



# Rail Finance

## 2015-16 Annual Statistical Release

Publication date: 13 October 2016 (pages 8 and 9 revised on 12 January 2017)

Next release: 11 October 2017

### Background

This release contains information on rail finance in Great Britain covering the period from 1985-86 to 2015-16.

Government support statistics are sourced from the Department for Transport (DfT), Transport Scotland and the Welsh Government. They show grants and other expenditure by government on rail, including Passenger Transport Executives (PTEs) and subsidy payment to or franchise premiums received from each train operating company (TOC).

Private investment statistics are sourced from the Office for National Statistics Railway Investment Survey. This shows the expenditure on, and disposal of, capital assets from private companies in the rail industry since 2006-07.

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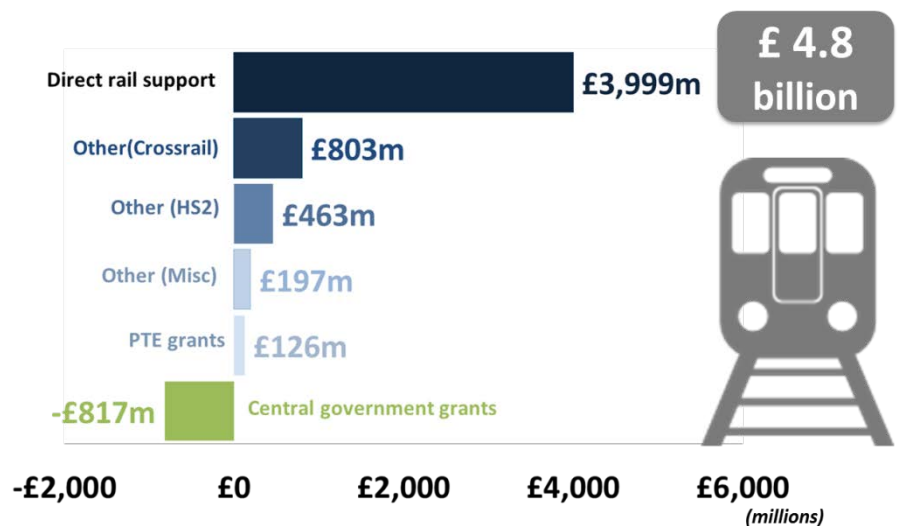
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Net government support to the rail industry totalled £4.8 billion in 2015-16 (excluding Network Rail loans). Although government support declined by 1.5% since last year, it is still double the level recorded (in real terms) since the time series started in 1985-86.



Governments received a net payment from TOCs in each of the last six years, receiving £817 million in 2015-16, which is the largest amount received since the time series started in 1985-86.

On average, for every passenger kilometre travelled in Great Britain, governments received 1.3p in franchise premiums in 2015-16, which was the same as the previous year.

The majority of government funding was in direct rail support, which is the grant payment to Network Rail. This was £4.0 billion in 2015-16, an increase of £197 million on 2014-15.

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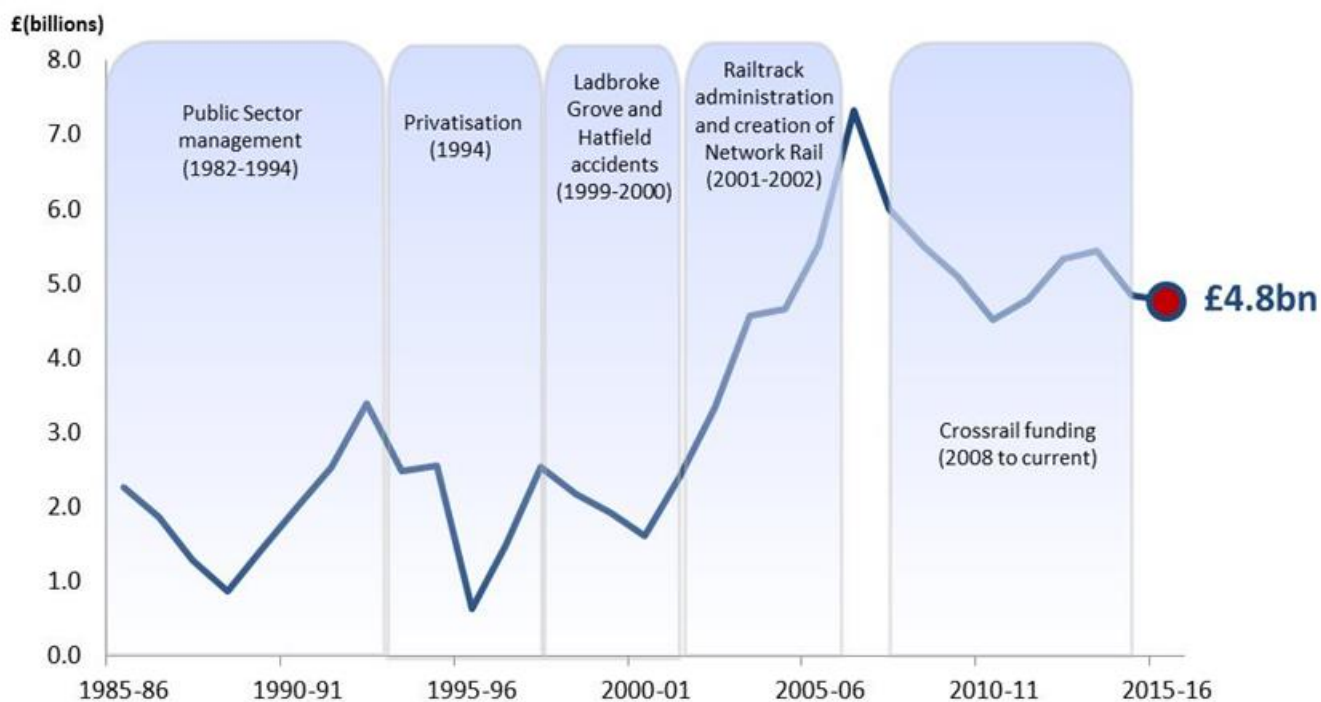
# 1. Government support to the rail industry

