

GB rail industry financial information 2010-11



Background

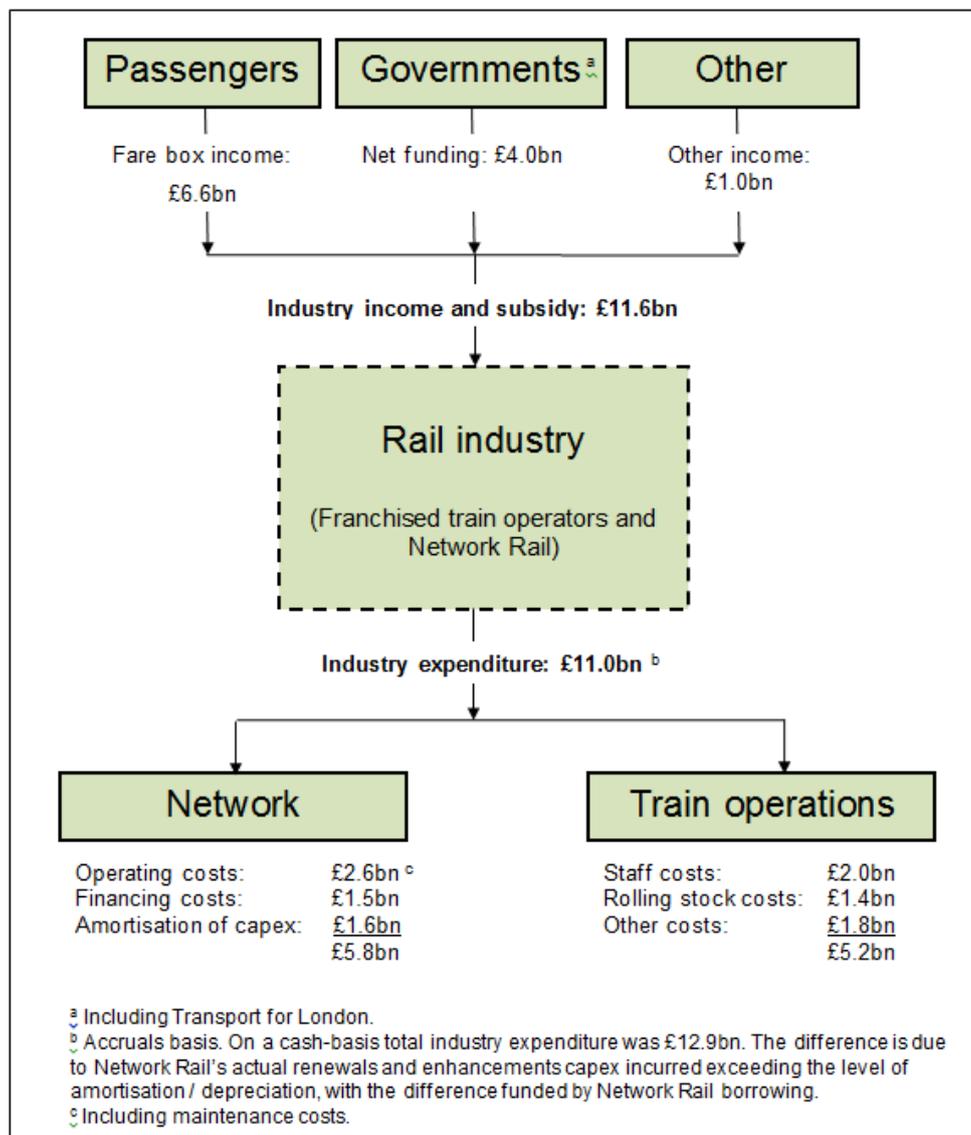
This is the first ORR publication of financial information for the rail industry.ⁱ It starts to address the need to improve understanding of the franchised rail industry's money flows and to help inform the debate about the industry's value for money for passengers and taxpayers. It provides a clear, single and authoritative source of information that has, over the last few years, been difficult for stakeholders to produce from the disparate sources. The full report is available at: www.rail-reg.gov.uk/server/show/nav.1856.

This work has been undertaken in collaboration with Network Rail, the Association of Train Operating Companies (ATOC) and its members, the Department for Transport and Transport

Scotland. We intend to update this analysis on an annual basis.

