



Rail Finance

2017-18

Publication date: 11 October 2018

Next publication date: November 2019

Background

This statistical release contains information on **rail finance** for Great Britain in 2017-18. It includes information on:

- Government support
- Private investment

Data sources:

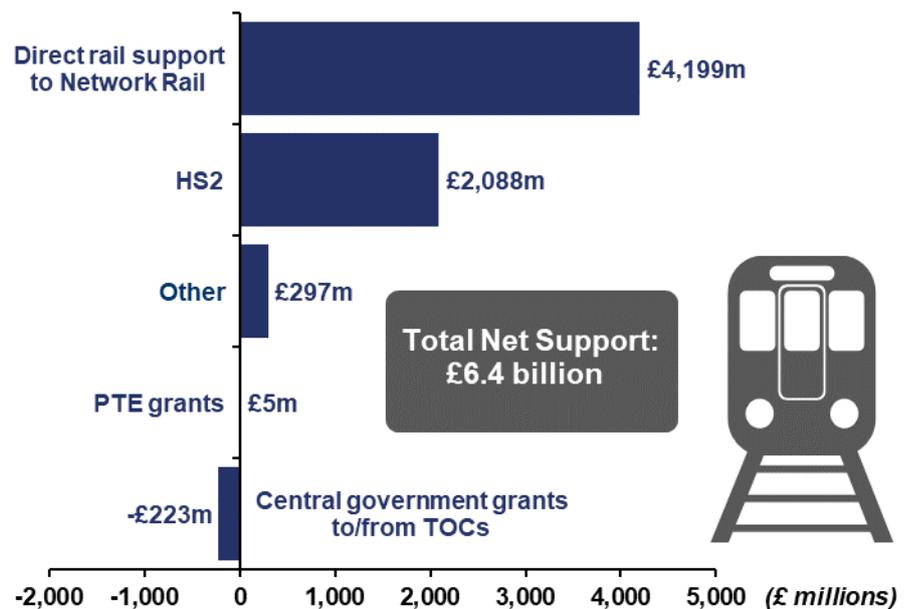
- Department for Transport
- Transport Scotland
- Welsh Government
- Train/Freight Operating Companies
- Rolling stock companies

To **adjust for inflation**, historic data have been adjusted to 2017-18 prices using [June 2018 GDP Deflators](#).

These statistics are compared with ORR's **UK Rail Industry Financial Information** publication on page 7.

Net government support to the rail industry in Great Britain totalled £6.4 billion in 2017-18 (excluding Network Rail loans). HS2 funding more than doubled to £2.1 billion in 2017-18. Direct rail support, PTE grants and central government grants totalled £4.0 billion in 2017-18. In real terms, this was £601 million higher than in 2016-17.

Government support to the rail industry, Great Britain, 2017-18



For the eighth year in a row, government **received a net contribution** from train operating companies (TOCs). However, the £223 million received in 2017-18 was down 71.3% in real terms compared with £776 million 2016-17.

Including direct support for Network Rail, government provided **6.1p for every rail passenger kilometre** travelled in Great Britain in 2017-18. This was up 0.9p in real terms on 2016-17.

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1. Government support to the rail industry