**Government support to the rail industry** is the level of funding governments provide towards operating, maintaining, renewing and enhancing the railway. It shows grants to domestic passenger operators, Network Rail and freight services. It covers the following categories:

- Central government grants (subsidy payment to or franchise premiums received from each TOC);
- Passenger Transport Executive (PTE) grants;
- Direct rail support (Network Grant to Network Rail);
- Other elements of government support (such as HS2, Crossrail);
- Loans issued by DfT to Network Rail; and
- Freight grants.

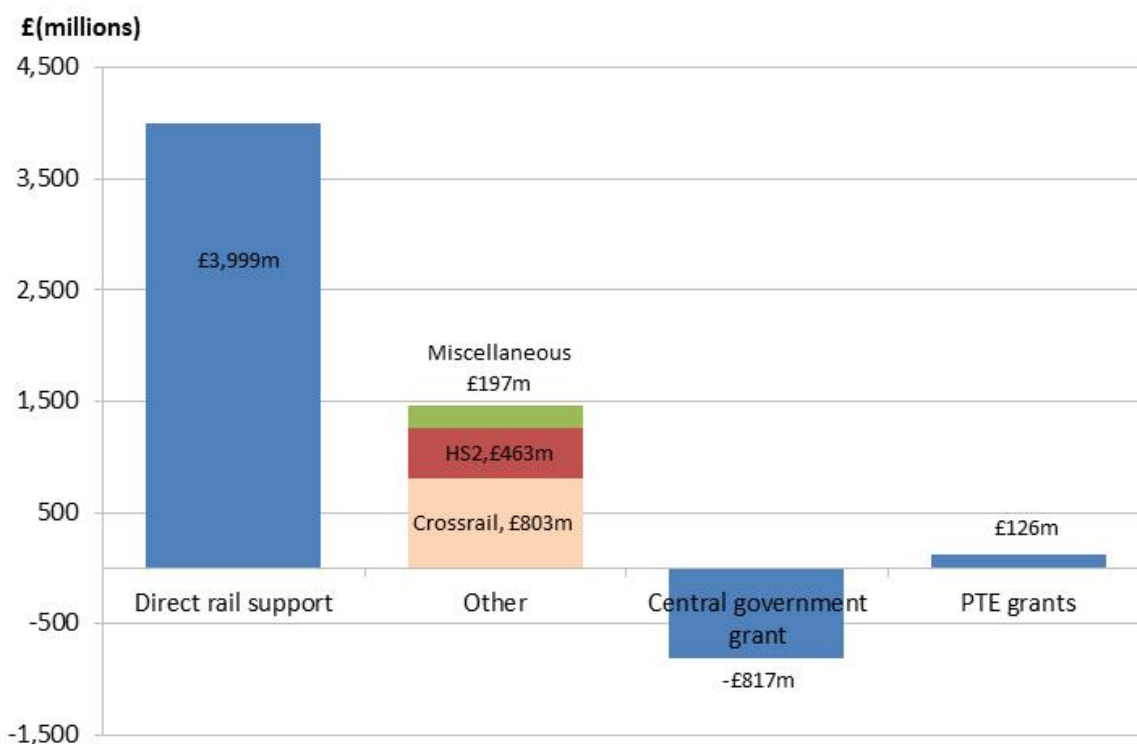
Total government support figures exclude loans issued to Network Rail and freight grants. These values are presented separately.

Government support to the rail industry in real terms, Great Britain, 1985-86 to 2015-16 ([Table 1.6](#))



Government support in 2015-16 was £4.8 billion, down by 1.5% (in nominal terms) compared to the previous year. Government support peaked at £7.3 billion (in real terms) in 2006-07 due to an increase (66%) in payment to Train Operating Companies (TOCs) by government and an increase (33%) in the grant payments to Network Rail compared to 2005-06. Although the government support declined to £4.8 billion in 2015-16, in real terms it is still double the level recorded since the time series started in 1985-86.

Breakdown of total government support to the rail industry, Great Britain, 2015-16 ([Table 1.6](#))

