

Transport Committee

Oral evidence: [Scrutiny of the draft Rail Reform Bill](#),
HC 584

Tuesday 14 May 2024

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Members present: Iain Stewart (Chair); Jack Brereton; Sara Britcliffe; Fabian Hamilton; Paul Howell; Karl McCartney; Grahame Morris; Gavin Newlands.

Questions 208–230

Witnesses

[II](#): Malcolm Brown, Chief Executive Officer, Angel Trains.

Written evidence from witnesses:

- [Angel Trains](#)

Examination of witness

Witness: Malcolm Brown.

Q208 **Chair:** Welcome to our second panel this afternoon. For our records, please will you state your name and organisation?

Malcolm Brown: I am Malcolm Brown, the chief executive of Angel Trains.

Q209 **Chair:** Thank you. We are very grateful to you for your time this afternoon. I will open by asking: what commitments would you like to see made, including on the face of the Bill, for the IRB to develop relationships with the ROSCOs?

Malcolm Brown: That is a very good question, Chair. I would initially expand that. I see the IRB as a unique opportunity in the structure of our industry to have a clean sheet of paper develop into what we need it to be. We should not look at the IRB as being stand-alone; we have to think about it as part of the holistic system and how it interrelates with different parts of the industry, including ourselves and the ROSCOs. There is a role for the IRB in how it interacts with the ORR, the DfT, the Secretary of State, etc.

With the ROSCOs—I can speak on behalf of Angel Trains—we interact with all parts of the industry: the DfT, Network Rail, Rail Partners, etc. As an integral part of the industry, it has become beholden on us to make sure that we are working constructively with all parts of the industry. When the IRB is formed, we will engage with it in a constructive manner, as we are engaging with the GBRTT at this point in time.

Q210 **Chair:** Thank you. One of the themes we have been discussing during our scrutiny is that the draft Bill and the IRB is one part of a wider jigsaw; consequently, the fact that the Bill is very narrowly defined in its content is appropriate. Is there anything else that you would like to see on the face of the Bill as opposed to being part of the wider jigsaw?

Malcolm Brown: I would not want to comment on the technicalities of the Bill, but I have read it and I would like to see a bit more reference to how the IRB will interact with some of the other bodies. I do not think it is terribly complicated. You have a client, who is the Secretary of State, who represents the taxpayers; you have somebody who is specifying and procuring, which I believe is the IRB's role; you have a regulator, which is the ORR's role; and then you have the industry, which is about delivery. We need clarity about where the Department for Transport sits. I would imagine it sits in the administration piece of the jigsaw, but spelling out those interrelationships would be quite helpful and useful.

We do not need more organisations. Goodness knows, in the rail industry we do not need more committees, but we need to have clarity on what the roles and responsibilities are within each of the parties that are taking part.



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Q211 Chair: Does that extend to concerns that the Secretary of State still retains powers via secondary legislation to intervene in the running of the railway? Do you think that there should be a framework setting out the circumstances in which he or she could intervene?

Malcolm Brown: That would be helpful for clarity. However, there will always be parts of the rail industry that require subsidy. As I described it, you see the Secretary of State, whomever that is, as the client representing the taxpayer, so they should have some line of sight on to the IRB—if nothing else, to set out the long-term vision and the strategic goals, or even to sign them off if it is that type of relationship.

Again, that reinforces my point about the clarity of roles and responsibilities in this jigsaw. There is something in the question you are asking that would say, “You are there.” There is always a desire to get in and play with the train set, and that framework would clearly define what you can play with and what you should not be playing with on the train set. But there is a role for a Secretary of State, or somebody in government representing the taxpayer, as the client, to have a line of sight to the IRB. That does not necessarily mean day-to-day interference.

Q212 Chair: Thank you. Another theme that we have been exploring is using Network Rail Infrastructure Limited as the legal entity that the IRB will become. Some have expressed concerns that this will pave the way for a Network Rail 2.0, whereas what everyone is hoping for is a new culture and approach. Do you share those concerns, or do you think the fact that it is Network Rail infrastructure coming over makes it okay?