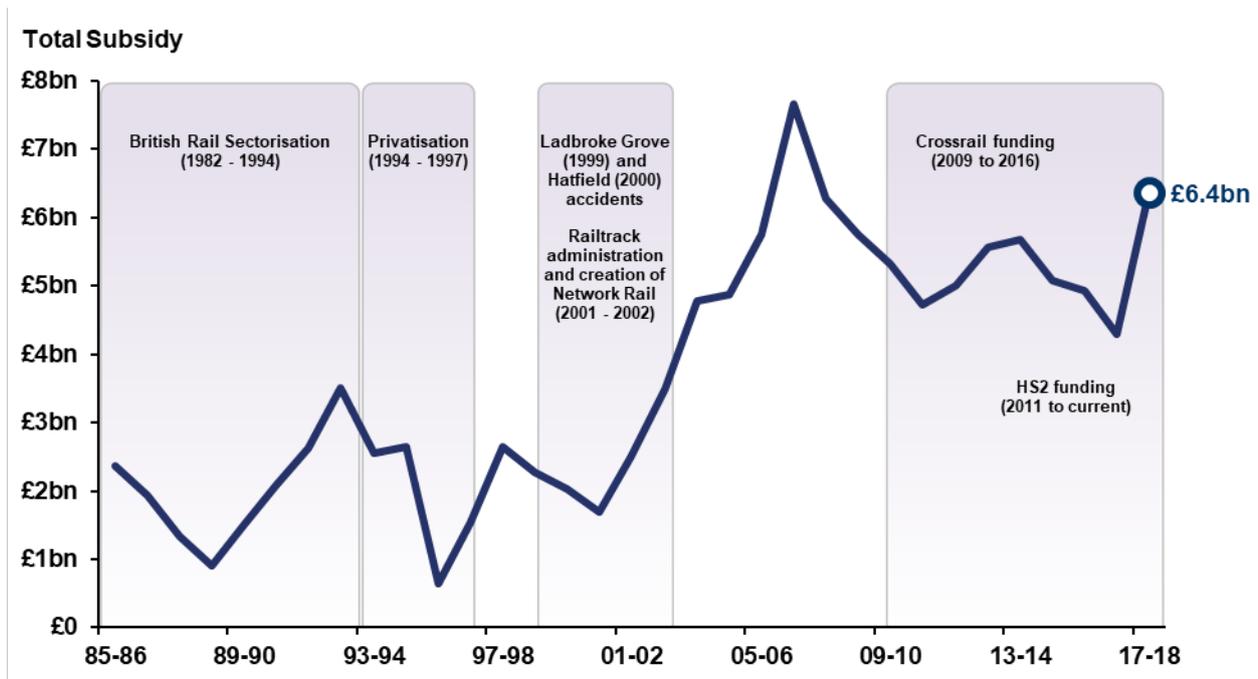
Net government support to the rail industry is the level of funding government provides towards operating, maintaining, renewing and enhancing the railway. It is comprised of grants to domestic passenger operators and Network Rail and covers the following categories:

- Direct rail support (also known as Network Grant to Network Rail);
- Central government grants (subsidy payment to or franchise premiums received from each TOC);
- [Passenger Transport Executive](#) (PTE) grants;
- Other elements of government support (such as HS2, Crossrail);

Loans issued to Network Rail ([page 5](#)) and freight grants ([page 6](#)) are presented separately. Franchising decisions taken by government can also affect private investment (see [page 11](#) for further details).

Government support in 2017-18 was £6.4 billion (£6,400 million). When adjusted for inflation¹ this was up 48.0% compared with 2016-17. Excluding HS2, funding for which more than doubled, spending increased by 24.1% in 2017-18. Government support peaked in 2006-07 (£7.7 billion in real terms). It has since fallen by 16.9% in real terms.

Figure 1.1: Net government support to the rail industry in real terms, Great Britain, 1985-86 to 2017-18



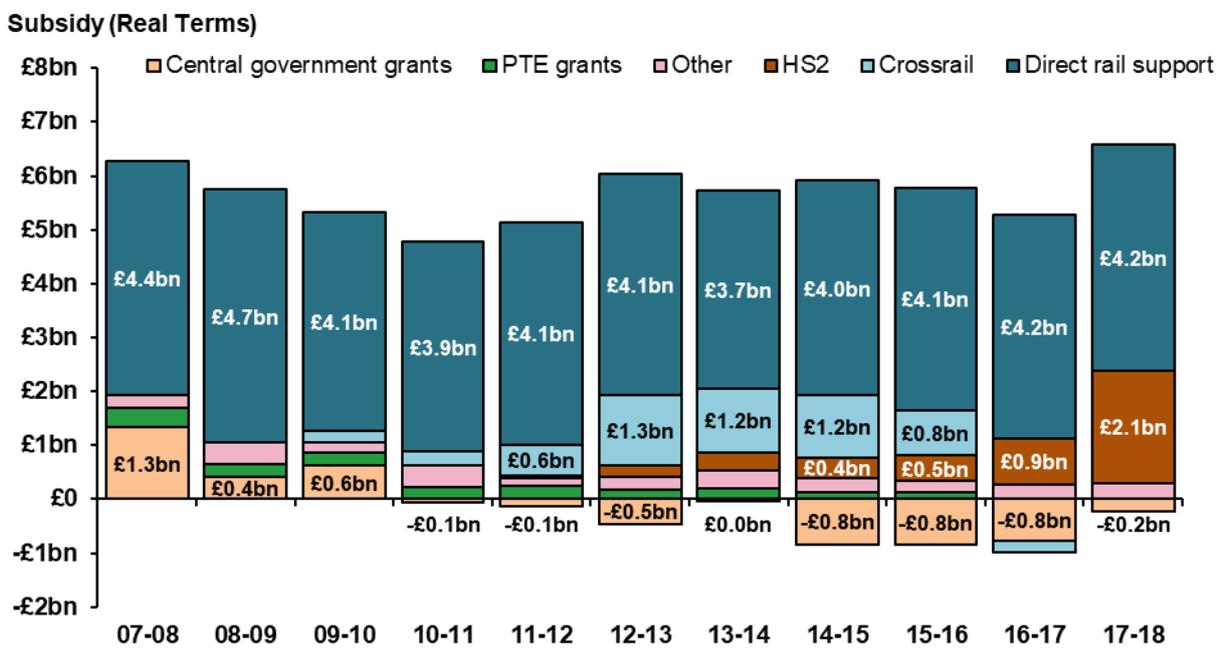
¹ Using the [June 2018 GDP Deflators](#), historic prices have been adjusted to represent 2017-18 prices allowing 'real terms' comparisons between data from 2017-18 and data from previous years.