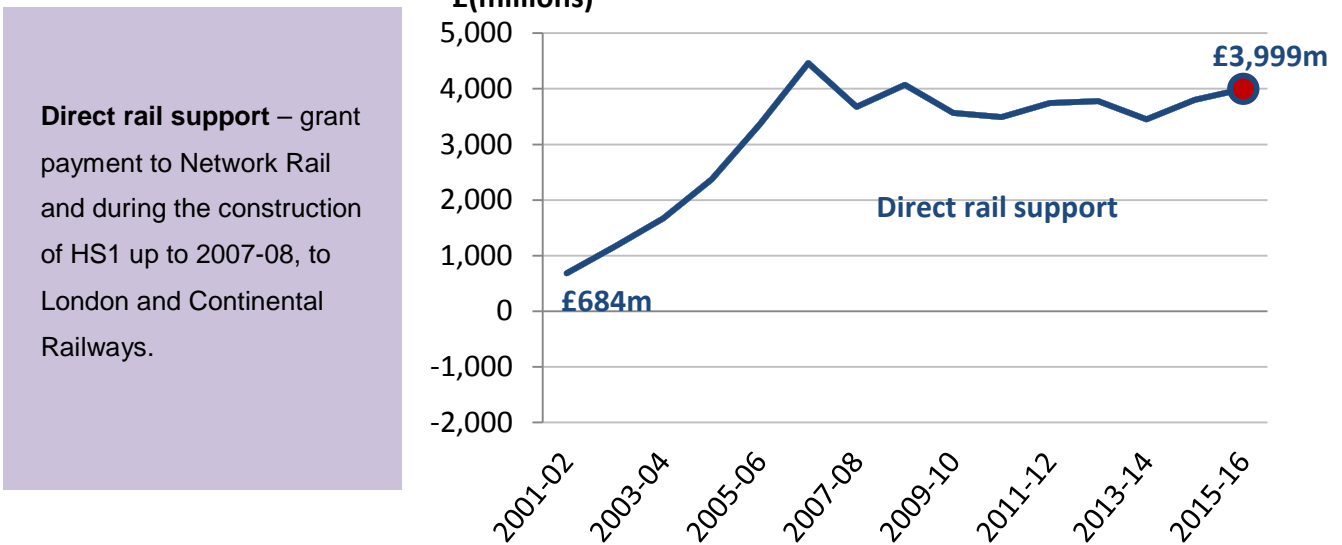


## Direct rail support

The majority of government support was in direct rail support, which is the grant payment to Network Rail. This was £4.0 billion in 2015-16, an increase of £197 million (in nominal terms) on the previous year. Network Rail uses this money to maintain, renew and improve the network.

The direct rail support figure is a net total which includes the deduction of the fee paid by Network Rail to DfT for guaranteeing its private sector debt. This is known as the Financial Indemnity Mechanism (FIM) fee.

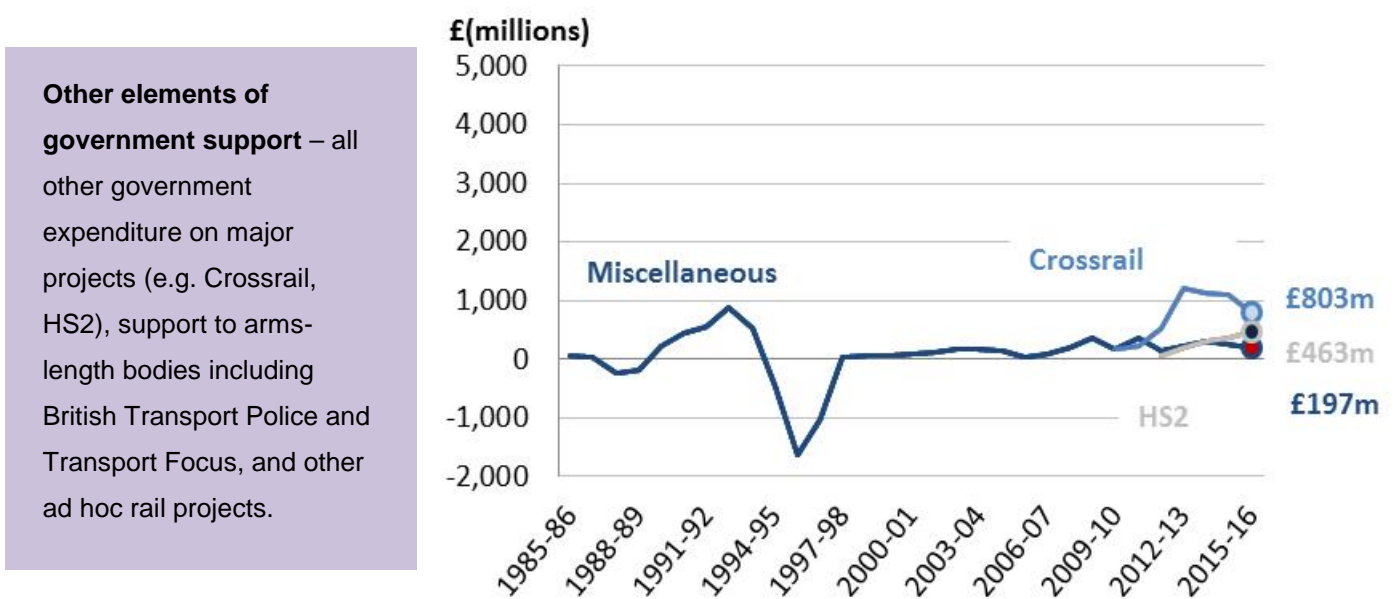
Direct rail support, Great Britain, 2001-02 to 2015-16 ([Table 1.6](#))



**Other elements of government support**

In 2015-16 there was £1.5 billion of investment for other elements of government support, down by £254 million from 2014-15. Despite this, Crossrail accounts for most of the spending but was down by £295 million to £803 million in 2015-16. This reduction was partially offset by spending on HS2 which has increased each year since 2011-12, and now accounts for £463m.

