



# Policy Briefing

15<sup>th</sup> January 2024

## **“Roll up, roll up, get your free money here” – Avanti managers gloat at the government’s open cheque book for corporate profiteering**

### **Introduction**

Extraordinary slides leaked onto social media and reported on by Novara Media from an ‘all managers call’ at Avanti West Coast have shown the company leadership gloating at the Government’s open cheque book relationship with the company.<sup>1</sup>

In the slides, titled, “Roll up, roll up, get your free money here”, the managers joke that the government is paying for all the company’s initiatives that support high-quality customer service, that the government also pays for the independent inspection of their delivery against contractual KPIs and then to round it off, they joke that the government doesn’t even expect them to deliver high scores to secure the performance-based element of their management fee.

As we show below, in reality Avanti’s performance is deteriorating once again. But the fact that it can game the system to the extent where it can pay out £36 million in dividends over 3 years is indicative of a structural problem with the privatised railway. Avanti’s careless managers are only saying aloud what the rest of the privatised railway is thinking in private.

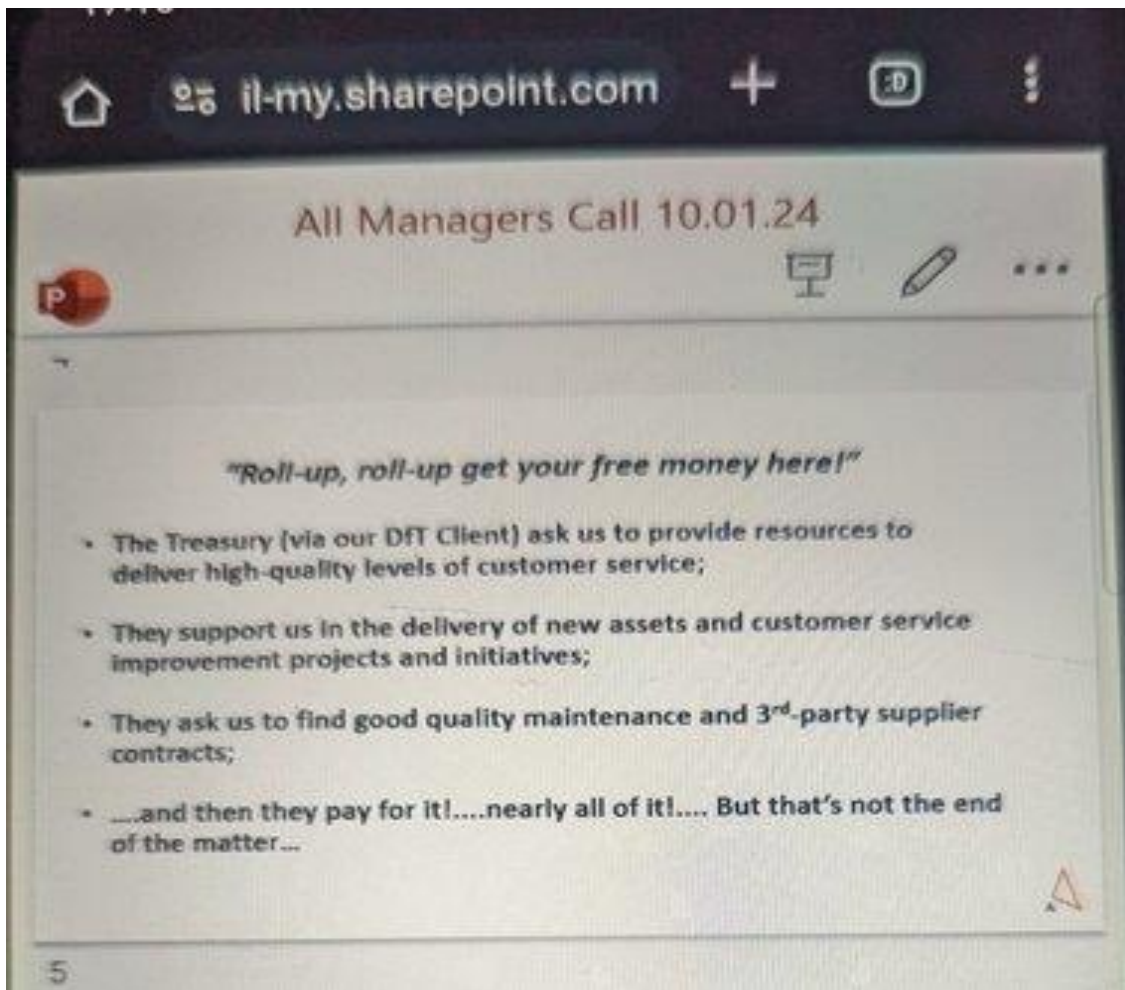
### **Roll up, roll up, get your free money here!**