Government support by funding type

The majority of government support in 2017-18 was **direct rail support**², which is the grant payment to Network Rail. This was £4.2 billion in 2017-18. In real terms, this was up £48 million on the previous year and the highest it has been since 2008-09 (£4.7 billion in real terms). Network Rail uses this money to maintain, renew and improve the network.

Direct rail support – grant payment to Network Rail and during the construction of HS1 up to 2007-08, to London and Continental Railways.

Figure 1.2: Breakdown of net government support to the rail industry in real terms, Great Britain, 2007-08 to 2017-18



Note: Where central government grants are positive, government subsidies to TOCs outweigh TOC premium payments to government. Where central government grants are negative, TOC premium payments outweigh government subsidies.

² Direct rail support 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.

Since 2010-11, TOCs have paid more in premiums to the government than they have received in **central government grants**. Train operators paid £223 million (net) to the government in 2017-18. This was down 71.3% compared with the previous year and the lowest amount paid to the government since 2013-14.

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 London Overground.

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.

Under the terms of the Northern franchise agreement, all subsidies are now paid directly to the train operator. **PTE grants** were limited to £4.7 million in 2017-18. This was down £68,000 compared with 2016-17.

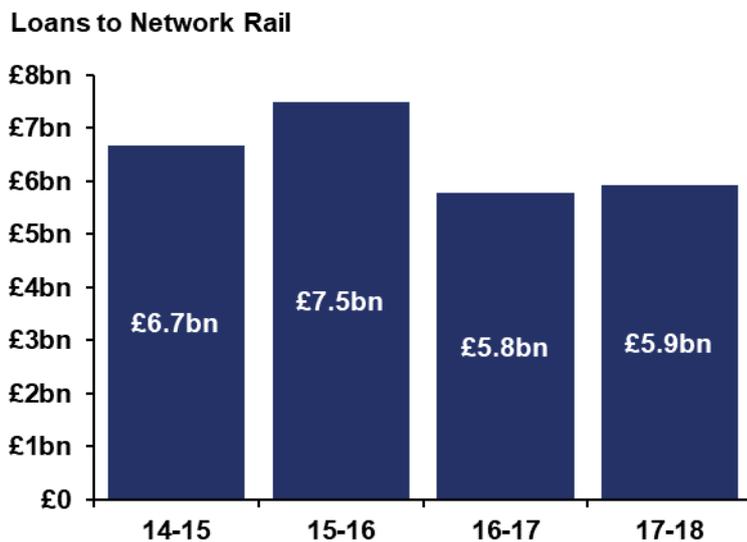
In 2017-18, there was £2.4 billion of investment for **other elements of government support**. This was up in real terms by £1.5 billion from 2016-17. Funding for Crossrail – for which government received £200 million in 2016-17 from the City of London Corporation as a contribution to the cost of the project – has now ended. However, funding for HS2 is now increasing. In real terms government funding increased from £853 million in 2016-17 to £2.1 billion in 2017-18.

Other elements of government support – all other government expenditure on major projects (e.g. Crossrail, HS2), support to arms-length bodies including British Transport Police and Transport Focus, and other ad hoc rail projects.