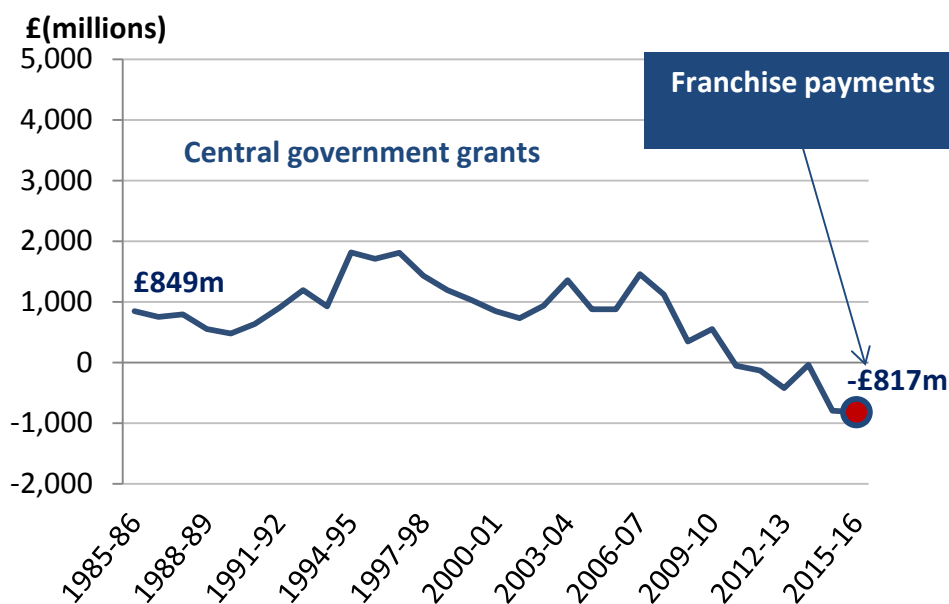
Other elements of government support, Great Britain, 1985-86 to 2015-16 ([Table 1.6](#))



## Central government grant

Central government grant, Great Britain, 1985-86 to 2015-16 ([Table 1.6](#))

**Central government grants** – payments between government and TOCs as part of their franchise agreement. These figures also include contract payments from local transport authorities, such as from Merseytravel to Merseyrail and from Transport for London to LOROL (London Overground Rail Operations Ltd).



Note: Positive numbers are subsidies made from governments to TOCs and negative numbers are premiums from TOCs to governments

Since 2010-11 total government support has been partially offset by premiums from TOCs as part of their franchise agreement. In 2015-16, overall government received £817m more in premiums than it paid in subsidies.

## Passenger Transport Executive (PTE) grants

**Passenger Transport Executive (PTE) grants** – net payments to PTEs for national rail services; PTEs are strategic transport bodies serving the six largest city regions outside London.

PTE grants were £126 million in 2015-16, an increase of £4 million compared to the previous year. Each PTE, with the exception of Centro (West Midlands) experienced an increase of between 2.7% and 4.5% in grant payments in 2015-16. Payments to PTEs have declined since 2003-04 when it was £414 million but have remained broadly stable over the past two years.

## Loans to Network Rail

**Loans issued by DfT to Network Rail** - following Network Rail re-classification to the public sector (September 2014).

Since becoming a public sector body in September 2014 Network Rail borrows directly from government and no longer issues debt on capital markets. The total new government loan to Network Rail in 2015-16, net of the drawdown fee and government interest expenditure, was £6.6 billion. This was 3.8% greater than 2014-15. Network Rail's latest annual report and accounts show the total net debt for 2015-16 was £41.6 billion<sup>1</sup>.

## Freight grants

**Freight grants** – include Modal Shift Revenue Support (MSRS) and Freight Facilities Grants (FFG); these grants are paid by governments to encourage the movement of freight by rail.

Government provided £21 million through freight grants in 2015-16, an increase of £3 million compared to the previous year. These grants are intended to incentivise the movement of freight from road to rail and are currently secured through the Mode Shift Revenue Support (MSRS) Scheme<sup>2</sup>. Further details on the recipients and levels of freight grants awarded by DfT can be found at [DfT freight grants](#). Details on recipients of Transport Scotland grants can be found at [TS freight grants](#).

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<sup>1</sup> <https://www.networkrail.co.uk/annual-report/>

<sup>2</sup> Department for Transport [Guide to Mode Shift Revenue Support \(MSRS\) Scheme 2015 to 2020](#)