The leaked slide deck refers to the government’s Service Quality Regime, a set of key performance indicators that are used as part of the process of assessing the performance - based element of the management fees paid to train operating companies.

The first slide refers to the now well-established fact that under the new National Rail Contracts being handed out to companies like Avanti, the Train Operating Companies take no risks.

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<sup>1</sup> <https://novaramedia.com/2024/01/15/free-money-executives-at-failing-train-company-joke-about-making-money-at-the-taxpayers-expense/>



Avanti's owners FirstGroup admitted this back in 2021-22, when reassuring their investors about the future of rail profits:

*"the DfT retains substantially all revenue and cost risk (including for fuel and wage increases). There is a fixed management fee and the opportunity to earn an additional performance fee.... The NRCs achieve a more appropriate balance of risk and reward between operators and the Government and carry no significant contingent capital risk".<sup>2</sup>*

As the slide notes, the Treasury is in fact paying for all new assets and customer service projects and in addition, is covering any costs of maintenance and third party suppliers.

But as the slide notes, the good news for the TOC doesn't end there.

The next slide notes that the government also covers the cost of the independent auditing that takes place to assess Avanti's performance in the Service Quality Regime:

*"So to recap, - they [the government] scope our BAU [Business as Usual] activities*

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<sup>2</sup> [https://www.firstgroupplc.com/~/\\_media/Files/F/Firstgroup-Plc/reports-and-presentations/press-release/results-for-year-2021-22-press-release.pdf](https://www.firstgroupplc.com/~/_media/Files/F/Firstgroup-Plc/reports-and-presentations/press-release/results-for-year-2021-22-press-release.pdf)

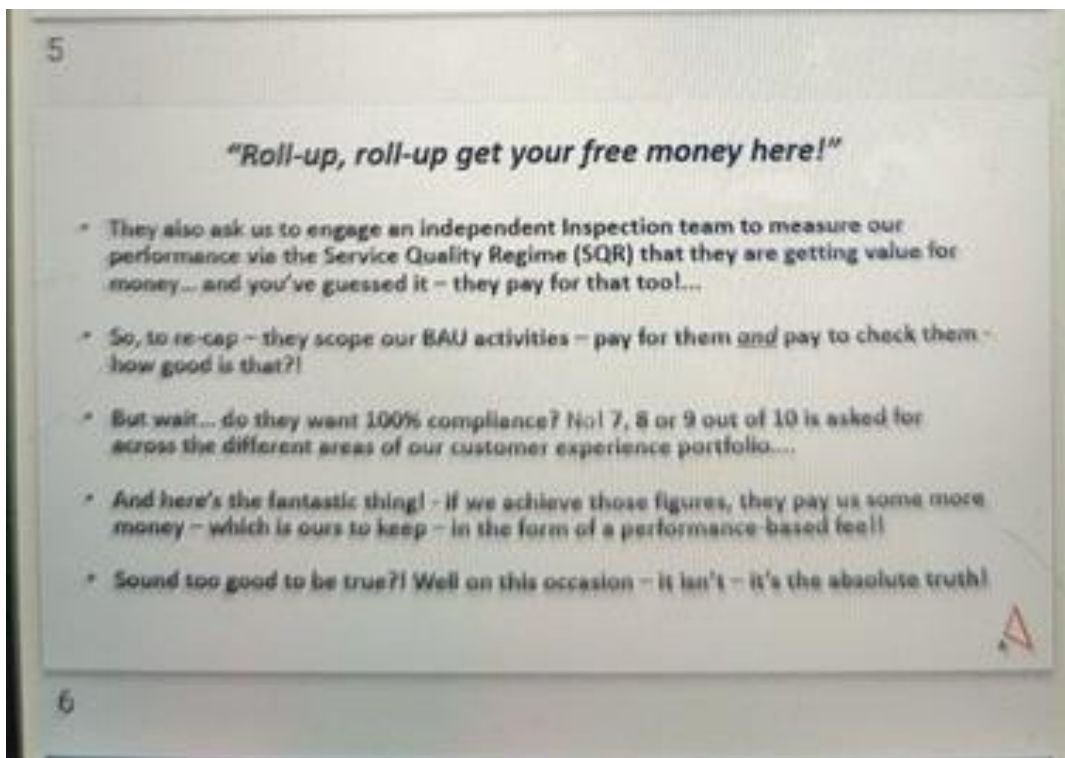
*– pay for them and pay to check them – how good is that?!”*