Since becoming a public sector body in September 2014 Network Rail borrows directly from government and no longer issues debt privately. The total new **government loan to Network Rail** in 2017-18, minus the drawdown fee and government interest expenditure, was £5.9 billion. This was 2.4% lower in real terms than the loan made in 2016-17 (£5.8 billion). [Network Rail's latest annual report and accounts](#) show the total net debt for 2017-18 was £51.2 billion (this includes money borrowed commercially prior to the re-classification in 2014).

Loans issued by DfT to Network Rail - following Network Rail re-classification to the public sector (September 2014). Network Rail had previously borrowed money on the commercial market.

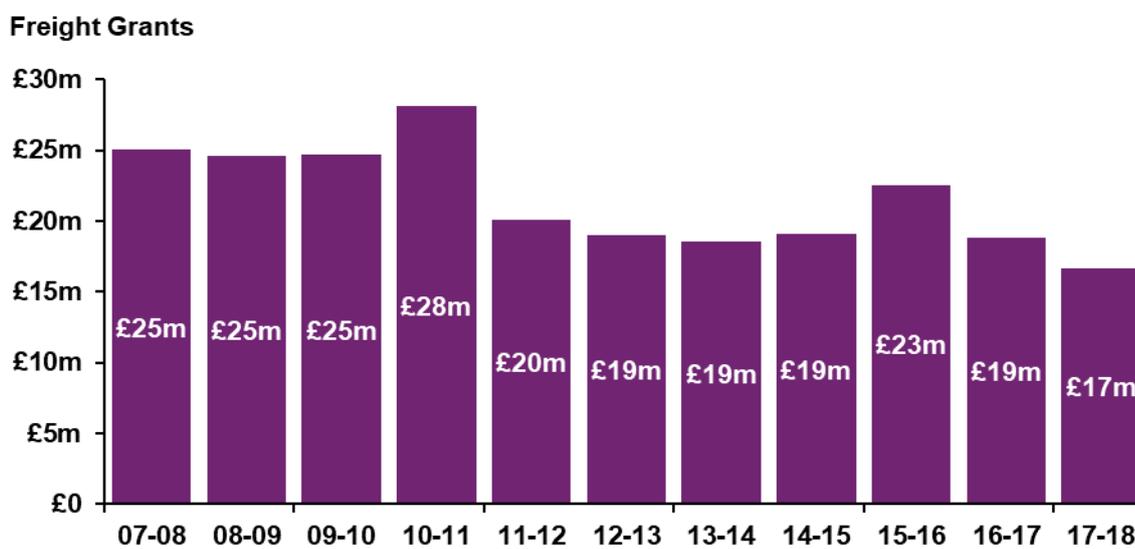
Figure 1.3: Government loans to Network Rail minus drawdown fee and government interest expenditure in real terms, Great Britain, 2014-15 to 2017-18



Government provided £17 million through **freight grants** in 2017-18, a real terms decrease of £2 million (11.4%) compared with 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](#). 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](#).

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.

Figure 1.4: Government freight grants in real terms, Great Britain, 2007-08 to 2017-18



Related Information

UK rail industry financial information

The Office of Rail and Road publishes further financial data in the [UK Rail Industry Financial Information](#) publication. Some of the data presented in this statistical release are also presented in the UK rail financial information³ (e.g. share of direct rail support allocated to TOCs). In addition, UK rail industry financial information also includes:

- Data for Northern Ireland.
- Train Operator income data: fares, on-board catering, car parks, etc.
- Train Operator expenditure: staffing, fuel, track access charges, etc.
- GB Passenger fare income data: standard/first, discounted/season/anytime, etc.
- Network Rail income data: track access charges (fixed and variable), etc.
- Network Rail expenditure data: operations, maintenance, renewals, etc.
- Data for open access and freight operators.

Rail fares index and passenger revenue data

Passenger revenue statistics 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](#) is an annual release containing information on the annual change in fares, which are normally introduced in January of each year.

Country and regional analysis

The country and regional analysis ([CRA, 2017](#)) presents statistical estimates for the allocation of identifiable expenditure between the UK countries and nine English regions. A methodology has been applied to allocate rail expenditure on a 'who benefits?' basis. This matches patterns of passenger demand with the geographic distribution of train services.

