Policy Briefing

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Bailing out the TOCs: How the Tory government saved – and boosted - the Train operating companies' profits

Summary

- The government's emergency funding agreements and its new rail contracts have taken all the financial risk out of train operating and rescued the profits of companies that were struggling before the pandemic.

- DfT data show that during between March 2020 and April 2022, the TOCs will have received around £300 million in management fees, which are the basis of their profits.

- Analysis of the TOCs company accounts shows that the new funding agreements and contracts transformed the position of the train operating companies, restoring their profits to an aggregate of £600 million for the year 2020-21, compared with a significantly worse position prior to the pandemic.

- Dividend payments have remained healthy, with £73.5 million declared so far for 2020-21, while the TOCs are forecasting that they are well-placed for future dividend payments over 2022.

Covid, the Williams-Shapps Plan and the government's new rail contracts

Before the pandemic, franchising was widely seen to have failed, not least by the TOCs themselves. Profits were falling in many of the franchises. Some TOC owners, like Virgin and Stagecoach, walked away and handed back the keys. Some franchises, like Northern Rail, failed and their operations were taken over by the DfT. Even before Covid, the Rail Delivery Group and the TOCs were lobbying for a move to a management fee system that took away revenue risk and guaranteed them income.[1]

When Covid hit, this is precisely what happened. The government stepped in an

[1] https://www.raildeliverygroup.com/files/Publications/2019-04_changing_track.pdf

implemented a series of emergency funding agreements that transformed the way in which private operations were funded. As FirstGroup put it, "the DfT waived revenue, cost and contingent capital risk and our four major train operating companies are paid a fixed management fee to continue to operate the rail network at agreed service levels.". This was, in essence, exactly what the TOCs had been lobbying for and it became the basis for the new National Rail Contracts. Here's FirstGroup again,

> *"Under the NRCs the DfT will retain substantially all revenue risk and substantially all cost risk. There is a fixed management fee and the opportunity to earn an additional performance fee. The punctuality and other operational targets required to achieve the maximum level of performance fee are designed to incentivise service delivery for customers. The NRCs achieve a more appropriate balance of risk and reward between operators and the Government and carry no significant contingent capital risk."*[2]

Saving the TOCs profits

The introduction of the Emergency agreements and the National Rail Contracts has transformed the TOCs profits.

As RMT has shown, DfT data show that the English train operating companies made £88 million in the first six months of the pandemic, between March and September 2020 (when the fee was 2% of costs).

They then made £64 million in the first 6 months of the 18-month ERMAs, between September 2020 and April 2021 (when the fee was 1.5% of costs).

Projecting these fees, which are fixed and do not fluctuate, forwards, we can see that over 18 months, the English TOCs make just short of £200 million in the form of these profits.

The National Rail contracts, which use the same management fee level as the ERMAs (1.5% of costs), will produce an approximate figure of £124 million every year in management fees.

The switch to management fee-based contracts transformed the TOCs' profit margins.

RMT has analysed the statutory accounts of the Train Operating Companies for the Financial Years 2019-20 and 2020-21. These financial years cover the last year of franchising, when TOCs were struggling to make profits, and the first year of new contracts, during the pandemic. They tell a very interesting story.

- In just one year, South-Western Railways went from a £4 million loss to a £28 million profit for the year. (Table 3)
- First Transpennine Express went from a £6.5 million loss to a £57 million profit. (Table 3)
- FirstGroup's profits for the year from its four contracts trebled from £46 million to

[2] FirstGroup Signs New National Rail Contracts For South Western Railway And Transpennine Express – FirstGroup plc

£132 million. (Table 3)
- Abellio Greater Anglia went from a £300 million loss to a £295 million profit for the year. (Table 4)
- Abellio's Group position was similarly transformed, from a recorded loss of £493 million to a profit of £426 million.[3] (Table 4)
- Go-Ahead's profits also rose between 2019 and 21 as the margins increased on Thameslink, Southern and Great Northern and would probably have increased further had the DfT not had to step in and strip Go-Ahead of the Southeastern franchise for concealing money owned to the public over years. (Table 5)

Overall the statutory accounts show that the TOCs moved from a position of making an overall loss to an overall profit for the year of £600 million. (Table 2)

The TOCs operating companies paid out £83 million in dividends to their owning group companies in 2019-20 and, based on the accounts published so far, have paid £73.5 million to date in 2020-21. (Table 2)

'Well placed for…consistent returns for shareholders'

The TOCs are also forecasting healthy profits to come in 2022 and 2023. First Rail, which is the rail division comprising the four management contracts and Hull Trains, is reporting results from 2021-2022 indicate that its profits are already £87 million and that it has paid a £51 million dividend to its parent company.[4] FirstGroup are delighted with their results and predict more to come for shareholders:

> *"As the UK passenger rail industry continues its evolution to a more successful and sustainable railway system that works better for all parties, we are well-placed both to drive increased patronage and to generate resilient and consistent returns for shareholders."*[5]

