



Rail Finance

2017-18 Annual Statistical Release

Publication date: 11 October 2018

Next release: October 2019

Background

This release contains information on rail finance in Great Britain covering the period from 1985-86 to 2017-18.

Government support statistics

include government grants (from Department for Transport, Transport Scotland and Welsh Government) to Network Rail and subsidies/premiums to/from train operating companies (TOCs).

Private investment statistics

show the expenditure on, and disposal of, capital assets from private companies in the rail industry since 2006-07.

To adjust for inflation, historic data have been adjusted using the [June 2018 GDP Deflators](#).

Prices shown are for 2017-18.

A comparison is also made with the UK Rail Industry Financial Information on page 7.

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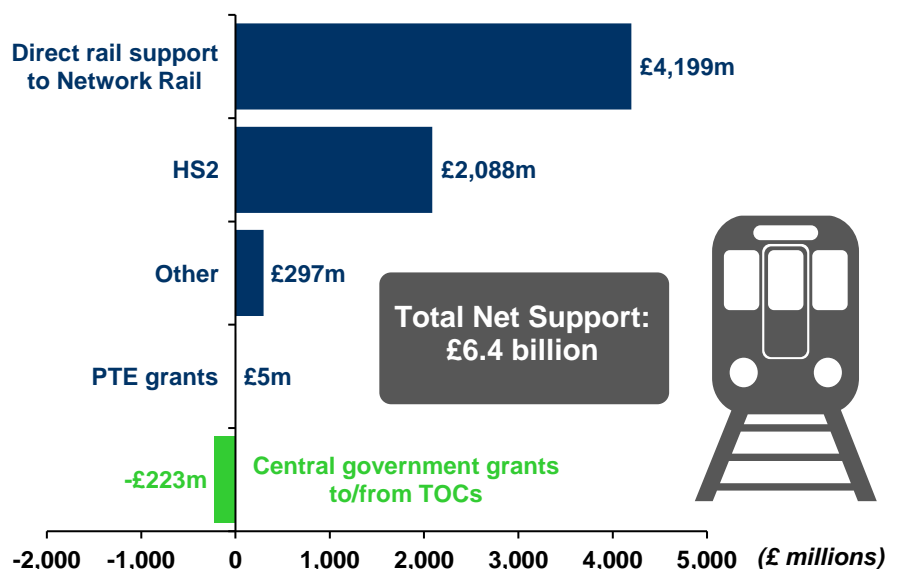
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Net government support to the rail industry in **Great Britain** totalled £6.4 billion in 2017-18 (excluding Network Rail loans). HS2 funding more than doubled to £2.1 billion in 2017-18. Direct rail support, PTE grants and central government grants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



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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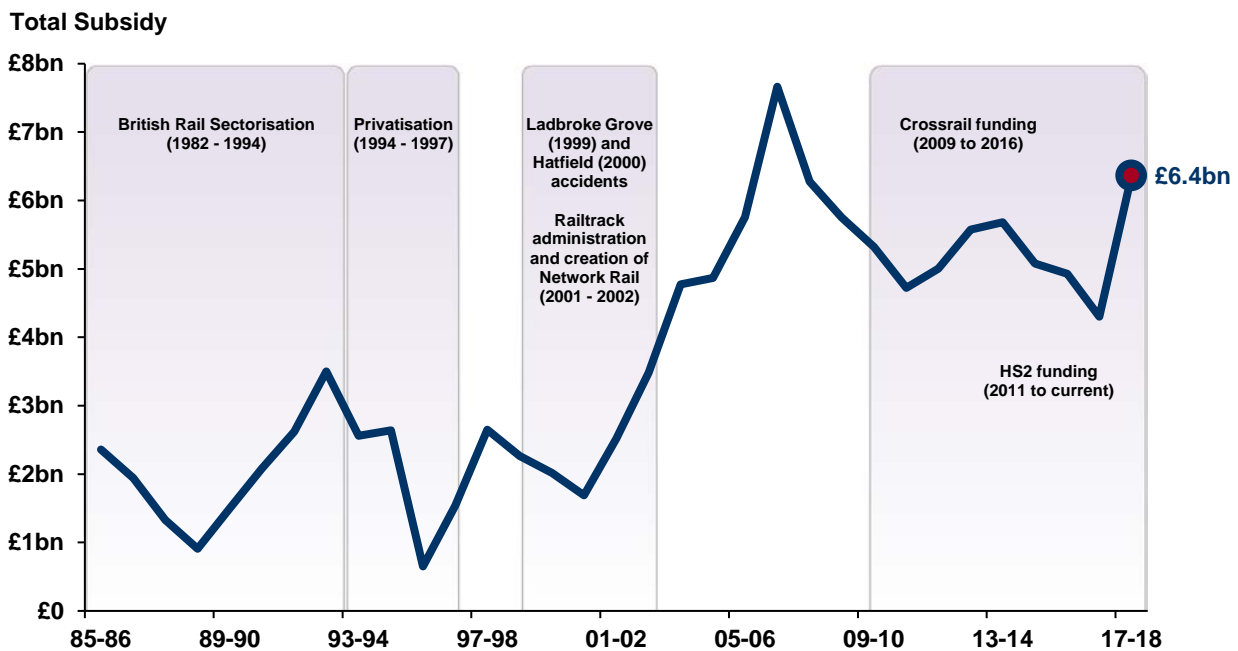
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Website: <http://orr.gov.uk/statistics/published-stats/statistical-releases>