Malcolm Brown: I can see where those concerns are coming from. I go back to my opening remarks that this is a unique opportunity for the industry to press ctrl-alt-delete and reset, to use the computer analogy, and have a body that has the proper skills, culture, outlook and—I know I sound like a stuck record—the roles and responsibilities, without creating a monster. I understand the logic of using the vehicle, as it is termed, of Network Rail, but does it have to be that way? Instead of worrying that we cannot have Network Rail 2.0, I would look at it in a different way. We have a great opportunity to create something that could be very valuable and constructive, so let’s look at that and stop fretting about whether it is Network Rail release 2. Look at what we are trying to achieve, rather than defending or having a go at somebody else.

Chair: Thank you.

Q213 Gavin Newlands: Before I put my question, the first panel had some fairly strident views—I do not know whether you were able to hear them—about ROSCOs and their place within the sector and moving forward with the draft Bill. You said in a previous response that parts of the railway will always require subsidy, and I think we would all agree that that is the case, but the ROSCOs are taking out hundreds of millions of pounds of profit, which could theoretically cross-subsidise the parts of the railway that require that subsidy, rather than it going out to private



companies.

Could you explain to the layperson, who does not understand the technicalities and whatnot, why there should be ROSCOs in the future? At the moment, we have the franchise agreement, which is partially why there is a requirement for ROSCOs, but why should there be ROSCOs moving forward, in comparison with, for instance—particularly if we sign up to the Luxembourg protocol—GBR procuring trains from here on in and leasing them to the operators if they are using a private operator? What are the benefits of ROSCOs?

Malcolm Brown: The ROSCO keeps the cost off the Government's balance sheet. We take the cost of investment. I have invested £1.5 billion over the past decade, and £5 billion since privatisation. I have 665 vehicles being built at Derby. That is money that I bring to the industry through the leasing model, etc. I keep that off the Government balance sheet, so it does not appear as Government debt. That allows the Government to invest in other things where there perhaps is not a market to do that.

Yes, we take a dividend, but, equally, we plough significant billions of pounds back into the industry. We are in the process of spending £1 billion with Alstom in Derby, for 665 vehicles in the three-year period. For that £1 billion, we took out £1.25 million, so in terms of return it is absolutely what you would expect in a market situation.

We also bring a huge amount of expertise into the industry in terms of procuring trains and then managing the trains through their lifecycle. A train generally lasts for 35 years; we spend about £82 million on refurbishing and re-engineering a train. I have a team of engineers who are absolutely on the money; they know exactly what they are doing and in that way we can make sure that the train environment is operationally efficient but also create a passenger environment that is attractive.

There are two aspects: there is the financial aspect of it, which is the technical bit, and then there is the engineering aspect.

Q214 **Gavin Newlands:** If I may, I will press you on the financial element that you are speaking of. You mentioned the debt side—the investment side—of the balance sheet. Obviously, there are two sides to the balance, so clearly that rolling stock would then potentially be an asset on the Government's balance sheet, which could then draw funds in terms of leasing costs from the operators, and so on. Would it not be more advantageous to own the stock and generate the leasing costs, which would then enable you to renew the rolling stock as a publicly owned entity?

Malcolm Brown: The model that you are describing is more or less what we do. We take the leases and then we reinvest. Yes, we take a dividend—I accept the point that you make—but we also keep that cost off the Government balance sheet. It is not a never-ending thing; you have a finite amount of money and right now, off the top of my head, we



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are keeping probably about £15 billion off the Government's balance sheet.

There is also the question, which I will come back to, of the skillsets to be able to procure and drive costs down. In the recent past, we have had publicly procured trains through IEP and GTR, for example, and that is where you see costs increasing because the contracts have not been properly negotiated and we have not thought of it for a 35-year life. For every decision I make, I have to think of what is going to happen in 35 years. How am I going to dispose of it? How will I maintain the train? So I bridge any political changes or anything like that.