## 2. Government subsidy per passenger kilometre by train operating company

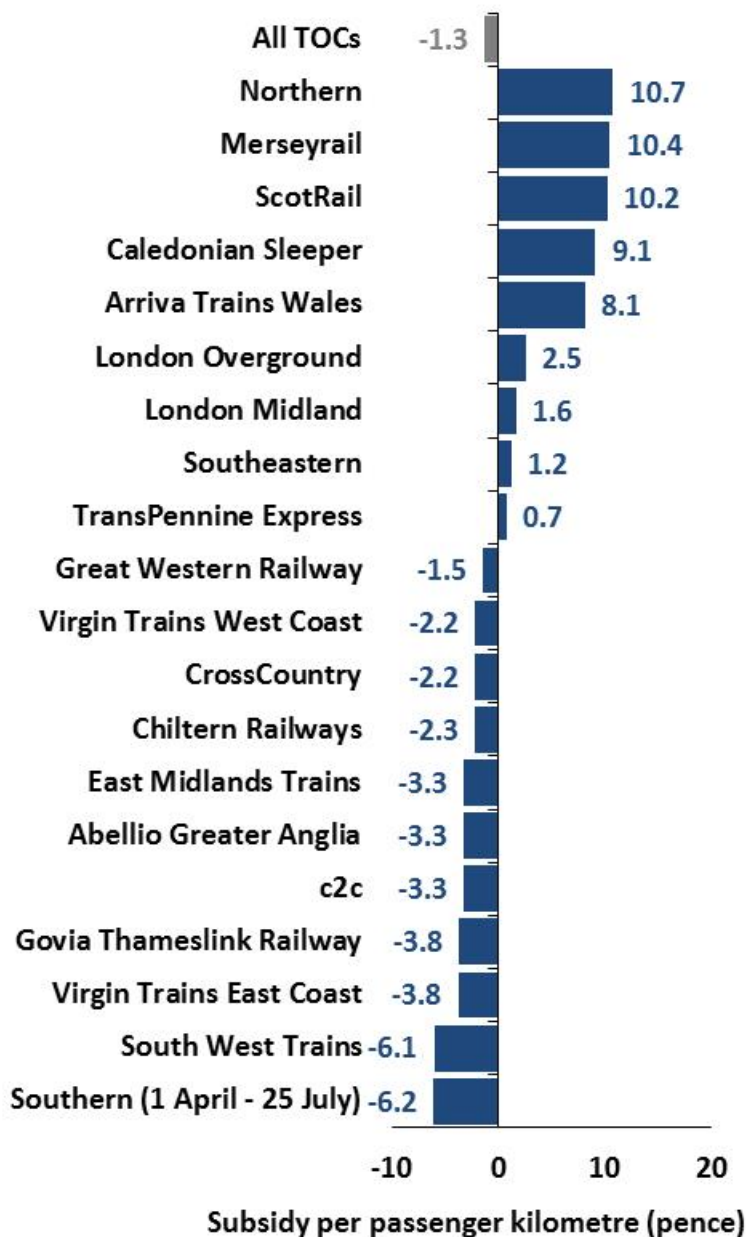
**Government subsidy per passenger kilometre** is calculated from the net payment to/from government and the train operators' total passenger kilometres.

The data are presented for all active TOCs (i.e. those running the franchise at the time of payment) and inactive TOCs (i.e. those that paid/received payments in a year when they were not operating trains). For example, this may occur if a franchise ended early but subsequent years' premiums were still due.

The total subsidy is broken down by:

- a) net franchise payments which are payments to or from TOCs contracted in their franchise agreements and also include variations brought about by policy changes or initiatives;
- b) revenue support/share which consists of payments to or from TOCs that vary depending on the financial performance of the operator; and
- c) PTE grants which are payments made by DfT to PTEs, used to pay for national rail services in their area.

Government subsidy per passenger kilometre by train operating company<sup>3</sup>, Great Britain, 2015-16 ([Table 1.7](#))



Govia Thameslink Railway (GTR) is a franchise established on 14<sup>th</sup> September 2014 when it took over the Thameslink / Great Northern franchise from First Capital Connect. On the 26<sup>th</sup> July 2015, Southern services were merged into the GTR franchise.

Southern's figure for 2015-16 refers to the period between 1st April and 25th July prior to them being merged into GTR.

GTR figures for 2015-16 include Thameslink / Great Northern (1st April to 25th July) and GTR from 26th July onwards.

On average, for every passenger kilometre travelled in Great Britain, governments received 1.3p in franchise premiums in 2015-16, which was the same as the previous year. The trend for regional operators to receive a subsidy whilst those in the Long distance and London and South East sectors (excluding Southeastern and London Midland) to pay a premium back to government has continued this year.

<sup>3</sup> On 31 May 2015 a number of services transferred from Greater Anglia to create a new franchise known as TfL Rail (as a precursor to Crossrail). At the same time, a number of Greater Anglia services were transferred to London Overground. TfL Rail hasn't been included as it does not receive a grant from DfT.



During 2015-16 the majority of franchised passenger train companies made premium payments to government, with the highest amount, £388 million paid by South West Trains (SWT). SWT operated 6.4 billion passenger kilometres during 2015-16, which equated to a premium payment of 6.1p per passenger kilometre.

The second highest premium paid to government was by the franchise Govia Thameslink Railway (Southern merged into GTR on 26 July), with £279 million which equated to a total of 3.8p per passenger kilometre. If combined with the Southern figure of £95.7 million (for the period 1st April and 25th July) the total is £374 million for 2015-16.

Northern received the highest subsidy per passenger kilometre. It received a subsidy of £249 million in 2015-16, equivalent to 10.7p of subsidy per passenger kilometre.

ScotRail (formerly First ScotRail) was the franchised operator that received the highest subsidy payment of £293 million, which equates to 10.2p per passenger kilometre. Caledonian Sleeper received a subsidy payment of £17 million in 2015-16. Sleeper services were part of the ScotRail franchise until 31<sup>st</sup> March 2015, at which point Caledonian Sleeper took over the running of these services as a new franchise.

The levels of government subsidy to each of the PTEs are also presented in [Table 1.7](#). Transport for Greater Manchester received the largest subsidy, £49.5 million, followed by Metro (West Yorkshire) with £44.4 million. These PTE grants are passed on to Northern Rail, who operate rail services in PTE areas. Historical payments made to Centro (West Midlands) are similarly passed on to London Midland.

Please see **Annex 4** for other sources of financial information.