1. Government support to the rail industry

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.

Government support to the rail industry in real terms, Great Britain, 1985-86 to 2017-18 ([Table 1.6](#))



Total government support to the rail industry is the level of funding government provides towards operating, maintaining, renewing and enhancing the railway. It shows grants to domestic passenger operators and Network Rail and 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 to Network Rail and freight grants are presented separately. Franchising decisions taken by government can also affect private investment (see [page 12](#) for further details).

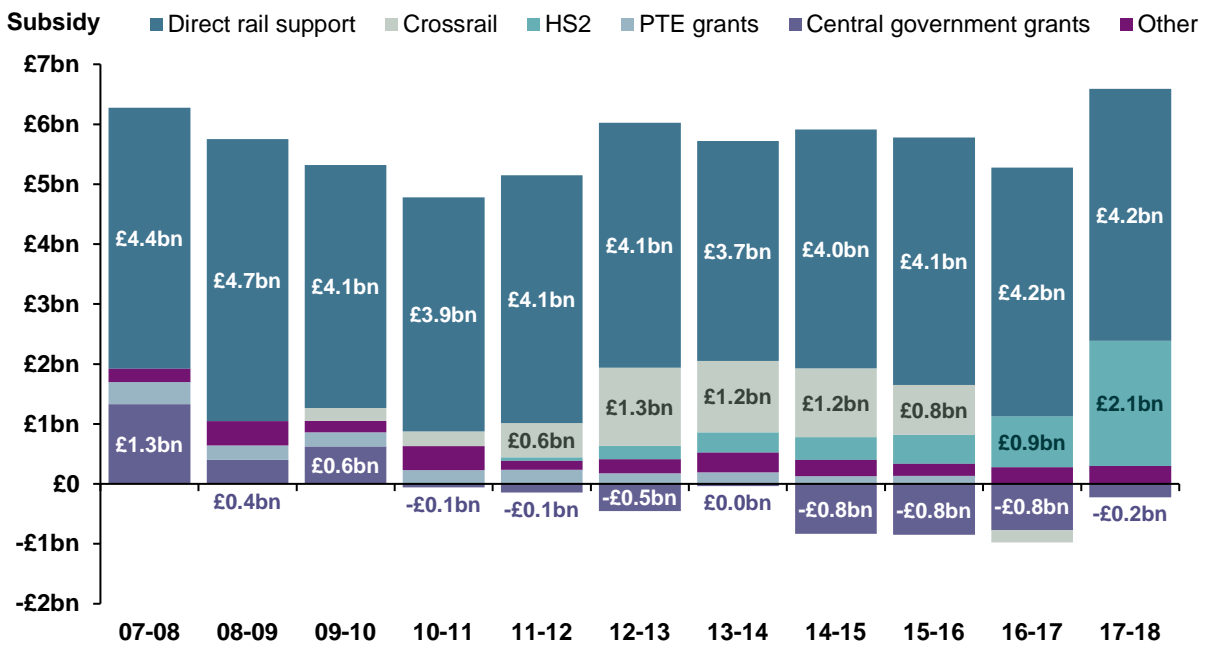
¹ Using the [June 2018 GDP Deflators](#), historic prices have been adjusted to represent 2017-18 prices allowing 'real terms' comparisons between data from 2017-18 and data from previous years.

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). 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.

Breakdown of total government support to the rail industry in real terms, Great Britain, 2007-08 to 2017-18 ([Table 1.6](#))



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.

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.

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.

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.

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.

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.

