



## **Rail Finance:**

# **Quality and Methodology Report**

Release Date: October 2018

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# 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 principle 4 of the Code of Practice for Official Statistics<sup>1</sup>.

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.

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<sup>1</sup> Principle 4: Sound methods and assured quality. Statistical methods should be consistent with scientific principles and internationally recognised best practices, and be fully documented. Quality should be monitored and assured taking account of internationally agreed practices. 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 1<sup>st</sup> 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 GDP deflators<sup>2</sup>.

## 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) 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.

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<sup>2</sup> <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 2016-17 have been updated to match the proportions used in the [2016-17 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 GDP deflators<sup>3</sup>.

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<sup>3</sup> <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) Scheme<sup>4</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>4</sup> Department for Transport [Guide to Mode Shift Revenue Support \(MSRS\) Scheme 2015 to 2020](#)



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 website<sup>5</sup>.

## 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 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. An example of the survey is provided at the end of this document.

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.

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<sup>5</sup> National Rail review: [http://orr.gov.uk/\\_data/assets/pdf\\_file/0010/2116/343.pdf](http://orr.gov.uk/_data/assets/pdf_file/0010/2116/343.pdf)

## 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](#).

## Accuracy and reliability

*The proximity between an estimate and the unknown true value.*

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

The government subsidy per passenger kilometre statistics represent subsidy paid directly to TOCs. Changes to franchise boundaries can affect year-on-year comparisons of these figures. Payments (network grant) made directly to Network Rail, that would have otherwise been paid through the TOCs are not included.

In 2012-13 £7.5 million was paid to the Department 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.

### Private investment

Private investment statistics are sourced from the Office for National Statistics (ONS) Railway Investment Survey. These statistics are often revised because companies update their financial data as more information becomes available.

## Timeliness and punctuality

*Timeliness refers to the time gap between publication and the reference period.*

*Punctuality refers to the gap between planned and actual publication dates.*

The statistics contained within the finance statistical release are published annually on the ORR data portal approximately 140 days after the end of the financial year.

ORR has memorandums of understanding (MoUs) with DfT, Transport Scotland and the Welsh Government detailing the scope and timeliness of each dataset supplied. This ensures consistent and timely information is received each period. The MoUs are reviewed on an annual basis.

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

## Accessibility and clarity

*Accessibility is the ease with which users are able to access the data, also reflecting the format in which the data are available and the availability of supporting information. Clarity refers to the quality and sufficiency of the metadata, illustrations and accompanying advice.*

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

*The procedures and policy used to ensure sound confidentiality, security and transparent practices.*

ORR is fully compliant with the Statistics and Registration Service Act 2008 and principle 4 of the Code of Practice for Official Statistics.

More information is available on our [user engagement webpage](#).

## Coherence and comparability

*Coherence is the degree to which data that are derived from different sources or methods, but refer to the same topic, are similar. Comparability is the degree to which data can be compared over time and domain.*

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

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. Annex 4 in 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

ORR publishes investment in the railway industry by private companies. This does not cover any government subsidy.

### 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](http://www.irg-rail.eu)

# Length of Comparable Time Series

Measure	Time Series	Data Portal Table
Annual government support	1985-86 to present	<a href="#">Table 1.6</a>
Annual government subsidy	2008-09 to present	<a href="#">Table 1.7</a>
Private investment  Annual Quarterly	2006-07 to present 2006-07 Q1 to 2016-17 Q4	<a href="#">Table 1.9</a>



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## Annual Railways Investment Survey

**Please do not discard this important document - your response is legally required**

00001 49200  
CONTACT NAME  
OFFICE FOR NATIONAL STATISTICS  
GOVERNMENT BUILDINGS  
CARDIFF ROAD  
NEWPORT  
NP10 8XG  
\*\*\*\*\* EXAMPLE PRINT \*\*\*\*\*

Please write any changes to your name and address in the box below, using black ink

**To be completed for:** THE BUSINESS NAMED ABOVE

**Please complete and return by 10 April 2018**

Dear Sir or Madam,

Please find the 2017/18 questionnaire for the Annual Railways Investment Survey attached. Please complete for the period 1 April 2017 to 31 March 2018. If actual figures are not available, please provide informed estimates. Once complete, the questionnaire can be returned by post or fax using the details in the box below.

The information supplied is collected by the Office for National Statistics (ONS) on behalf of the Office of Rail and Road (ORR) under Ministerial Direction. ORR aggregates the investment figures for all the companies in Great Britain and publishes them as a yearly estimate in the Rail finance statistical release which is available at <http://orr.gov.uk/statistics/published-stats/statistical-releases> and from the data portal at <http://dataportal.orr.gov.uk/>

We guarantee that while your employment is less than 10, you will be included in just this one ONS business survey and receive no more than 1 questionnaire. You must complete and return this questionnaire, after which you will be excluded from all our business surveys for at least 3 years. The Annual Survey of Hours and Earnings is not covered by this guarantee.

**You are required by law to complete this questionnaire.** If you do not complete and return this questionnaire by 10 April 2018, penalties may be incurred (under section 4 of the Statistics of Trade Act 1947). All the information you provide is kept strictly confidential. It is illegal for us to reveal your data or identify your business to unauthorised persons.

Thank you for your co-operation,  
Office for National Statistics

### Questionnaire return details

**To return via fax:** 01633 652707

**To return via post:** Please use the prepaid envelope provided which is addressed to:  
Office for National Statistics, Government Buildings, Cardiff Road, Newport, NP10 8XG

### Contact numbers

Er mwyn gwneud cais am ffurflen Gymraeg (To request a questionnaire in Welsh) 0300 1234 921

If you would like to use our Minicom service for the Deaf 01633 815 044

To complete the questionnaire in Euros 01633 651718

For any other queries, please contact **Maike Henneboehle** **01633 651718**  
or go to [www.ons.gov.uk/surveys](http://www.ons.gov.uk/surveys)

### When contacting the office you may be asked for the following information

**Survey code:** 194      **Reference number:** 194 4990 0000 000C      **Period:** 201712

- Telephone calls may be recorded for training and quality purposes





# Guidance Notes for Completing the Annual Railways Investment Survey

## 1. Track and signalling

### Include:

- Expenditure on rail track renewals and enhancements;
- New routes;
- New electrification and signalling and any associated land;
- Professional fees and charges.

## 2. Rolling Stock

### Include:

- New and second-hand acquisitions of rail rolling stock (not to include leasing charges);
- Eligible refurbishment work.

## 3. Stations

### Include:

- Expenditure on passenger stations;
- Passenger and freight train depots, train maintenance facilities;
- Expenditure on retail outlets;

### Exclude:

- Expenditure at station ticket offices.

## 4. Other Rail

### Include:

- All other expenditure in connection with rail business;
- Buildings and associated land;
- Non-rail vehicles;
- Capital equipment. (Other than track and signalling)

### Exclude:

- Expenditure not connected with rail business.