On the Luxembourg protocol, do a consultation on it, but I am not sure what it will give that is different from what we have now. There seems to be a lot of, "This is a great thing. It will solve all problems," but I am not entirely sure how. It is there for a reason, but I do not think it is for the UK market. We can participate in it—that is not an issue—but I am not sure what it will actually give us that a number of people seem to be hanging their hats on.

Q215 Gavin Newlands: Just to follow up on that, Eversholt said that ratification of the protocol could lead to increased costs and an extra layer of administration. Do you agree with that?

Malcolm Brown: I do not necessarily agree with that. I would rather see a consultation on it. I do not disagree with it, but my personal view is, having looked at the Luxembourg protocol, that I can see why it is there and why other countries use it—it is very much about an individual country—but I cannot necessarily see what it will bring to the UK. However, I am not against it. Do a consultation on it, but be aware that as soon as you do that there will be a degree of administration in it.

Q216 Gavin Newlands: Earlier, you mentioned the future, so, if I may, I will now come on to talk about future franchising arrangements. Should the Bill make provision for future franchising arrangements as we move towards the roll-out of passenger service contracts?

Malcolm Brown: Sorry, I genuinely do not quite understand the question.

Gavin Newlands: As it stands, the Bill does not do so, but do you think that it should make provision for the nature of what is within future franchising?

Malcolm Brown: Sorry, I didn't understand.

Gavin Newlands: I was probably mumbling, Mr Brown; don't worry about that.

Malcolm Brown: Not at all. If anybody is clued into that accent, it is probably me.



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No, I do not think it should make that provision. My concern would be that, in doing so, you would take away some of the flexibility. Would you have to make provision for every type of future franchise? Within the country just now we have a number of different models on franchising. To your point, Merseytravel basically operates a concession model on franchising. Angel Trains used to lease their trains to Merseytravel, which was my client—to the public authority, not the actual train operator. My issue would be, if you included the franchise in what we think is a franchising model, how much flex do we have in that? The requirement from the client—the Secretary of State—through to the IRB would be for the IRB to design the solution, rather than trying to get a problem solved.

Q217 Gavin Newlands: Do you think that if the Bill were, essentially, to prescribe future arrangements, that could be detrimental to devolved authorities—whether in Scotland, or, in this case, Merseyside, et cetera—in terms of what they might want to do within the flexibilities that exist?

Malcolm Brown: It could constrain them if you do not write it down. Being silent at this point gives the ultimate flexibility, I guess, rather than specifying the structure of franchising. But why should we be at this level of detail? Everybody loves getting into the detail of this. That is absolutely right—it has to be there—but is the Bill the right place for the detail of how to construct franchises in every conceivable form? I am not sure.

Q218 Gavin Newlands: I asked the question because next week we have a session with some devolved authorities about what the draft rail plan means to them. While I am on it, is there anything, in your reading of the draft Bill, that devolved Administrations—from wherever—might have any concerns about?

Malcolm Brown: I used to be in train operations, and it always strikes me that the devolved authorities have, by nature, a boundary. A lot of the train services within their area go across boundaries. It is a whole system. The trains interact with one another; if you have travelled up from London, you have the ability to change in Manchester, for example, to then go somewhere else. How will the IRB interact with devolved authorities where you are talking about a whole system? That is a real challenge. The train that arrives in Glasgow has a connection to the train that goes to Kilmarnock from Glasgow Central, as you and I both well know. That sits with the timetabling at the moment, but if you have a devolved authority pushing one way and a central body pulling the other way, we may not get that.

Gavin Newlands: Well, that was triggering, because usually when I get a train from Glasgow to Kilmarnock it is to see St Johnstone get beaten at Rugby Park.

Q219 Jack Brereton: I want to ask a bit more about the value that ROSCOs and private operators bring to some of this, particularly around specifying



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those for new rolling stock. We have seen that HS2 is doing this very differently, and there have been lots of concerns around the length of those trains, the fact that they do not tilt and so on. What do ROSCOs bring in terms of making sure that we do not have the sorts of problems that we have seen with HS2 Ltd and making sure that they are specifying rolling stock properly?