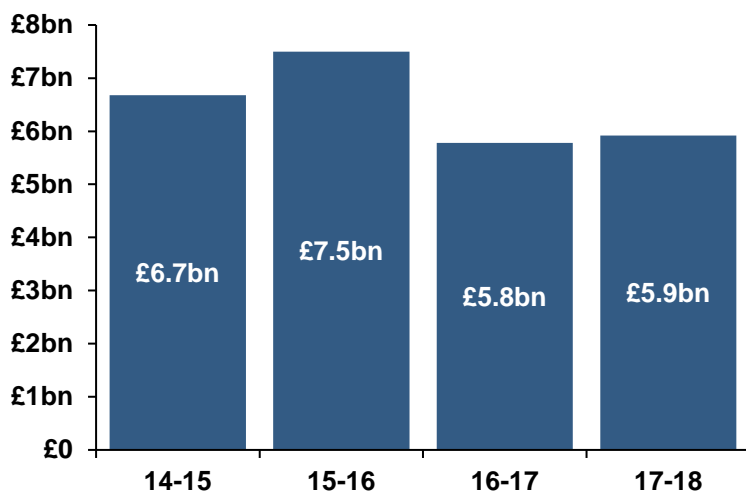
Since becoming a public sector body in September 2014 Network Rail borrows directly from government and no longer issues debt privately. The total new **government loan to Network Rail** in 2017-18, minus the drawdown fee and government interest expenditure, was £5.9 billion. This was 2.4% lower in real 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 billion³ (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.

Government loans to Network Rail minus drawdown fee and government interest expenditure in real terms, Great Britain, 2014-15 to 2017-18 ([Table 1.6](#))

Loans to Network Rail

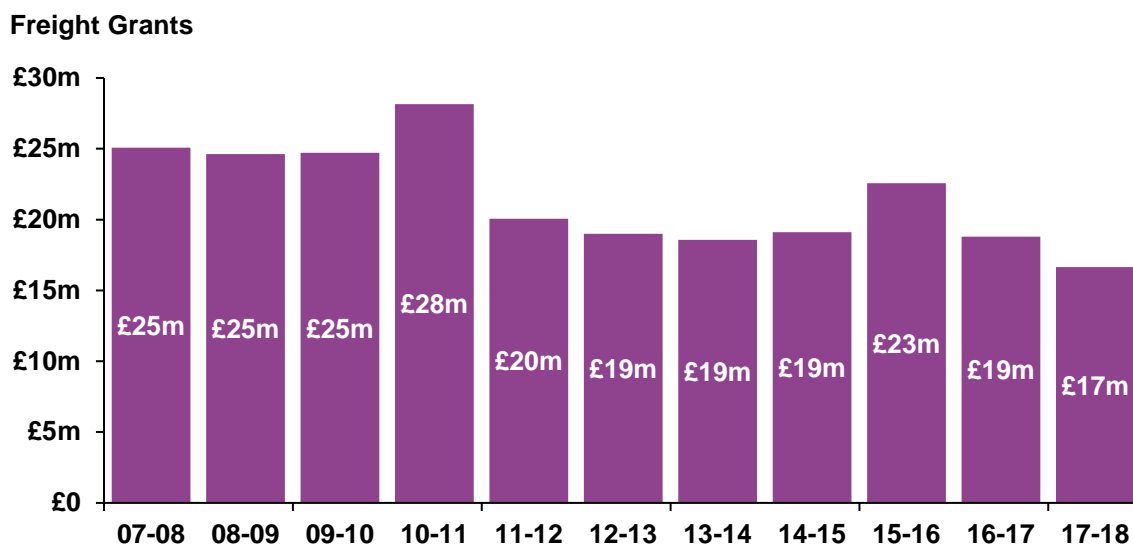


³ [Network Rail Annual Report and Accounts](#)

Government provided £17 million through **freight grants** in 2017-18, a 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) 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](#).

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 freight grants in real terms, Great Britain, 2007-08 to 2017-18 ([Table 1.6](#))



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

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 information⁵ (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 which is published in the [quarterly rail usage statistical release \(2017-18 Q4\)](#) 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 ([January, 2018](#)) 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