³ Some differences exist between the two publications. The UK Rail Industry Financial Information uses data from Network Rail regulatory and TOC management accounts. The data in this statistical release comes from DfT, Transport Scotland and Welsh Government audited financial accounts. Income recognition criteria set out in accounting standards require TOCs to match receipts from government to the period in which the relevant expenditure occurs in their income statements. The timing of the recognition of this income in TOC financial statements, therefore, may not necessarily match the expenditure shown in government financial statements.

2. Government support by train operating company

For train operating companies (TOCs), the **net subsidy/premium** is made up of:

- a) **Net franchise payment** which is a payment to or from a TOC contracted in their franchise agreement and may also include variations brought about by policy changes or initiatives;
- b) **Revenue support/share** which consists of a payments to or from a TOC that varies depending on the financial performance of the operator;
- c) Prior to 2016-17, **Passenger Transport Executive (PTE) grants**. These were payments made by the Department for Transport to train operators (mostly Northern) via PTEs; and
- d) **Share of Network grant**, which is an estimate of the share of the direct rail support provided by government to Network Rail. A methodology has been developed which apportions the direct rail support to the TOCs in line with the shortfall in funding on the Network Rail routes.

Data are presented in [Table 1.7](#) to show changes in ownership of the different franchises. For example, a separate column of data is provided for London Midland (Govia) and West Midlands Trains (Abellio/JR East/Mitsui). Where possible, franchise changes which occurred within a financial year have been reflected by splitting data between the relevant columns.

Prior to 2018-19, data were presented for inactive TOCs (i.e. those that paid/received payments in a year when they were not operating trains). Such payments are now included within the figures for the existing franchisee at the time of payment.

Government support per passenger kilometre is calculated by dividing the net payment to/from government by the train operator's total passenger kilometres (see [Table 12.11](#)).

Including direct support for Network Rail⁴, the government provided 6.1p in subsidies for every passenger kilometre travelled on the railways of Great Britain in 2017-18. In real terms, this was up 0.9p compared with the previous year. Virgin Trains East Coast (1.6p per passenger km) was the only franchise for which a net contribution was made to government in 2017-18. Journeys made on Arriva Trains Wales received the largest subsidy per passenger km in 2017-18 at 27.2p.

During 2017-18 the majority of franchised passenger train companies made premium payments to government (i.e. not including share of Network Grant, revenue support/share