The SQR regimes is important because it forms the basis for the performance-based element of Avanti’s management fee. But the Avanti managers are pretty relaxed about this regime:

*"But wait – do they want 100% compliance? No! 7, 8 or 9 out of 10 is asked for across the different areas of our customer experience portfolio...And here’s the fantastic thing! If we achieve those figures they pay us some more money – which is ours to keep – In the form of a performance-based fee!!”*

In short, Avanti’s managers are exposing the fact that the company don’t actually have to do or risk anything to get their performance-based fee. Whatever it is they do to get their scores the government will pay for and they don’t actually have to deliver much more than a 7 out of 10 for the company to get their extra money.

The truth is that Avanti managers are revelling in the fact that they are taking the taxpaying public for a ride with the connivance of the government.



### **Back in the real world: Avanti’s poor and deteriorating performance**

On September 19<sup>th</sup> last year, Secretary of State Mark Harper granted Avanti a 9-year contract after claiming that the company had turned round its appalling performance record.

*"Now Avanti are back on track, providing long-term certainty for both the operator and passengers will best ensure that improvements continue."<sup>3</sup>*

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<sup>3</sup> <https://www.gov.uk/government/news/avanti-west-coast-awarded-long-term-contract-after-significant->

In fact, as ORR data shows, Avanti's performance is clearly deteriorating once again, both in absolute terms and relative to its competitor, the publicly-owned LNER on the East Coast mainline.