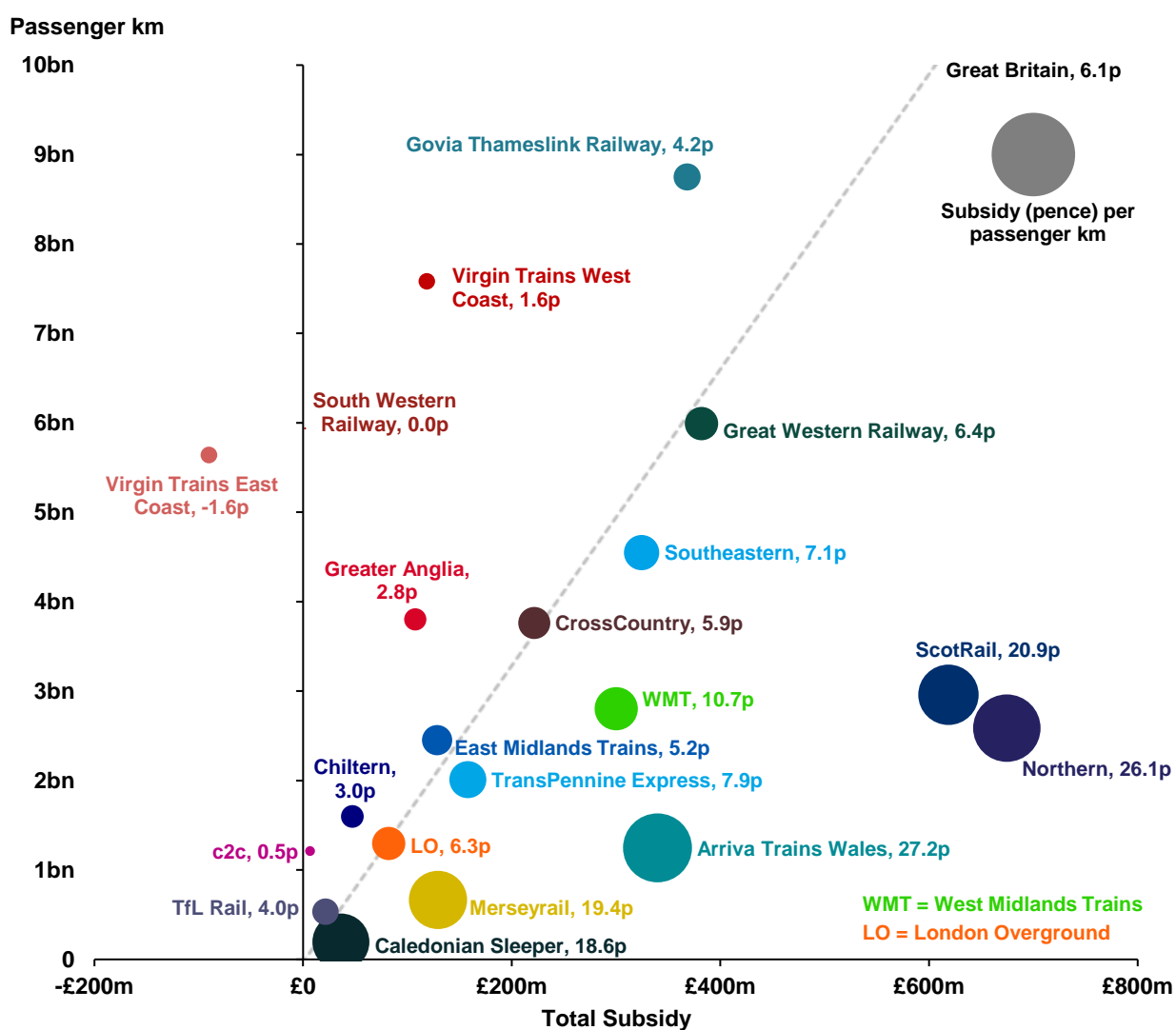
The country and regional analysis ([CRA, 2017](#)) presents statistical estimates for the allocation of identifiable expenditure between the UK countries and nine English regions. A methodology has been applied to allocate rail expenditure on a 'who benefits?' basis. This matches patterns of passenger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

⁵ 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 subsidy per passenger kilometre by train operating company

Including direct support for Network Rail⁶, 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.

Government subsidy (including share of Network Grant) per passenger kilometre by train operating company, Great Britain, 2017-18 ([Table 1.7](#))



⁶ 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.

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) 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.
- d) **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.

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 National Express East Coast, East Coast (Directly Operated Railways) and Virgin Trains East Coast. Where possible, franchise changes which occurred within a financial year have been reflected by splitting data between the relevant columns.

Data are also provided for 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.

Government subsidy per passenger kilometre is calculated from the net payment to/from government and the train operators' total passenger kilometres (see [Table 2.11](#)).

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 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%.

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.