Malcolm Brown: The key thing is that we are in this for life. We are continuous. Like it or not, Angel Trains and the other original ROSCOs have been around for over 20 or 30 years, and, as I said to your colleague, in the investment decisions that we make we have to consider the full life of the asset. It is not a case of, "Let's get this in for the next five years and hope it all works out." My investors are looking at me saying, "What is going to be the life of this? In 10 or 20 years' time, how do we refurb it?" and so on.

Back in 2010 or 2011, we took the decision that we would not purchase a diesel-only train again because we could not see the investment case over a 35-year period for having a diesel train. In a way, we market made, for want of a better phrase, and said, "We won't be buying that."

We understand that the train operator is the best person to do the passenger environment in the train—they understand the passenger better—but we look at the whole-life cost and reliability of the train. We take those aspects of it—the real hard nuts and bolts of it—and consider them. That is how we make our investment decisions.

Q220 **Jack Brereton:** Do you think those errors made by HS2 Ltd would have happened if it had done it through more of a ROSCO or had more involvement from an operator in making sure that the rolling stock was actually able to do the job?

Malcolm Brown: I will not comment on whether HS2 has made an error, but I will say that we would have done it differently. We would have come at this asking, "What is the ultimate outcome?" There are elements of decision making in railways where there is a solution looking for a problem, rather than asking, "What's our problem? What is the ultimate, optimal solution for that?" and clearly identifying that for the long term.

Time and again, when you get a specification from a very broad church, you get an over-specified product. As soon as you get an over-specified product, the cost goes up. It is not just the capital cost of the train when you buy it; suddenly you are having to maintain something that is unique. If you do not have off-the-shelf products, you have to get very specific bogies and components, and that is where you start to drive up the whole-life cost of a train.

I am not saying that you should buy an off-the-shelf train, because there are very few of those, certainly when you are buying them for the UK, but you can get more standardised trains. The more standardised you can get a train, while still doing the job that it is supposed to do, the



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better. It will bring down the whole-life cost. In ROSCOs, we analyse that. We have people who absolutely understand this intimately; they are not affected by what colour the train will be or what moquette it will have. They take the very hard decisions—not just financial but on an operational basis.

Q221 Jack Brereton: What sort of interference have you seen and experienced from the Department?

Malcolm Brown: That is a great question. On the whole, the Department works well. We tend to see it not so much directly with a ROSCO but in how, post pandemic, the relationship between a train operator and the Department has changed radically from what it was pre-pandemic. There is a lot more direction, control and reporting, and I understand why, initially, that was the case. What I think the whole industry would like—this applies to freight as well—is if we could move the industry back into a situation where we are growing and have a positive outlook, rather than almost a death spiral; where we encourage passenger journeys for all the right reasons and we encourage freight off the road and on to rail for all the right reasons. That has got to be good for the economy, the industry and the environment.

Q222 Grahame Morris: I would like to explore a number of areas. I was particularly interested in your comments, which I think are shared by Eversholt, about the Luxembourg protocol and the implications it might have. In its evidence, it indicated that ratification of the protocol could lead to an increase in costs and an unnecessary layer of administration. In your awarding of contracts, do you apply any social impacts in relation to the supply chains—

Malcolm Brown: Yes.

Q223 Grahame Morris: —which, presumably, the Luxembourg protocol ignores?

Malcolm Brown: I am not aware of whether it does or not. Sorry, Grahame; I do not have that detail. But in our awarding a contract, we look at social implications and UK content, and, as I said, when we look at the 35-year life of a train, I am thinking about the less sexy part of the industry. My question is: how can I maintain this train?

Q224 Grahame Morris: I understand; thanks. From previous witnesses, particularly from the Department, including the Minister, we have heard that the whole raison d'être for GB rail is to better integrate network and train operations to reduce costs and improve performance. We have also had representations from train manufacturing companies that are incredibly concerned about the lack of regularity in the supply chain, which has resulted in their order books being effectively empty. How much exactly did Angel Trains invest in new trains last year?