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[3] The position at Abellio was also helped, undoubtedly, by the DfT's decision to charge a franchise termination fee of £120 million for its franchises, less than half what Abellio were provisioning for in their accounts. This decision by the DfT was effectively yet another bailout to the private companies. Dutch hand UK taxpayers £91m to end rail funding row (telegraph.co.uk). Abellio recorded a provision for £433 million for its West Midlands and Greater Anglia services in 2020. "As a condition of switching to NRCs, Abellio UK reached an agreement with the Department for Transport on termination fees for the franchise agreements with West Midlands paying £ 90.5 million (NS share 70% - £ 63.4 million) and Greater Anglia paying £ 30.5 million (NS share 60% - £ 18.3 million). These amounts are significantly lower than the provision of approximately £ 433 million included in the 2020 Annual Report, which was based on preliminary calculations by the DfT. The reduction is a significant factor in Abellio UK's total 2021 profit. PDF (nsannualreport.nl)

[4] "Adjusted operating profit (of First Rail) was £87.8m (FY 2021: £108.1m), which principally reflects the earnings associated with the management fee-based contracts and final agreement on contractual matters related to settlements of claims under GWR's Direct Award and settlements at TPE relating to the pre-Emergency Measures Agreement period." "The Group receives an annual dividend from the TOCs reflecting the post-tax net management and performance fees. These dividends are available to be paid after September following the completion of the TOC audited accounts, and dividends received by the FirstGroup plc Group from these operations in the year was £51.5m, representing attributable net earnings up to 31 March 2021". results-for-year-2021-22-press-release.pdf (firstgroupplc.com)

[5] 21-12-09-fgp-rns-h122.pdf (firstgroupplc.com)

Go-Ahead Group have bounced back from the loss of their Southeastern franchise with the news that Grant Shapps has awarded them a renewal of the Thameslink Southern and Great northern franchise. They are currently predicting profits for the year of £32 million for this contract.[6]

In summary, the government's new contracts were not simply a way of keeping the industry going and ensuring that trains kept running, they were far more a way of restoring profitability on the railways and it appears to have worked quite dramatically. The government likes to talk about how it has sunk public money into the railway, but it doesn't like to talk about the fact that rather than ensure that all that money was spent on the railways, it deliberately chose a funding model designed to restore and boost fat cat profits.

[6] "Following the half year end, we were pleased by the DfT's decision to award GTR a National Rail Contract (NRC), which commenced on 1 April 2022. The NRC, which will run until at least April 2025 with the potential for an extension of a further three years, is a management contract with extremely limited exposure to changes in passenger demand and no substantial cost risk to GTR.. The maximum fee receivable by GTR is £31.7m per annum calculated, in accordance with the contract, on a pre-IFRS16 basis(equivalent to a pre-IFRS16 operating margin of around 1.85%), combining the fixed management fee and potential performance fees. The contract also allows for individual project fees to be earned by GTR on the delivery of additional initiatives, as directed by the DfT." https://newsroom.go-ahead.com/news/half-year-results-for-the-six-months-ended-1-january-2022

Appendix 1: Tables

Table 1: Payments of profit from the DfT to Train Operating Companies under Emergency agreements

	Total EMA fees payable (2%)	ERMA fees over 18 months (1.5%)
Chiltern	£1,885,000	£4,242,000
Cross Country	£5,386,000	£13,104,000
East Midlands	£4,798,000	£10,794,000
East Anglia	£6,169,000	£13,881,000
Essex Thameside	£1,428,000	£3,213,000
Great Western	£13,911,000	£32,445,000
South Eastern	£7,973,000	£23,919,000
South Western	£10,033,000	£22,575,000
Thameslink, Southern and Great Northern (GTR)	£17,831,000	£42,231,000
TransPennine Express	£2,876,000	£6,468,000
West Coast Partnership	£11,313,000	£25,452,000
West Midlands	£5,187,000	£12,285,000
Abellio ScotRail	£8,873,098	£19,964,469
Caledonian Sleeper	£497,189	£1,177,554
TOTAL	**£98,160,287**	**£231,751,023**

Source: DfT data on payments under Emergency Agreements.[7]

Table 2: Total rail group franchise profits and dividends, 2019-21

Group totals	Profit for the Year		Dividends	
	2019-20	2020-21	2019-20	2020-21
First Group	£46,014,000	£132,443,000	£40,000,000	£63,500,000
Go-Ahead	£39,680,000	£39,996,000	£30,000,000	£0
Abellio	-£493,073,000	£426,576,000	£1,000,000	£10,000,000
Arriva	£6,416,000	£0	£12,000,000	£0
Trenitalia	-£114,739,000	£0		£0
TOTAL	**-£515,702,000**	**£599,015,000**	**£83,000,000**	**£73,500,000**

[7] Dft data on payments under Emergency Agreements - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1027320/ema-and-erma-performance-scores-and-fees.ods . This dataset provides full figures for the EMAs and the first 6 months of data for the ERMAs. The full management fees have been calculated by multiplying this by 3 to cover the 18 months of the agreements.