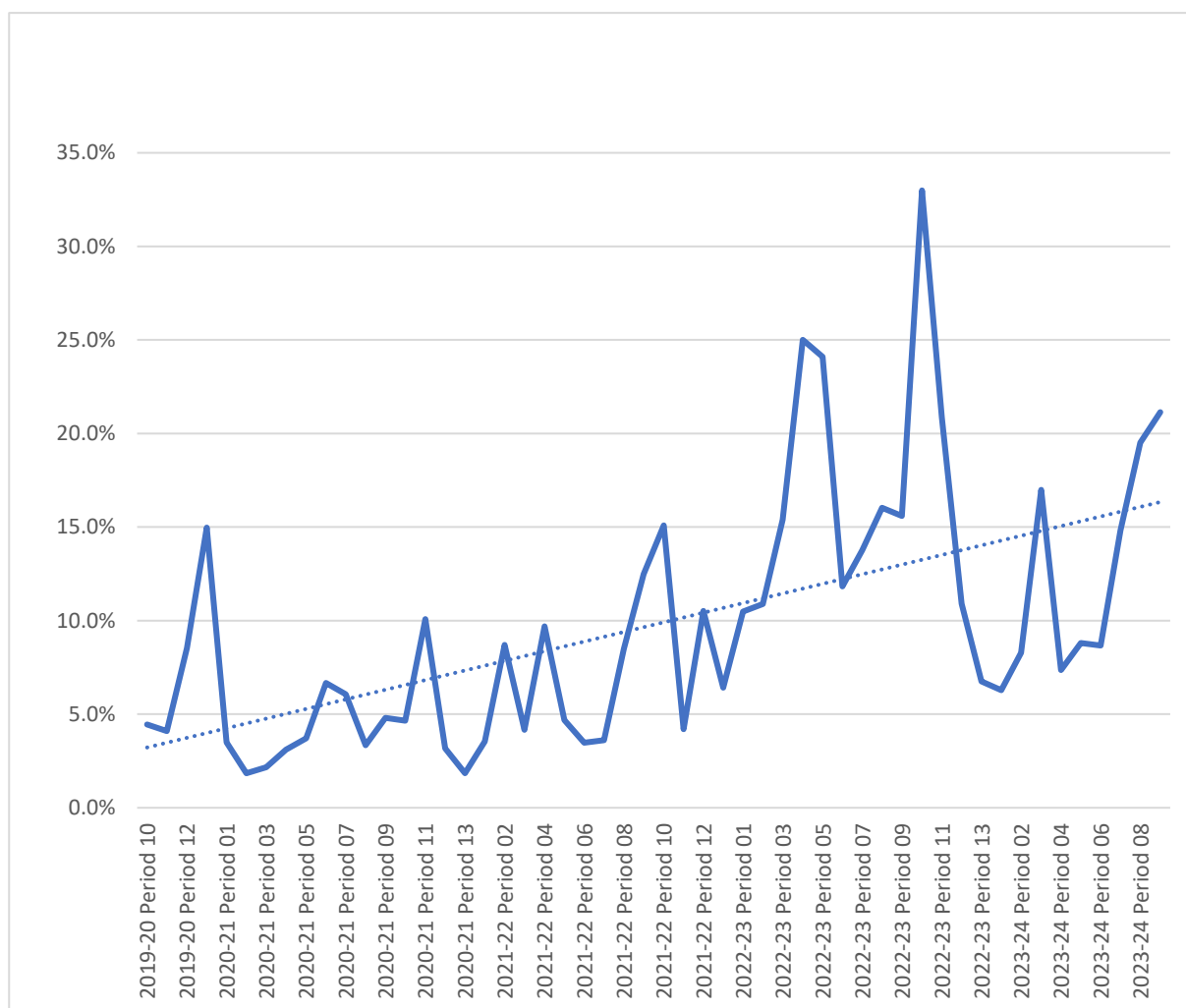
The percentage of trains Avanti has cancelled or which have been significantly late has started to rise again after its peak during the collapse of its timetable in 2022-23.

Avanti is still planning to run significantly fewer trains than its predecessor on the West Coast Mainline. Its general trend is still downwards, whereas publicly owned LNER have steadily increased the number of trains they run per period over the same timescale.

