



Rail Finance:

Quality and Methodology Report

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Contents



Introduction	3
Methodology	4
Historical background	8
Relevance	11
Assured quality	12
Orderly release	14
Accessibility and clarity	15
Data governance	16

Introduction

This is a report on the quality of the Rail Finance statistical release and data portal tables. It helps users to understand the quality of our statistics, and also ensures ORR is compliant with the three quality principles in the Code of Practice for Official Statistics¹.

The quality report covers the following areas:

- **Methodology** – detail on the various data sources and methodology used to compile the statistics;
- **Historic background** – a background to each statistic and details of changes throughout the time series;
- **Relevance of the data** – the users of the statistics, and our engagement;
- **Accuracy and reliability** – the accuracy of each statistic;
- **Timeliness and punctuality** – our timescales for the production, quality assurance and publication of each statistic;
- **Accessibility and clarity** – the format of our statistics and where they can be found;
- **Coherence and comparability** – comparisons to similar statistics published elsewhere.

Rail finance is an annual release which provides information on rail finance in Great Britain. The government support statistics 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). The private investment statistics show the expenditure on, and disposal of, capital assets from private companies in the rail industry. These are covered in detail in the methodology section. ORR publishes quality reports on other ORR statistics which can be found on the [statistical release](#) page.

¹ Suitable data sources: Statistics should be based on the most appropriate data to meet intended uses. The impact of any data limitations for use should be assessed, minimised and explained.

Sound methods: Producers of statistics and data should use the best available methods and recognised standards, and be open about their decisions.

Assured quality: Producers of statistics and data should explain clearly how they assure themselves that statistics and data are accurate, reliable, coherent and timely. The Code of Practice can be accessed here <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html>

Methodology

Government support to the rail industry

Government support to the rail industry is sourced from Department for Transport (DfT), Transport Scotland and the Welsh Government. It covers the following categories:

- Central government grants (subsidy payment to or franchise premiums received from each Train Operating Company);
- 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.

Central government grants are payments between government and Train Operating Companies (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 Arriva Rail London (London Overground).

Positive numbers for central government grants are subsidies made from governments to TOCs and negative numbers are premiums from TOCs to governments.

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

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

Other elements of government support are 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.

Loans issued by DfT to Network Rail (as of 1st September 2014) following Network Rail re-classification to the public sector.

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.

The statistics provided by the government departments are combined to provide a total level of government support to the rail industry for Great Britain for the most recent financial year (April to March).

The total government support figures are also presented in that year's prices using the June GDP deflators².

Government subsidy per passenger kilometre

DfT, Transport Scotland and the Welsh Government also provide annual data on government subsidy for each train operating company (TOC). These statistics are then combined with annual passenger kilometres for each train operator, sourced from the LENNON ticketing and revenue database and the train operators themselves, to provide a figure for subsidy per passenger kilometre.

The **total subsidy** is broken down by:

- **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;
- **Revenue support/share** which consists of payments to or from TOCs that vary depending on the financial performance of the operator; and
- Prior to 2016-17, **PTE grants**. These were payments made by the DfT to PTEs, which used to pay for national rail services in their area.
- **Share of network grant**, which is the share of the direct rail support provided by government to Network Rail. This has been apportioned in line with the shortfall in funding on the Network Rail routes.

The data are presented for all active TOCs (i.e. those running the franchise at the time of payment). 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 with the figures for the existing franchisee at the time of payment.

² <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp#history>

Network Grant

Since 2016-17 Rail Finance publication, the direct rail support paid to Network Rail has been split between the TOCs to provide a more complete picture for the financial status of each operator. This was done using the same methodology used in the [UK rail industry financial information](#) (UKRIF). The figures for 2017-18 have been updated to match the proportions used in the [2017-18 UKRIF](#).

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).

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.