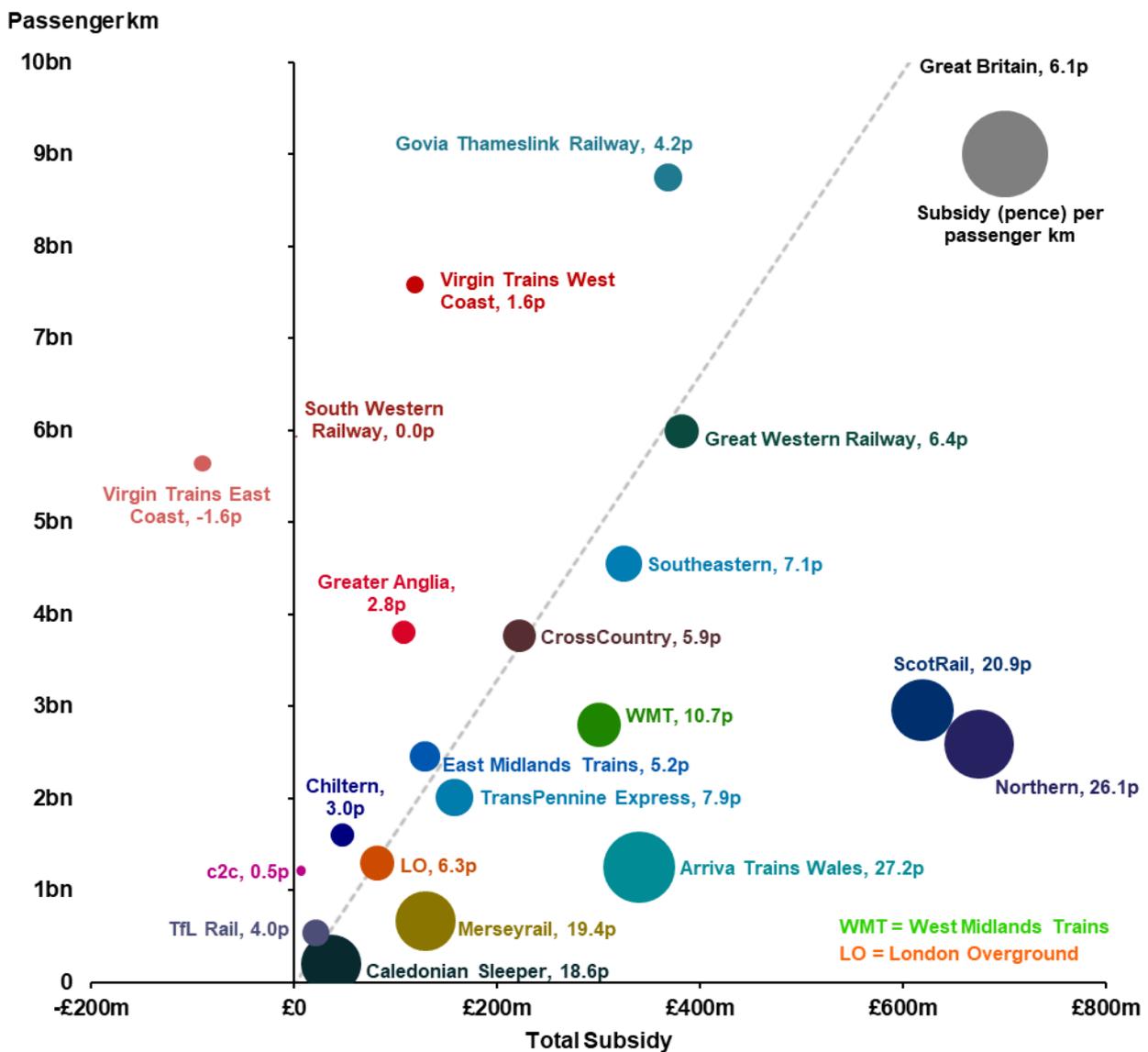
⁴ In publications before 2016-17, the calculation was made without the direct rail support to Network Rail. A methodology has been developed which apportions the direct rail support to the TOCs in line with the shortfall in funding on the Network Rail routes.

etc.). The highest amount paid was by South West Trains/South Western Railway (£380 million), followed by Virgin Trains East Coast (£343 million).

Virgin Trains East Coast (up 29.8%), Greater Anglia (up 7.8%) and Virgin Trains West Coast (up 4.4%) all had real terms increases in the payments they made to government compared with 2016-17. The £22 million paid by Govia Thameslink Railway was down 92.6% compared with the previous year.

ScotRail received the largest net franchise payment in 2017-18 at £307 million. This was up 22.3% compared with 2016-17. Northern received the second highest payment (£283 million), which was about the same as the amount received in the previous year. Southeastern had the largest increase in net franchise payments received. Having received £52 million in 2016-17, they received £80 million in 2017-18, an increase of 54.7%.

Figure 2.1: Net government support (including share of Network Grant) per passenger kilometre by train operating company, Great Britain, 2017-18



For revenue support/share, South West Trains/South Western Railway received £120 million in 2017-18, which was down 57.1% compared with the previous year. Having received £91 million received in 2016-17, CrossCountry received no revenue support in 2017-18. Great Western Railway (£21 million), Virgin Trains West Coast (£7.7 million), and Northern (£871,000) all made payments to government in 2017-18 having not paid or been in receipt of payments in 2016-17.

When their share of the direct rail support is taken into account, one TOC – Virgin Trains East Coast – was a net contributor to the government in 2017-18. The £90 million surplus recorded by this operator was up £73 million compared with 2016-17. The largest overall subsidies were paid to Northern (£675 million) and ScotRail (£619 million). The largest increase was recorded by Govia Thameslink Railway. Having received £81 million in subsidies in 2016-17, they received £368 million in 2017-18. The impact of these changes on subsidy per passenger kilometre are shown in the table below.