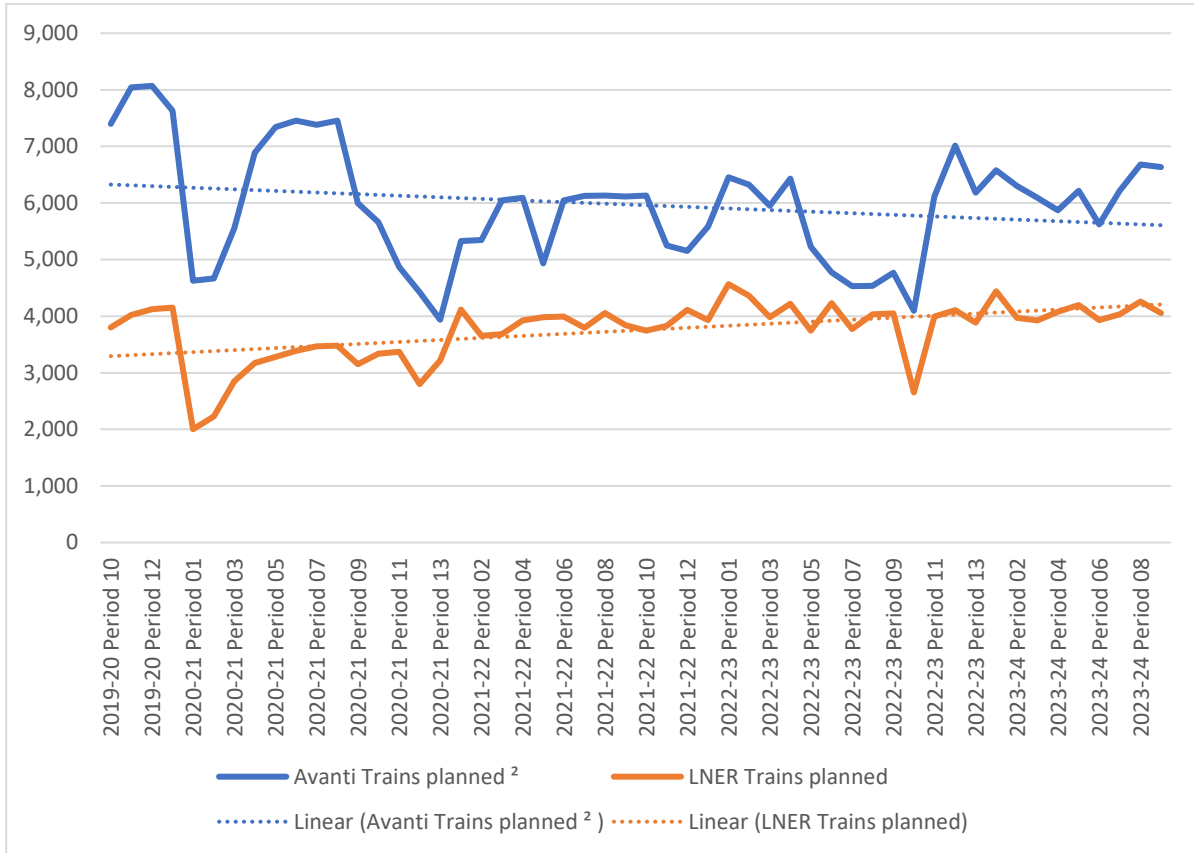
Avanti's overall cancellation score consistently far outstrips LNER's and in the last three periods has started to rise once more.

Particularly revealing is the proportion of Avanti cancellations that are attributed to the TOC's fault. On average, 52% of all cancellations are down the TOC's fault, compared with 38% for publicly-owned LNER, a lower proportion of a significantly lower score.