### 3. Private investment in the rail industry

**Private investment statistics** show the expenditure and disposal of fixed assets in the rail industry, excluding investment by Network Rail or government. These are presented in the following categories:

**Track and signalling** including expenditure on rail track renewals and enhancements, new routes and new electrification and signalling;

**Rolling stock** including new and second-hand acquisitions of rail rolling stock (excluding leasing charges) and eligible refurbishment work;

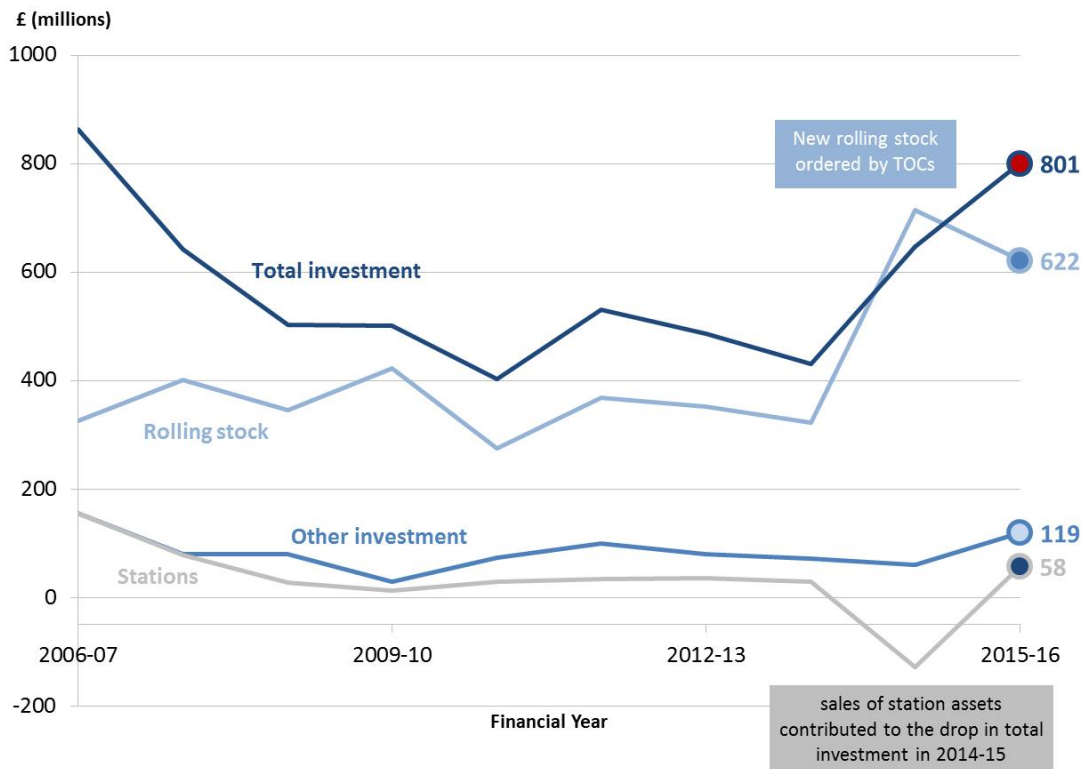
**Stations** including expenditure on passenger stations, passenger and freight train depots, train maintenance facilities and retail outlets (this excludes expenditure at station ticket offices);

All **other expenditure** associated with the rail business, buildings and associated land, non-rail vehicles and business related costs such as IT and web related costs.

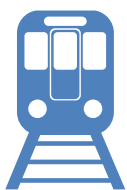
Private investment statistics are collected by the Office for National Statistics (ONS) every quarter on behalf of ORR. ORR select up to 40 rail industry companies, such as train and freight operating companies, to take part in the survey every quarter. Negative numbers can occur due to a company's disposal of rail assets. Network Rail investment data is excluded from these statistics but is included in the government support to the rail industry statistics through the direct support provided by government to Network Rail.

The survey data is supplied to ONS confidentially and because of this agreement, ORR cannot provide any further disaggregation.

Private investment in the rail industry (excludes Network Rail investment), Great Britain, 2006-07 to 2015-16 (Table 1.9)



A net total of £801 million was invested by private companies during 2015-16. This is an increase of 24% on the previous year and is the highest value recorded since the start of the time series.



In 2015-16 there was £622m spent on rolling stock which has accounted for the highest proportion (78%) of net private investment. In 2014-15 this category reached a record level of £715 million due to new rolling stock orders. In 2015-16 there were new rolling stock orders such as Electrostar electric multiple-unit cars by Porterbrook leasing<sup>4</sup> and new trains to Great Western Railway (previously named First Great Western) by Eversholt Rail<sup>5</sup>. In addition, Eurostar invested in new electric multiple unit (e320) high-speed Eurostar trains<sup>6</sup>.

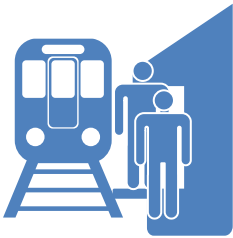
<sup>4</sup> <http://www.railwaygazette.com/news/traction-rolling-stock/single-view/view/porterbrook-orders-bombardier-emus-to-meet-future-demand.html>

<sup>5</sup> <https://www.eversholtrail.co.uk/news/eversholt-rail-to-finance-new-trains-for-first-great-western>

<sup>6</sup> <http://www.globalrailnews.com/2014/11/13/eurostar-to-order-more-e320-high-speed-trains/>



In 2015-16 other investment was £119 million which accounted for 15% of total private investment. Other investment includes expenditure associated with the rail business, such as non-rail vehicles and business related activities such as IT costs. This represented the highest level of other investment since 2006-07.