Table 2.2: Real terms change in net government support (including share of Network Grant) per passenger kilometre by train operating company (2017-18 prices), Great Britain, 2016-17 to 2017-18

Subsidy Change	Increase	Decrease
0p to 1.0p	London Overground (0.0p) Arriva Trains Wales (0.1p) c2c (0.1p) TransPennine Express (0.1p) CrossCountry (0.3p) TfL Rail (0.3p) East Midlands Trains (0.4p) Northern (0.7p) West Midlands Trains (0.9p)	Greater Anglia (-0.1p) ScotRail (-0.1p) Chiltern Railways (-0.2p) Virgin Trains West Coast (-0.2p)
More than 1.0p	Southeastern (1.4p) Great Western Railway (1.5p) Merseyrail (1.6p) South Western Railway (2.2p) Caledonian Sleeper (3.0p) Govia Thameslink Railway (3.3p)	Virgin Trains East Coast (-1.3p)

3. Private investment in the rail industry

Private investment statistics are collected by the Office for National Statistics (ONS) every year on behalf of ORR. Before 2017-18, the statistics were collected on a quarterly basis.

ORR selects 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 are supplied to ONS confidentially and because of this agreement, ORR cannot provide any further disaggregation of the information published here.

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:

Rolling stock including new and second-hand acquisitions of railway vehicles, e.g. locomotives (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);

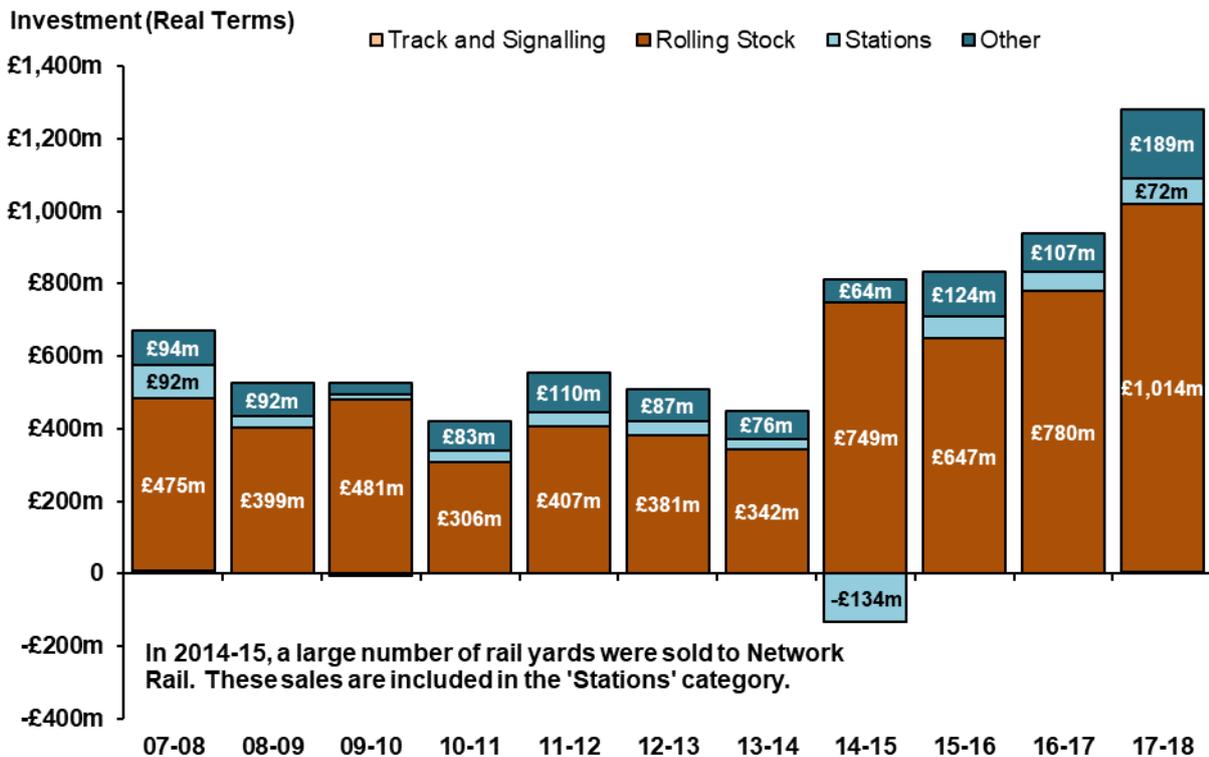
Track and signalling including expenditure on rail track renewals and enhancements, new routes and new electrification and signalling;

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.