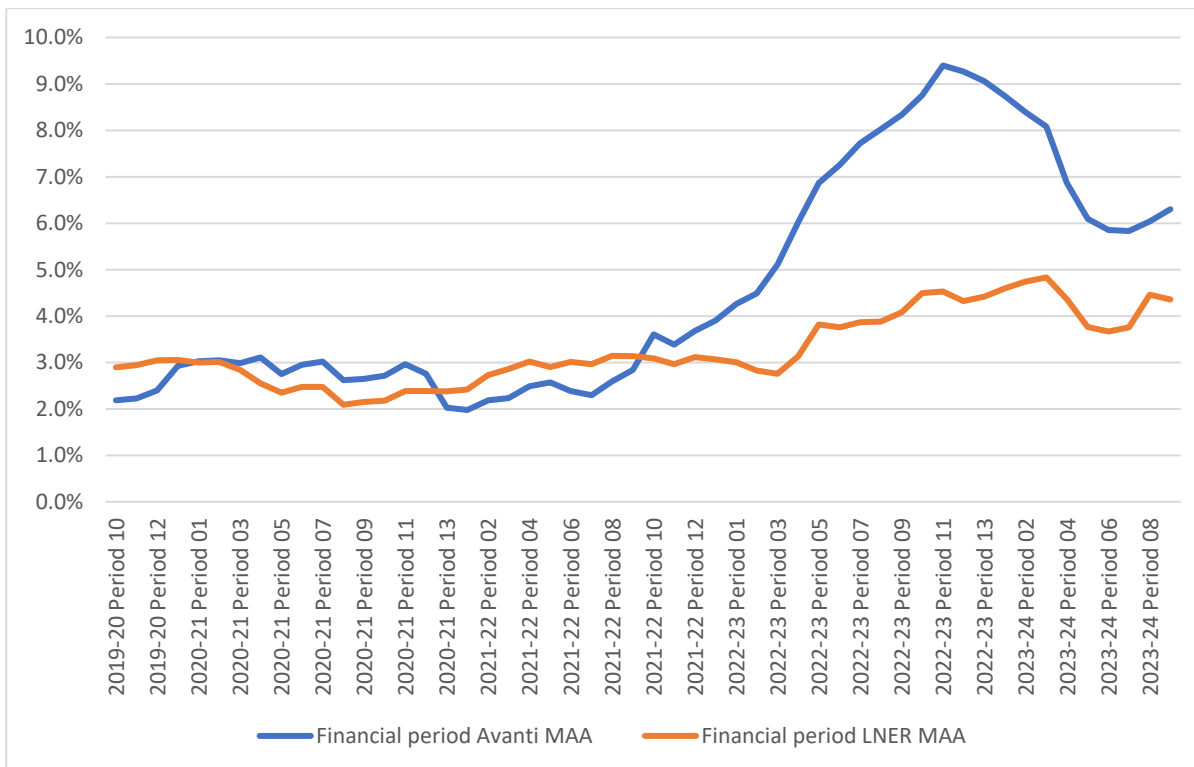
**Figure 1: Avanti trains cancelled and significantly late**



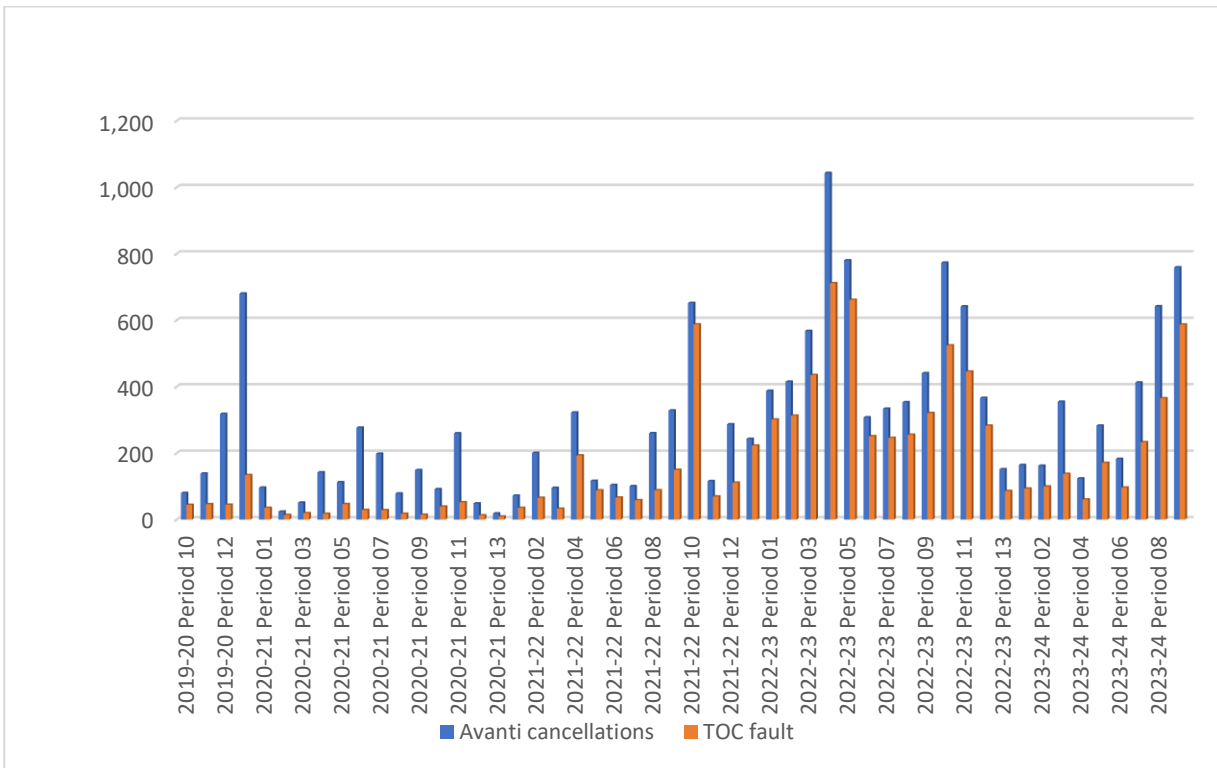
**Figure 2: Trains Planned – comparison of Avanti and LNER**