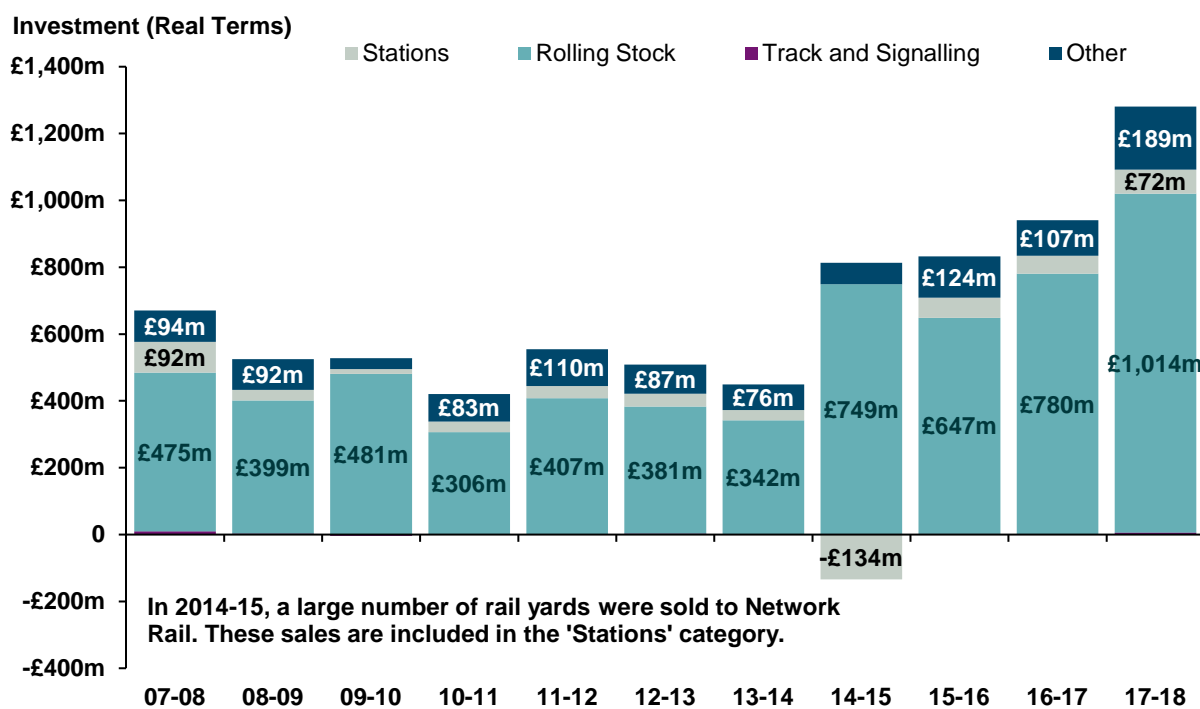
Real terms change in total government subsidy (including share of Network Grant) per passenger kilometre by train operating company (2017-18 prices), Great Britain, 2016-17 to 2017-18 ([Table 1.7](#))

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

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.

Real terms private investment in the rail industry (excludes Network Rail investment), Great Britain, 2007-08 to 2017-18 ([Table 1.9](#))



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

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:

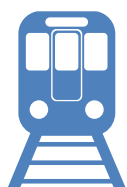
Rolling stock including new and second-hand acquisitions of rail rolling stock (excluding leasing charges) and eligible refurbishment work;

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

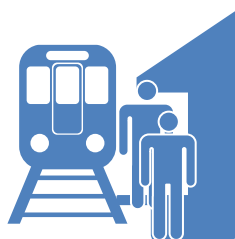
Track and signalling including expenditure on rail track renewals and enhancements, new routes and new electrification and signalling;

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.



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 CAF⁷ electric and diesel multiple-units ordered on behalf of West Midlands Trains. Bombardier were also awarded contracts by South Western Railway⁸ and c2c⁹.



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.

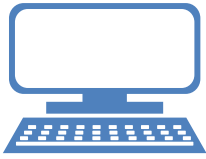
⁷ <http://www.railtechnologymagazine.com/Rolling-stock/west-midlands-jv-awards-680m-deal-for-over-100-new-trains>

⁸ <http://www.railtechnologymagazine.com/Rolling-stock/first-mtr-sign-895m-deal-with-bombardier-for-new-south-western-aventra-trains>

⁹ <http://www.railtechnologymagazine.com/Rolling-stock/c2c-announces-100m-train-deal-with-bombardier>



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 – 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 2017-18 - [Table 1.6](#)
- Government subsidy per passenger kilometre by train operating company, 2008-09 to 2017-18 - [Table 1.7](#)
- Private investment in the rail industry (excludes Network Rail investment), 2006-07 to 2017-18 - [Table 1.9](#)

Revisions: No revisions have been made since the 2016-17 release.

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 March 2017).

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

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.

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.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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