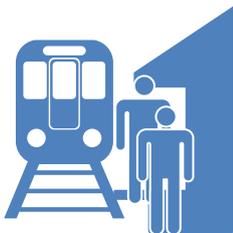
A number of franchises have been let recently with commitments to procure new and additional rolling stock (see the [House of Commons Library](#)). While rolling stock leasing companies provide upfront capital investment, it should be noted that franchise operator commercial decisions are often related to decisions taken by government and associated contractual requirements.

A net total of £1.3 billion was invested by private companies during 2017-18. This is a real terms increase of 36.1% on the previous year and is the highest value recorded since the time series began in 2006-07. The £1.0 billion invested in rolling stock was the highest value recorded since the time series began.

Figure 3.1: Real terms private investment in the rail industry (excludes Network Rail investment), Great Britain, 2007-08 to 2017-18



In 2017-18 there was £1.0bn spent on **rolling stock** which has accounted for the highest proportion (79.2%) of net private investment. This includes investment in to new rolling stock orders. In 2017-18 there were new rolling stock orders such as [Bombardier and CAF electric and diesel multiple-units ordered on behalf of West Midlands Trains](#). [Bombardier were also awarded contracts by South Western Railway](#) and [c2c](#).



Private investment in stations during 2017-18 was £72 million, accounting for 5.6% of total private investment. This was the highest amount invested since 2007-08.



In 2017-18, £6 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. Nevertheless, this was the highest amount invested since 2007-08.



In 2017-18 **other investment** was £189 million which accounted for 14.7% 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 was the highest amount invested since 2006-07.

Annex 1 – background to rail finance

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.

2002-04: Network Rail established following the collapse of Railtrack. 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 2 – List of data tables available on the ORR data portal

All data tables can be accessed on the [ORR data portal](#) free of charge and can be downloaded in Excel format. We can also provide data in csv or ods format on request.

All tables associated with this release can be found under Data Tables on the [rail investment and subsidies page](#).

Rail finance

- Government support to the rail industry - annual – Table 1.6
- Government subsidy per passenger kilometre by train operating company - annual – Table 1.7
- Private investment in the rail industry (excludes Network Rail investment) - annual – Table 12.7

We no longer publish the Timetabled train kilometres by train operating company table on our data portal. For historical data, please contact us at rail.stats@orr.gov.uk.

Methodology

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

Revisions

No revisions have been made since the 2016-17 release. Further details on historic revisions to the data set can be found on the [Revisions log](#).

Annex 3

Statistical Releases

This publication is part of ORR's [National Statistics](#) accredited releases, which consist of:

Annual

- Rail Finance
- Rail Fares Index
- Rail Safety Statistics
- Rail Infrastructure and Assets
- Rail Emissions
- Regional Rail Usage

Quarterly

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

In addition to the above, ORR publishes the following Official Statistics on the [ORR data portal](#):

Annual

- Estimates of Station Usage
- Train Operating Company Key Statistics
- Rail Statistics Compendium
- Occupational Health

Quarterly

- Signals passed at danger (SPADS)
- Delay Compensation Claims
- Disabled Person's Railcard (DPRC)
- Passenger assistance

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

The Department for Transport (DfT) also publishes a range of rail statistics which can be found at [DfT Rail Statistics](#). For example, Rail passenger numbers and overcrowding on weekdays in major cities.

Transport Focus publish the [National Rail Passenger Survey](#) (NRPS).

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 - Office for Statistics Regulation (OSR). The OSR 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 OSR promptly. National Statistics status can be removed at any point when the highest standards are not maintained, and reinstated when standards are restored.

Our [statistical releases were assessed in 2012](#) and hold National Statistics status. Since our assessment we have improved the content, presentation and quality of our statistical releases. Also, in July 2019 we launched our new data portal. Therefore in late 2019 we worked with the OSR to conduct a compliance check to ensure we are still meeting the standards of the Code. On 4 November 2019, [OSR published a letter](#) confirming that ORR's statistics should continue to be designated as National Statistics. OSR found many positive aspects in the way that we produce and present our statistics and welcomed the range of improvements made since the statistics were last assessed in 2012. OSR identified some areas that we could consider that may enhance the value of the statistics further and we will be working on these.

For more information on how we adhere to the Code please see the [UKSA Code of Practice page on the ORR data portal](#).

For more details, please contact the Statistics Head of Profession Lyndsey Melbourne at rail.stats@orr.gov.uk.



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