Private investment in stations during 2015-16 was £58 million, accounting for 7% of total private investment. Spending on stations peaked in 2006-07 at £155 million when the time series began. For the first time last year the disposal of station assets exceeded station investment, resulting in a net sale of £128 million of station assets. This was primarily due to the sale of rail yards.



In 2015-16, less than £2 million of net private investment was made in track and signalling. This element of investment is primarily made by Network Rail and their data are not included within these statistics so it is expected to be small.

# Annex 1 – List of pre-created reports available on the ORR Data Portal

All data tables can be accessed on the data portal free of charge. The ORR data portal provides on screen data reports, as well as the facility to download data in Excel format and print the report. We can provide data in csv format on request.

## Rail finance

- Government support to the rail industry, 1985-86 to 2015-16 - [Table 1.6](#)
- Government subsidy per passenger kilometre by train operating company, 2008-09 to 2015-16 - [Table 1.7](#)
- Private investment in the rail industry (excludes Network Rail investment), 2006-07 to 2015-16 - [Table 1.9](#)

**Revisions:** The Arriva Trains Wales (ATW) subsidy payments and the total subsidy, from 2008-09 onwards have been revised on the 12<sup>th</sup> January 2017, following provision of additional data on payments made between DfT and ATW. [Table 1.7](#) has been revised accordingly and pages 8 and 9 in this statistical release updated. Further details can be found at: [Revisions Log](#)

## Annex 2

### Statistical Releases

This publication is part of the statistical releases which cover the majority of reports that were previously released through the [Data Portal](#). The statistical releases consist of four annual and four quarterly themed releases:

#### Annual:

- Rail Finance & Rail Fares Index;
- Rail Safety Statistics;
- Rail Infrastructure, Assets and Environment;
- Regional Rail Usage.

#### Quarterly:

- Passenger and Freight Rail Performance;
- Freight Rail Usage;
- Passenger Rail Usage;
- Passenger Rail Service Complaints.

This year the Rail Fares Index was published separately from the main Rail Finance statistical release to enable earlier publication of data (in April 2016).

A full list of publication dates for the next twelve months can be found in the [release schedule](#) on the ORR website.

For more detail on data collection and the methodology used to calculate the statistics within this release please see the accompanying [Rail Finance Quality Report](#).

## Annex 3 – background to rail finance

The following provides some background to the key events in the rail industry:

Before 1994-95: Government support to the rail industry comprised grants to British Rail (BR) and the PTEs. BR also borrowed from the National Loans Fund.

1994-95 – 1996-97: The privatisation of the rail industry in April 1994 led to changes in the basis of government funding. Level Crossing Grant was paid to Railtrack in 1994-95 and 1995-96 and discontinued at the start of 1996-97 with the transfer of Railtrack into private ownership. Grant levels were set to allow the newly formed rail companies to earn commercial returns. Support for passenger services was channelled through the Office of Passenger Rail Franchising (OPRAF) and the PTEs, which were funded by the Revenue Support Grant and an additional Metropolitan Grant. Any cash surpluses that were earned were returned to the Exchequer and used to reduce the net level of support to the industry while the rail companies were still in the public sector. In addition, in 1995-96 and 1996-97 the net funding requirement for the industry was further reduced by proceeds from the formation of the rolling stock operating companies (ROSCOs) and BR non-passenger business.

From 1997-98: Government support to the rail industry chiefly consisted of OPRAF/Strategic Rail Authority support grants, PTE Special Grants and a grant to BR to finance its residual activities. Rail freight grants were paid by governments to encourage the movement of freight by rail.

2003-04: The year-by-year profile of government support to the rail industry was affected by the decision in the Access Charges Review 2003 to reprofile Network Rail's income. This led to government support being lower than it otherwise would have been in 2004-05 and 2005-06.

2014-15: Network Rail was reclassified as a public sector body in the UK national accounts and public sector finances from 1 September 2014. From 2014-15, loans that are issued by DfT to Network Rail have been included in this statistical release.

## Annex 4 – Other sources of financial information

There are other sources which provide information on finance in the rail industry as detailed below:

- [GB rail industry financial information](#) – this is an ORR annual publication which provides financial data from train operators, Network Rail and governments.
- [Rail subsidy per passenger mile](#) – this is a DfT annual release which provides information about the amount of subsidy paid to Train Operating Companies, both directly by the DfT and indirectly via grants to Network Rail.
- [Passenger revenue data and rail fares index](#) – both are ORR statistical releases. They provide data on revenue generated by travelling by rail and annual change in fares.
- [Country and Regional Analysis](#) – this is a HMT annual release which presents statistical estimates for the allocation of identifiable expenditure between the UK countries and nine English regions.

The purpose of this annex is to set out the differences between the above sources and to explain what causes the difference in the analysis and statistics.



### GB rail industry financial information

The industry financials publications provide a more comprehensive understanding of industry income and expenditure and provide more detailed train operator financial information. These are published by the ORR and the latest report is [GB rail industry financial information 2014-15](#).