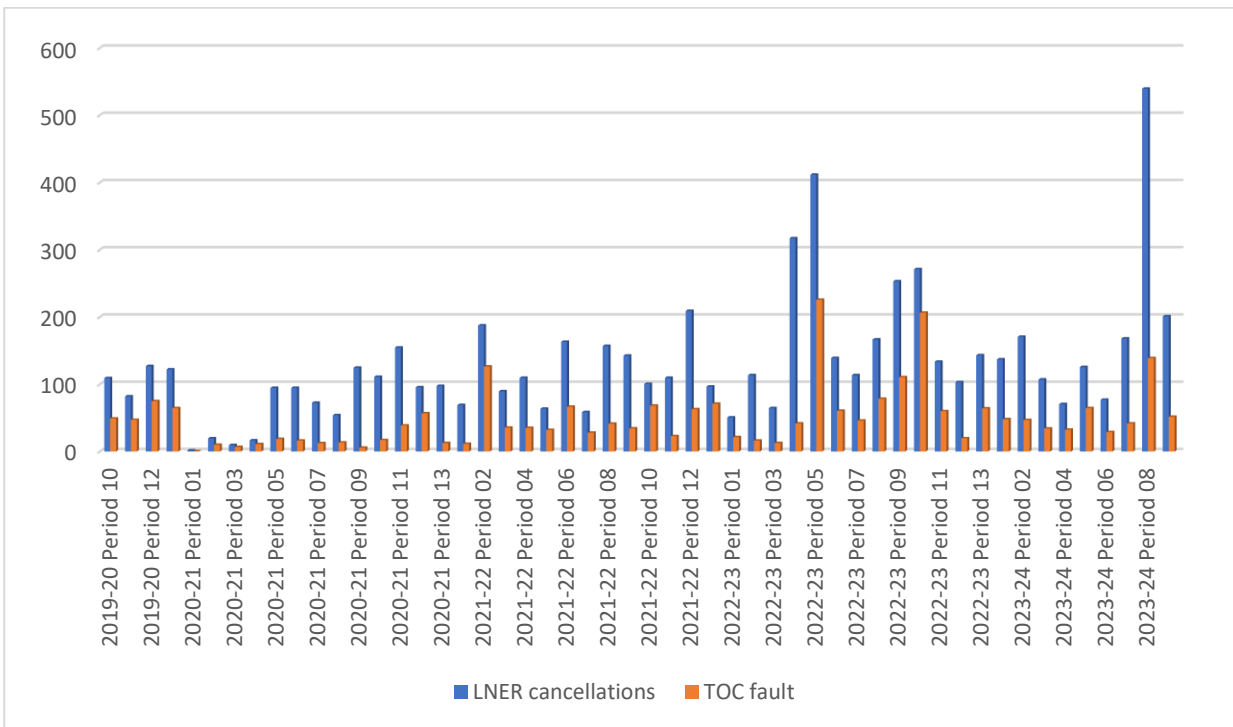
**Figure 3: Avanti and LNER cancellation scores compared**



**Figure 4: Cancellations where the TOC is at fault – Avanti**



**Figure 5: Cancellations where the TOC is at fault - LNER**



## Mark Harper keeps signing the cheques

Yet in spite of this poor performance, it's easy to see why Avanti's managers are gloating, because the Secretary of State for Transport just keeps signing the cheques.