The network grant has been allocated at route level in proportion to the residual Network Rail income less expenditure calculated in each franchise's route-level "account". Until 2014-15 this calculation was done at GB level. The figures presented in the 2017-18 Rail Finance statistical release use the route-level grant figure, as published in Network Rail's regulatory financial statements. Figures for 2008-09 to 2014-15 have been estimated using this methodology.

Private investment in the rail industry

Private investment statistics is sourced from the Office of National Statistics Railway Investment Survey and covers 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.

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.

Statistics are provided by ONS each year. Prior to 2017-18 ONS collected the statistics every quarter.

The methodology for producing this dataset also includes re-assigning the private investment survey categories to align with the categories featured in the private investment report. We also ensure that all acquisition figures are positive numbers and disposal figures are negative values (multiply the disposal figures by -1). Negative numbers can occur due to a company's disposal of rail assets.

In previous statistical releases, the total investment for all the years was presented in that year's prices using the Retail Price Index (RPI). As from 2014-15, the total investment figures for all years are presented in that year's prices using the June GDP deflators³.

³ <https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp#history>

Historical background

Government support to the rail industry

Prior to 1994-95, **government support to the rail industry** comprised grants to British Rail (BR) and the PTEs, and borrowing by British Rail from the National Loans Fund. 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. 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.

PTE grants are paid to the five Passenger Transport Executives (PTEs) and Transport for Greater Manchester. These figures include grants made to PTEs specifically for national rail, so will not include any spending on rail made by PTEs from general grants. All grants to PTEs are currently made by the Department for Transport. Following privatisation, between 1995-96 and 2005-06 PTE rail funding also included loan repayments under Deeds of Assumption (DoA). These were payments to the PTEs relating to their past capital investment in the railway. They were made by British Rail and DoA Ltd until 2001, when the Strategic Rail Authority took over responsibility for the payments until they were paid off. Since 2016-17, much of the funding for PTEs is paid directly to the Northern franchise.

Direct rail support comprises direct payments to Network Rail. These originated in 2001 and were initially paid to Railtrack, and then to Network Rail following its creation in 2002. Prior to this, Railtrack was funded by network access charges paid by train operators. These figures are net of any rebates to Government and interest fee payment by Network Rail to DfT. These figures also include payments that were made to London and Continental Railways up to 2007-08 during the construction of the High Speed 1 route.

Rail freight grants are also paid by Government to encourage the movement of freight from road to rail and are currently secured through the Mode Shift Revenue Support (MSRS)

Scheme⁴. 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](#).

The ‘**Other elements of Government support**’ category includes other Government expenditure on national rail. It includes expenditure on major projects, rail pensions, support to arms-length bodies including the British Transport Police and Transport Focus, a grant to British Rail to finance its residual activities, and other ad hoc rail projects. Prior to privatisation it chiefly comprised the changes in the net indebtedness (borrowing minus lending) of the rail industry. 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, which is included in this category.

Loans issued by DfT to Network Rail (as of 1 September 2014) were arranged as part of Network Rail’s re-classification to the public sector. Funding is provided by DfT in the form of a loan to Network Rail to continue the programme of investment in the rail network.

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. Further details are available on the ORR website⁵.

Government subsidy per passenger kilometre

Government subsidy show subsidies paid directly to TOCs and premia received from them. They do not take into account the grants to Network Rail that form the large majority of government support to the rail industry, and which provide an indirect subsidy to the TOCs. Changes to franchise boundaries can affect year-on-year comparisons of these figures. Negative values in the table show where the government was in receipt of payments.

Subsidy figures for individual TOCs are prepared on an accruals basis and represent all payments made or received under the relevant franchise agreement between the Department

⁴ Department for Transport [Guide to Mode Shift Revenue Support \(MSRS\) Scheme 2015 to 2020](#)

⁵ National Rail review: <https://webarchive.nationalarchives.gov.uk/20101111061132/http://www.rail-reg.gov.uk/upload/pdf/343.pdf>

for Transport, the Welsh Government, Transport Scotland and individual passenger train operators.

Private investment in the rail industry

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.