Table 3: First Group rail franchise profits and dividends 2019-21

First Group	Profit for the Year		Dividends	
	March 2019-2020	March 2020-2021	March 2019-2020	March 2020-2021
First Greater Western	£45,170,000	£31,289,000	£40,000,000	£19,000,000
First MTR South Western	-£4,113,000	£28,919,000	£0	£0
First Trenitalia Avanti West Coast	£11,542,000	£13,446,000	£0	£11,500,000
First Transpennine Express	-£6,585,000	£58,789,000	£0	£0
TOTAL	£46,014,000	£132,443,000	£40,000,000	£30,500,000

Sources:

- FIRST GREATER WESTERN LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- FIRST MTR SOUTH WESTERN TRAINS LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- FIRST TRENITALIA WEST COAST RAIL LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- FIRST TRANSPENNINE EXPRESS LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)

Table 4: Abellio rail franchise profits and dividends 2019-21

Abellio	Profit for the Year		Dividends	
	December 2019-2020	December 2020-21	December 2019-2020	December 2020-21
Abellio Greater Anglia	-£317,206,000	£295,458,000	£1,000,000	
	March 2019-20	March 2020-21	March 2019-20	March 2020-21
Abellio East Midlands	£20,029,000	£7,208,000		£10,000,000
Abellio West Midlands	-£195,896,000	£123,910,000		
TOTAL	-£493,073,000	£426,576,000	£1,000,000	£10,000,000

Sources:

- ABELLIO EAST ANGLIA LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)ABELLIO GREATER ANGLIA LTD filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- ABELLIO EAST MIDLANDS LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- WEST MIDLANDS TRAINS LIMITED filing history - Find and update company

information - GOV.UK (company-information.service.gov.uk)

Table 5: Go-Ahead rail franchise profits and dividends 2019-21

Go-Ahead	Profit for the Year		Dividends	
	July 2019-July 2020	July 2020-July 2021	July 2019-July 2020	July 2020-July 2021
Govia Thameslink Railways	£17,761,000	£39,996,000	£0	£0
London and Southeastern Railways	£21,919,000	Lost franchise	£30,000,000	
TOTAL	£39,680,000	£39,996,000	£30,000,000	£0

Sources:
- GOVIA THAMESLINK RAILWAY LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
- LONDON & SOUTH EASTERN RAILWAY LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)

Table 6: Arriva rail franchise profits and dividends 2019-21

Arriva	Profit for the Year		Dividends	
	December 2019-2020	December 2020-21	December 2019-2020	December 2020-21
Arriva Chiltern Railways	-£3,984,000		£0	
Arriva Cross Country	£10,400,000		£12,000,000	
TOTAL	£6,416,000	£0	£12,000,000	£0

Sources:
- THE CHILTERN RAILWAY COMPANY LIMITED overview - Find and update company information - GOV.UK (company-information.service.gov.uk)
- XC TRAINS LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)

Table 7: Trenitalia rail franchise profits and dividends 2019-21

Trenitalia	Profit for the Year		Dividends	
	December 2019-2020	December 2020-21	December 2019-2020	December 2020-21
Trenitalia c2c	-£114,739,000		£0	
TOTAL	-£114,739,000	£0		£0

Sources:

- TRENITALIA C2C LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)

Appendix 2: Why are the Rail Delivery Group claiming that profits are '£75 million'?

The Rail Delivery Group has claimed that the TOCs made a profit of £75 million in 2020-21, a figure reproduced in the Telegraph on 27 June.[8]

The RDG point to data published by the ORR on Train Operating Company Income and Expenditure. This is data is supplied to them by the Train Operating Companies under a series of headings for industry 'income' and 'expenditure'. This includes a line where reported expenditure is deducted from income to produce a number, positive or negative. But, notably, the ORR does not describe this as 'profit'.[9]

It is deeply problematic, if not bizarre, for the TOCs to use a number that is not described by the ORR as 'profit' to counter data based on things *the TOCs themselves are describing as profit, namely their management fees from government and their profit statements in their statutory accounts.*

Without the TOCs disclosing what data they have sent to the ORR, it's not possible to reconcile this remarkably small figure with either the far larger sums they are earning from the government in their managements fees or the even larger figures reported as profits for the year in the TOCs' statutory accounts in Companies House.

For a sense of scale, this £75 million for 2020-21, is to be contrasted with:

- The £124 million we know was paid to the English TOCs by the DfT as their management fees, which as we've seen, the TOCs describe as the basis of their profits and dividends.
- The £600 million profit for the year 2020-21 recorded by the TOCs in their statutory accounts, filed in Companies House.
- The fact that Firstgroup alone record the operating profits of their rail division as having been £108 million for the financial year 2020-21.

The figures that the RDG cite - which remember are not profit figures – lack any credibility when confronted with these sets of data from the DfT and the TOCs themselves.

If anything, RMT has been relatively conservative in stating the profit position of the TOCs. They have a lot to thank the government for.

[8] Train operators hit back at RMT assault on 'fat cat rail bosses' (telegraph.co.uk)
[9] Table 7226 – Franchised Passenger Train Operator Finances since 2015-16 by Franchise | ORR Data Portal