Are there any worries about legal action? As the Chair says, you have a whip hand over the companies, because they would have to go back to the franchise arrangement if they do not agree it, but do you expect any legal action that might delay the final settlement? Are you confident in your negotiation so far?

**Paul Wilkinson:** I am confident in our position. All I can tell you is that I am very confident in our process, in the transparency of our process, and in our position. I am not afraid of legal action. I do not want it. None of us wants it. We hope to be able to find an agreed position. But if, in finality, the agreed position is not value for money for taxpayers, we will have to stand up for what we think is value for money. If that ends up in legal action, it will be very unfortunate, but we will stand behind our process and behind what we are trying to achieve.

**Chair:** I want to bring in Chris Loder now on the Williams review and what the future model might look like in terms of who is going to run the arm's length body.

Q108 **Chris Loder:** Minister, how has the pandemic affected the Williams review and its progress?

**Chris Heaton-Harris:** Quite dramatically. We were in the very final stages of finalising the Williams review for publication when Covid struck. Actually, there are a number of elements. We have just been discussing what the new contracts might look like in the course of the next three or four years. Keith's original thought was that getting to that stage, which was, essentially, the cross-industry consensus for the path to follow, would take over a decade. In some areas, you could say the Williams ideas have been speeded up. Keith found consensus across pretty much everyone involved in the rail sector, including passengers, that the current structure was not delivering and it needed to be joined up, and no single organisation would be accountable, because it is accountable currently—[Inaudible.]

Q109 **Chris Loder:** At what point—date—can we expect to see a White Paper on it?

**Chris Heaton-Harris:** Keith has been working very hard for the last three or four months on making his report much more current, to take into account all the circumstances the pandemic has brought forward and



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some changes in working practice and the way that the industry has come together. We would hope to get it out in the next month.

Q110 **Chris Loder:** With a target date of the Williams review actually taking effect?

**Chris Heaton-Harris:** That depends. The whole point of it is that we go to a broader consultation, but some elements, such as fare reform, will be early parts of what will come into effect, and the industry structure and the contracts structure will be slightly longer term.

Q111 **Chris Loder:** Is it your continued view that the setting of safety standards should be maintained independently, such as the learning from previous large accidents on the railways—Ladbroke Grove and Hatfield—and that the RSSB will continue in existence, or is it your view that that will change under the new arrangements?

**Chris Heaton-Harris:** Safety has to be independent of the structure of the railway.

Q112 **Chris Loder:** Ongoing private sector involvement is a concern for most of us. We have had two very large transport businesses pull out of the railway in recent years. I am keen to get your confirmation that you absolutely believe in ongoing private sector involvement in the railways post the Williams review.

**Chris Heaton-Harris:** Yes, 100%.

Q113 **Chris Loder:** I mentioned earlier, in my questioning to the first panel, a letter that went from the directors general to the chief executive of Network Rail with respect to capacity allocation on the east coast main line. It asked him not in his capacity as chief executive of Network Rail—even though it was addressed to him as such—to undertake that review.

That has given considerable cause for concern to the private sector that the Government's view is that Network Rail will have the dominating presence within the new industry structure, and/or the guiding mind, specifically as they asked Andrew Haines to do that work from the perspective of a neutral single guiding mind. Could you comment on that, and confirm whether or not you see Network Rail taking the primary role in the new guiding mind, whatever that may be in the future?

**Chris Heaton-Harris:** Network Rail is going to take a big part in it because it employs 40,000 people on our railways. However, the letter you referred to, which was written by—I cannot remember the officials—

**Chris Loder:** Ruth Hannant and Polly Payne.

**Chris Heaton-Harris:** I am afraid guiding mind has become almost part of the language within the Department for asking anybody to move any idea forward. It is probably not used in the way that perhaps some people have taken it outside the rail community.

Q114 **Chris Loder:** Was there a reason why it was not addressed to the regulator?



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**Chris Heaton-Harris:** I honestly could not tell you that.

Q115 **Chris Loder:** Mr Wilkinson, could you help with that question at all?

**Paul Wilkinson:** No, I cannot help with that.

Q116 **Ruth Cadbury:** Moving away from funding and on to public confidence in safety travelling on rail right now, is rail safe in terms of contracting Covid-19 while travelling on a train? Should train companies only sell tickets that enable spacing, or should they be allowed to sell all seats available?

**Chris Heaton-Harris:** Rail is unbelievably safe. There is lots of science that is being conducted. There are lots of different investigations being conducted at this point in time, hopefully, to prove that fact. If you look at SAGE's reports so far, very few cases have been identified of Covid being transmitted on public transport. If you look at the cleaning regimes and the practice now on trains, there has been an extraordinary change in the course of the last few months. I have forgotten your second point, Ruth.

Q117 **Ruth Cadbury:** I would be reluctant to sit next to, or at a table opposite, somebody not in my family for two or three hours on a long-distance train journey. I understand that some train companies want all seats to be available for sale. What is your response?

**Chris Heaton-Harris:** The walk-up market is very important in general terms. A lot of our long-distance operators now require a reservation; LNER most certainly does. This is the importance of the conversation we had about data earlier; we are now able to work on data, with app providers and the train operating companies, hopefully, providing better products going forward. I believe every operator's website and app will be able to give you an indication as to whether you might not be able to travel in a socially distanced way. For example, on West Midlands Trains, you can go on to its app and it will give you green, amber, or red in social distancing terms, what you can expect, and suggest how you can travel in a slightly different way and at different times.

Q118 **Chair:** Building on what Chris Loder touched on, wouldn't there need to be legislation passed in order to create a new guiding mind?

**Chris Heaton-Harris:** You are talking to a Minister who was a Whip and, therefore, a complete legislation sceptic. We have lots of existing powers. I am afraid I am probably going to be overruled by the lawyers in the Department who would say yes, but I am pretty sure that we have lots of powers already in existence to enact lots of the Williams reforms.

Q119 **Chair:** That is encouraging. There was some thought that, because it would require legislation, which could take years, to get a guiding mind in place, it would have to default to Network Rail.

**Chris Heaton-Harris:** The lawyers in the Department are quite keen that we have primary legislation to set up officially the guiding mind. Lots of the reforms that we would want to enact and that would give powers



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to said guiding mind already exist in previous legislation for us to use. We can bring forward lots of the reform package much earlier than the primary legislation that might be required for the guiding mind—the body—itsself.

**Chair:** Thank you, Minister, Mr Wilkinson, and Mr Hart, for all the evidence you have given to us. You gave us some information with regard to the franchise termination costs that we found very helpful, and certainly kept in a sensitive manner. That said, can we please get hold of the copies of the ERMA's? It is absolutely essential that we see them in order to help us come up with some decent recommendations. If there is another novel way of us being able to read it, do suggest it to us. We will look for that in weeks rather than months. Thank you all and your teams for all that you do. We know it is a busy time for you and we wish you well.