Information is provided by a number of private companies and is supplied to ONS confidentially and because of this agreement, ORR cannot provide any further disaggregation.

Relevance

The degree to which the statistical product meets the user in both coverage and content.

Measures of rail financing are important in understanding how the rail network and delivery of services is financed in Great Britain with information on government support to the rail industry providing an insight into the burden of the rail industry on public finances.

Comparisons of the levels of financing over the time series with railway outputs and other modes of transport provides an insight in to the efficiency of service delivery over time.

Government support statistics are used for analysis and regional comparisons, understanding levels of investment and government decision making.

Private investment statistics are used for understanding levels of investment and government decision making.

More detailed information on users of ORR statistics and meeting the needs of users is available on our [user engagement webpage](#).

Assured quality

Producers of statistics and data should explain clearly how they assure themselves that statistics and data are accurate, reliable, coherent and timely.

Government support to the rail industry and Government subsidy per passenger kilometre

The government subsidy per passenger kilometre statistics represent subsidy/premium paid directly to/by the TOC and an estimate for a TOC's share of the direct rail support to Network Rail. Changes to franchise boundaries can affect year-on-year comparisons of these figures.

In 2012-13, £7.5 million was paid to the DfT by the Olympic Delivery Authority to compensate for increased subsidies paid to the TOCs during the Olympic period, which arose as a result of Olympic ticketing products being exempt from support calculations. This payment cannot be accurately attributed to individual TOCs but is included in the overall TOC total as a balancing item.

These figures are audited by three data providers – DfT, Transport Scotland and the Welsh Assembly. Therefore, the figures can be subject to change.

In addition to this, improvements are made by including other categories which might have been excluded previously, for e.g. in the case of other elements of government support, data was revised to include HS2 and other additional items of DfT rail expenditure.

Due to the figures presented in this report being based on DfT, Transport Scotland and Welsh Government audited accounts they do not match the figures quoted within ORR's [GB rail industry financial information](#) publication, where the figures shown for individual TOC subsidies/premiums are based on the TOC's management accounts. Page 7 of the [statistical release](#) sets out the differences between these sources in more detail.

DfT publishes 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). Please note that the data produced by DfT is based on passenger miles.

Private investment

Private investment statistics are sourced from the Office for National Statistics (ONS) Railway Investment Survey. Notes are provided with the returns from individual companies and can be checked if there is a doubt around any of the figures.

Comparability to European statistics

The difference in the structure of internal rail markets in European countries means that finance statistics are difficult to compare across member states. The statistical office of the European Union, Eurostat, collects no financial statistics on the rail market.

Limited financial information is collected by the Independent Regulators' Group (IRG-Rail) for their Market Monitoring Report, including information on passenger and freight revenues although data are not supplied by all European countries. More information on IRG-Rail is available on their website www.irg-rail.eu.

Orderly release

Organisations should commit to releasing their statistics in an open and transparent manner that promotes confidence.

The statistics contained within the finance statistical release are published annually on the ORR data portal approximately 200 days after the end of the financial year.

More detailed information on timeliness and effectiveness of the statistical output is available on our [user engagement webpage](#).

Accessibility and clarity

Statistics and data should be equally available to all, not given to some people before others. They should be published at a sufficient level of detail and remain publicly available.

Statistics and data should be presented clearly, explained meaningfully and provide authoritative insights that serve the public good.

All rail finance statistics can be accessed on the [Data Portal](#) free of charge.

Length of Comparable Time Series

Measure	Time Series	Data Portal Table
Annual government support	1985-86 to present	Table 1.6
Annual government subsidy	2008-09 to present	Table 1.7
Private investment	2006-07 to present	Table 1.9

Data governance

Organisations should look after people's information securely and manage data in ways that are consistent with relevant legislation and serve the public good.

For the private investment in the rail industry data, information is provided by a number of private companies and is supplied to ONS confidentially. Data are aggregated to the national level prior to publication by the ORR.



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