Malcolm Brown: We are in the process of finishing off the contract with Alstom, which was for 665 vehicles and worth £1 billion. I cannot



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remember how many trains we accepted at that point, but we would have spent several hundred million pounds on Alstom in Derby. I am still expecting 14 trains off that production line. Prior to that, we had 125 train vehicles from Hitachi in Newton Aycliffe, worth about £228 million. This year, we have put £2.2 million into a battery trial in Newton Aycliffe with Hitachi.

Q225 Grahame Morris: I was just looking at your annual report. The problem that the train manufacturing companies are reporting—not just with you—is that there is no consistency of orders that allows them to sustain their skilled workforces. The annual report of Angel Trains for the year ending December 2022 notes that there were no new train procurements for the year ending 31 December 2022. It indicates that it spent just £4.4 million on additions to its rolling stock in 2020, and a total of £623 million over five years. Its revenue, by contrast, was almost £2 billion over the same period, and pre-tax profits were more than £900 million. Is that correct?

Malcolm Brown: Yes, but you are talking about the 2022 period, during which—from memory—we would have just started taking delivery of the Alstom trains. In 2018, we would have put money out the door—round about £300 million—to get the production line up and running for those trains. It takes about two years from the initiation of a production line to actually getting trains, so what you are reflecting is the trains accepted, not necessarily the orders.

Grahame Morris: I understand that.

Chair: I am sorry to interrupt, but we need to conclude by 4.30 pm, so, much as I would like to have a general debate about rolling stock procurement, can we please stay focused on the Bill?

Q226 Grahame Morris: In relation to the value of the ROSCOs, I have some concerns about whether this is the best way to organise rolling stock procurement. I asked the previous witnesses about the level of the leasing charges, all of which are underwritten by the Government, so there is no risk to the rolling stock companies. All of that cost is absorbed by the Government.

Malcolm Brown: No; I currently have a fleet of trains parked up that I expected to be on lease and for which I am not getting any revenue. I am taking the hit on that at the moment. I think I am losing about £5 million a month on that specific one. There is no compensation. I take that risk.

Q227 Grahame Morris: Is that because of a decision by the Department to delay the implementation of modernisation?

Malcolm Brown: No. I am happy to write to you with the detail, but that specific case concerns a fleet of trains for which, post pandemic, passenger numbers were not sufficient. We had the lease agreement on that and we, as Angel Trains, have accepted that those trains will be



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parked up and we will take a financial hit. I am happy to detail that for you.

Q228 **Grahame Morris:** I know that we are running out of time, so I would be grateful if you could write to us. I will leave it at that, Chair.

Malcolm Brown: Of course, no problem at all.

Q229 **Chair:** Thanks, Grahame. I am sorry that we are under a bit of time pressure. I have one last supplementary question on the Luxembourg protocol. I would be interested in your views on how, if it was implemented, it could help the export market, both for newly commissioned trains—I understand that part of Alstom’s ambition is to use Derby as a base for its next generation to export—and for old stock. I think we sold some old HSTs to Mexico. Would the Luxembourg protocol help that side of the industry, or would it make no difference?

Malcolm Brown: It has nothing to do with the HSTs, but we should do anything we can to help the manufacturing side of the industry. I am a UK-based business investing in trains in the UK, but I do not believe—and I think the manufacturers would agree with this—that we can sustain the manufacturing capability we currently have universally in the UK without some form of export. The more we can facilitate export from the UK, even if it is of components rather than completed trains, can only be healthy for the manufacturing side in the UK.

Q230 **Chair:** Thank you. Finally, is there anything we have not covered, either this afternoon or in your written evidence, that you would like to put on the record?

Malcolm Brown: The key part is the concept that this is a system, and we have to look at it holistically. How does the IRB feed in? What are the roles and responsibilities? We need absolute clarity on that. That will then lead into a strategic plan for the rail industry that transcends political timeframes, as a number of Members have said. This is a capital-intensive industry that is part of the national good, and we must have a long-term plan for it. That, in turn, will obviously feed into any industrial plan that we may have for the UK.

Chair: Thank you very much indeed for your time and evidence this afternoon.