



Rail Finance:

Quality and Methodology Report

Release Date: October 2016

Contents



Introduction	3
Methodology	4
Historical background	7
Relevance	9
Accuracy and reliability	10
Timeliness and punctuality	11
Accessibility and clarity	12
Coherence and comparability	13

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 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 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 LOROL (London Overground Rail Operations Ltd).

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).

As from 2014-15, the total government support figures are presented in that year's prices using the 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
- PTE grants which are payments made by DfT to PTEs, used to pay for national rail services in their area.

Total subsidy figures currently exclude the grants to Network Rail.

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.

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

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 quarter. The statistics are based on calendar quarter and for the purposes of our publications, we convert this to financial quarters.

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 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.

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

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

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 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.

⁵ National Rail review: 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.

The 2015-16 release was published in October instead of August due to a delay in the supply of data from DfT.

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

Length of Comparable Time Series

Measure	Time Series	Data Portal Table
Annual government support	1985-86	Table 1.6
Annual government subsidy	2008-09	Table 1.7
Private investment Annual Quarterly	 2006-07 2006-7 Q1	Table 1.9



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at orr.gov.uk

Any enquiries regarding this publication should be sent to us at orr.gov.uk