#### Differences between ORR publications

The data presented in these reports are based on Network Rail regulatory accounts and TOC management accounts and therefore differ from the data in this financial release which are based on DfT, Transport Scotland and Welsh Government audited financial



accounts. There are differences between the amount of franchise receipts and payments reported as income / expenditure by train operators and the amounts reported by governments. We understand that this is largely due to the income recognition criteria set out in accounting standards, which require train operators to match receipts from government to the period in which the relevant expenditure occurs in their income statements. Therefore, the timing of the recognition of this income in train operators' financial statements will not necessarily match the expenditure shown in governments' financial statements.

## Network Grant

The network grant is paid directly by the government to Network Rail. The network grant funds Network Rail for the costs that are not recouped from users of the infrastructure (i.e. passenger operators, freight operators and open access operators).

In the GB rail industry financials (GBRIF), Network Rail's charges and other income and expenditure are allocated in proportion to train operators' activities in each operating route. Put simply, if a franchise does not operate in a particular operating route, none of Network Rail's expenditure in that route will be allocated to that franchise. Network Rail's grant income is allocated to train operators at a GB level.

Whilst recognising there is no definitive way to allocate Network Rail's income and expenditure between franchises the approach GBRIF have used is as follows:

- a. *maintenance costs* in each operating route have been allocated to franchises in proportion to the total variable usage charge (VUC) paid by each franchisee in that route. The variable usage charge rate (£ per train kilometre) is calculated based on a train's engineering characteristics and the wear and tear that a train causes to the track and is therefore an appropriate cost driver. The VUC rate is presently based on a GB-level figure for each operator and does not take account of the mix of rolling stock that an operator may have on different routes;
- b. *depreciation/amortisation* and financing costs have been allocated in proportion to train distance travelled by each franchise in each operating route. We have adopted this simple approach because physical presence on the network is arguably a more

- meaningful way to allocate largely fixed costs, which mostly relate to long-life assets than measures which relate to short-term (variable) wear and tear. So for example, GBRIF approach aims to allocate the cost of replacing a signal box to franchises in proportion to the number of trains that make use of that signal box;
- c. *other income and expenditure* in each route has been allocated in proportion to train distance travelled by each franchise in that operating route. This is essentially the same approach that GBRIF have used for allocating franchises' income and expenditure to operating routes. This is a simplifying approach which we consider appropriate for these comparatively smaller categories of income and expenditure;
  - d. *network grant* has been allocated at GB level in proportion to the residual Network Rail income less expenditure that we have calculated for each franchise. No adjustments have been made to reflect grant funding of particular operators in lieu of fixed track access charges (in Wales and Scotland); and
  - e. if Network Rail at GB level has a surplus or deficit, individual routes may still have a surplus or deficit after allocation of grant funding.

The network grant allocation methodology is being currently reviewed and will be changed for the next GB rail industry financials 2015-16 publication.

Currently, in this statistical release, we do not split the network grant split by TOC, but intend to include this next year and will align it with the GBRIF.



Department  
for Transport

## Rail subsidy per passenger mile

DfT publishes further data on rail subsidy per passenger mile which also includes the allocation of the network grant apportioned according to each franchise's share of fixed track access charges. This information is available at [rail subsidy per passenger mile](#), up to and including 2015-16. DfT publishes financial information for franchises that they let but this does not include five devolved operators (ScotRail, Caledonian Sleeper, Arriva Trains Wales, London Overground and MerseyRail). Note that the data produced by DfT is based on passenger miles, whilst the data in this release is based on passenger kilometres.

## Passenger revenue

Passenger revenue statistics which is published in the [quarterly rail usage statistical release](#) show all ticket revenue and miscellaneous charges associated with passenger travel on national railways, but do not include government support or grants.

## Rail fares index

Rail fares index is an annual release and contains information on the annual change in fares, which are normally introduced in January of each year.

Rail Fares Index provides a measure of the change in prices charged by train operating companies to rail passengers.

Index showing average change in price of rail fares, Great Britain, 2004 – 2016





## Country and Regional analysis

The country and regional analysis (CRA) presents statistical estimates for the allocation of identifiable expenditure between the UK countries and nine English regions. A robust methodology is not available to allocate all expenditure to regions on a ‘who benefits?’ basis. This is particularly difficult for spending on motorways and trunk roads (by the Highways Agency) due to the nature of the networks, so expenditure is therefore allocated on an ‘in’ basis. Allocation of rail expenditure is also difficult due to the railway network crossing regional boundaries, however, a methodology has been applied to allocate rail expenditure on a ‘who benefits?’ basis. This is done by matching patterns of rail passenger demand with the geographic distribution of train operators’ services.

## National Statistics

The United Kingdom Statistics Authority designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

National Statistics status means that official statistics meet the highest standards of trustworthiness, quality and public value.

All official statistics should comply with all aspects of the Code of Practice for Official Statistics. They are awarded National Statistics status following an assessment by the Authority's regulatory arm. The Authority considers whether the statistics meet the highest standards of Code compliance, including the value they add to public decisions and debate.

It is ORR's responsibility to maintain compliance with the standards expected of National Statistics. If we become concerned about whether these statistics are still meeting the appropriate standards, we will discuss any concerns with the Authority promptly. National Statistics status can be removed at any point when the highest standards are not maintained, and reinstated when standards are restored.

For more details please contact the Statistics Head of Profession Lyndsey Melbourne on 020 7282 3978 or contact [rail.stats@orr.gsi.gov.uk](mailto:rail.stats@orr.gsi.gov.uk).

The Department for Transport (DfT) also publishes a range of rail statistics which can be found at [DfT Rail Statistics](#).



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