First Group has published its latest yearly profits to March 2023 showing that Avanti had made profit before tax of £12.8m and paid dividends of £11m to its shareholders, mainly First Rail Holdings. This was personally signed off by the Secretary of State for Transport. As the Rail Minister recently explained,

*"Train operating companies may apply annually to the Department for permission to distribute the value of any fees they have earned (adjusted for tax) and the value of retained earnings pre-Emergency Measures Agreements period to their owning groups as dividends. Dividend applications are a matter for the train operating companies and the owning groups. The Department considers requests for dividend payments to parent companies on a case-by-case basis, including assessment of the operator's compliance with contractual requirements."*<sup>4</sup>

The Secretary of State for Transport has in fact signed off a dividend payment by Avanti for every full year of their operation.

FY	Dividend agreed
2020-21	£11,500,000
2021-22	£13,500,000
2022-23	£11,040,000
TOTAL	<b>£36,040,000</b>

First Rail Holdings, the parent company for First Group's rail operations, recently published its accounts for 2022/23, showing that it received dividends of £39m from its TOCs and declared dividends of £85m, which go to First Group PLC.

The remuneration of the highest paid director, who we presume to be Steve Montgomery, went up from £608,000 to £630,000.

## A history of mismanagement

The truth is that Avanti have mismanaged the franchise since they took over in 2019 and this has resulted in a loss of staff and of goodwill.

The deterioration of relations between staff and managers at Avanti started when they took over the franchise. Relations with Train managers have also broken down with disputes over the disciplining of a rep and the imposition of rosters on staff.

Since they took over the franchise in 2019, Avanti have lost 11.4% of their staffing complement. Their latest accounts show that the detailed position is even worse. Avanti's

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<sup>4</sup> <https://questions-statements.parliament.uk/written-questions/detail/2022-11-07/80949>

operations staffing complement shrank again last year, from 2,679 to 2,590, while the number of managers and administrators increased from 636 to 667.

Staff morale has nosedived. RMT revealed this in December 2022, following a union survey of Avanti staff.<sup>5</sup>

However, Avanti themselves recently ran a staff survey, results of which were regularly leaked to the RMT. This survey closed on 22<sup>nd</sup> November. As the *Guardian* reported in December,

*"Out of more than 2,000 respondents, only 7% said they felt happy and 3% said they felt valued, while 56% said they felt unappreciated...Asked if they believed Avanti West Coast was "committed to delivering good service for its customers", only one in five staff agreed. Fewer than one in six would recommend Avanti as a place to work, while only one in 10 said they thought any action would be taken as a result of the survey."*<sup>6</sup>

### **What should happen now:**

The Avanti West Coast franchise is clearly a basket-case. It has been mismanaged from day one by FirstGroup and it is likely that it was only given a reprieve when TransPennine Express was nationalised because it was too embarrassing for the government to take two franchises over in one day. The government must now bow to the inevitable and admit that it got it wrong. Avanti's real performance is still poor and its management are completely unfit to run the franchise. The West Coast mainline should be brought into the Operator of Last Resort to be turned around.

But as we noted at the outset, Avanti's managers are only saying aloud what the rest of the private sector is thinking. The government's risk-free National Rail Contracts are completely unfit for purpose and provide risk-free profits in return for a declining service. It is time to abandon the dogma and take the whole network into public ownership.

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<sup>5</sup> <https://www.itv.com/news/granada/2022-12-09/staff-do-not-believe-avanti-can-improve-its-services>

<sup>6</sup> <https://www.theguardian.com/business/2023/dec/19/avanti-west-coast-cancellations-delays-urgent-review?ref=biztoc.com>