General observations

The key components of the rail industry, together with industry income and expenditure in 2010-11 are shown below. Total industry costs were £11.0bn, of which 52.5% were incurred in operating and maintaining the rail network and 47.5% in train operations. These costs were covered by passenger fare box income (£6.6bn), other income (£1.0bn) and net government funding of £4.0bn, resulting in an overall industry 'surplus' of £0.6bn.ⁱⁱ

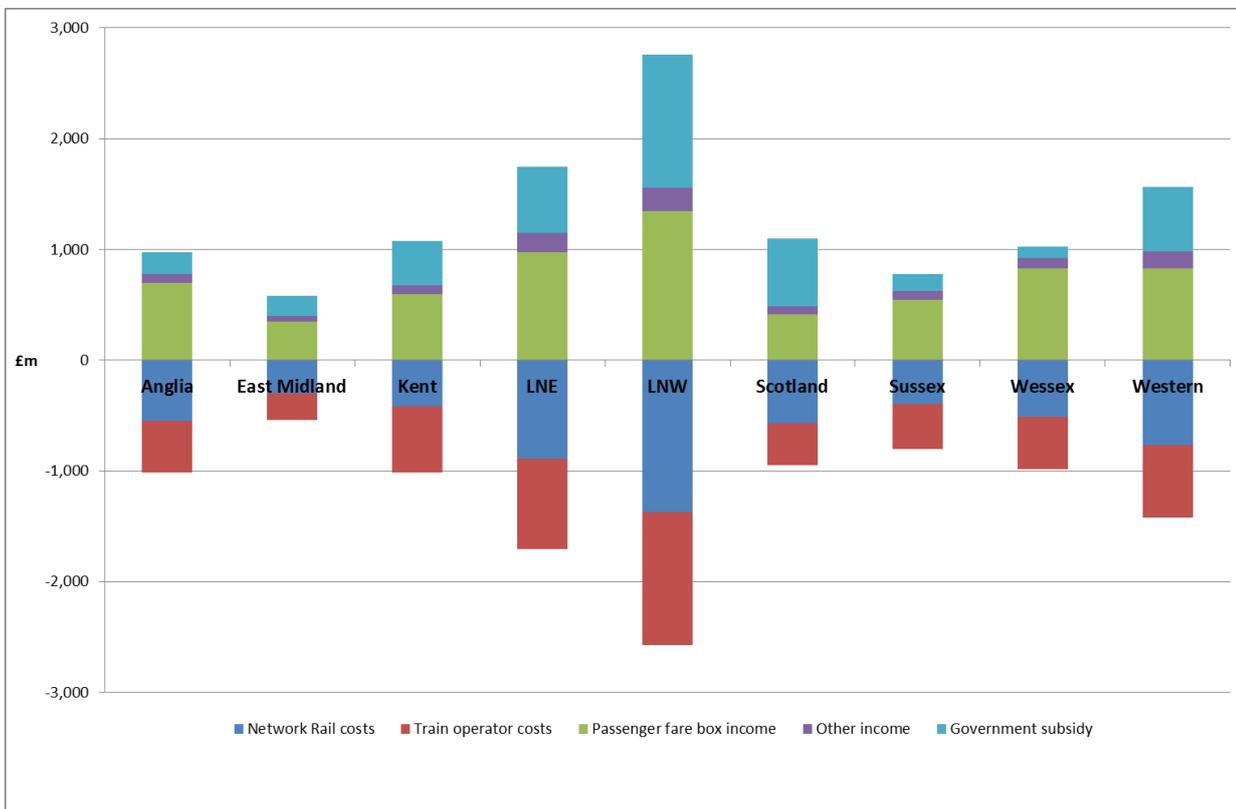


Income, expenditure and government funding are summarised in the table and charts below for each of Network Rail's regional operating routes.ⁱⁱⁱ More detailed financial information is available within the main report together with a short analysis and explanation of the methodology underpinning our analysis.

Care needs to be taken in interpreting our disaggregated findings. For example, five train companies operate in Scotland (First Scotrail, Virgin Trains, East Coast, Cross Country and First Transpenine Express). Our analysis shows

£241m of government funding for train operators in Scotland whereas Transport Scotland funding of First Scotrail was £270m. The £29m variance is due to the four train operators who primarily operate in England & Wales operating routes. These operators made net payments to the Department for Transport of which a proportion has been allocated to Scotland in proportion to train distance travelled within each operating route. Consequently total funding of train operators in the Scotland operating route is less than Transport Scotland's funding of First Scotrail.

Industry income, expenditure and government funding



£m	Operating route									
	Anglia	East Midland	Kent	LNE	LNW	Scotland	Sussex	Wessex	Western	Total
Income										
Franchised train operators income	735	388	634	1,103	1,482	463	598	893	944	7,240
Network Rail income	42	11	44	45	71	20	23	31	36	323
	777	399	678	1,148	1,553	483	621	924	980	7,563
Expenditure										
Franchised train operators expenditure	469	239	597	809	1,205	379	410	477	651	5,236
Network Rail expenditure	546	303	415	894	1,370	570	396	511	768	5,771
	1,015	542	1,012	1,703	2,575	949	805	988	1,419	11,007
Income less expenditure	-238	-143	-334	-555	-1,022	-466	-184	-64	-439	-3,444
Net government funding	196	179	395	596	1,207	613	159	104	586	4,035
Income less expenditure including government funding^a	-42	36	61	41	185	147	-25	40	147	591

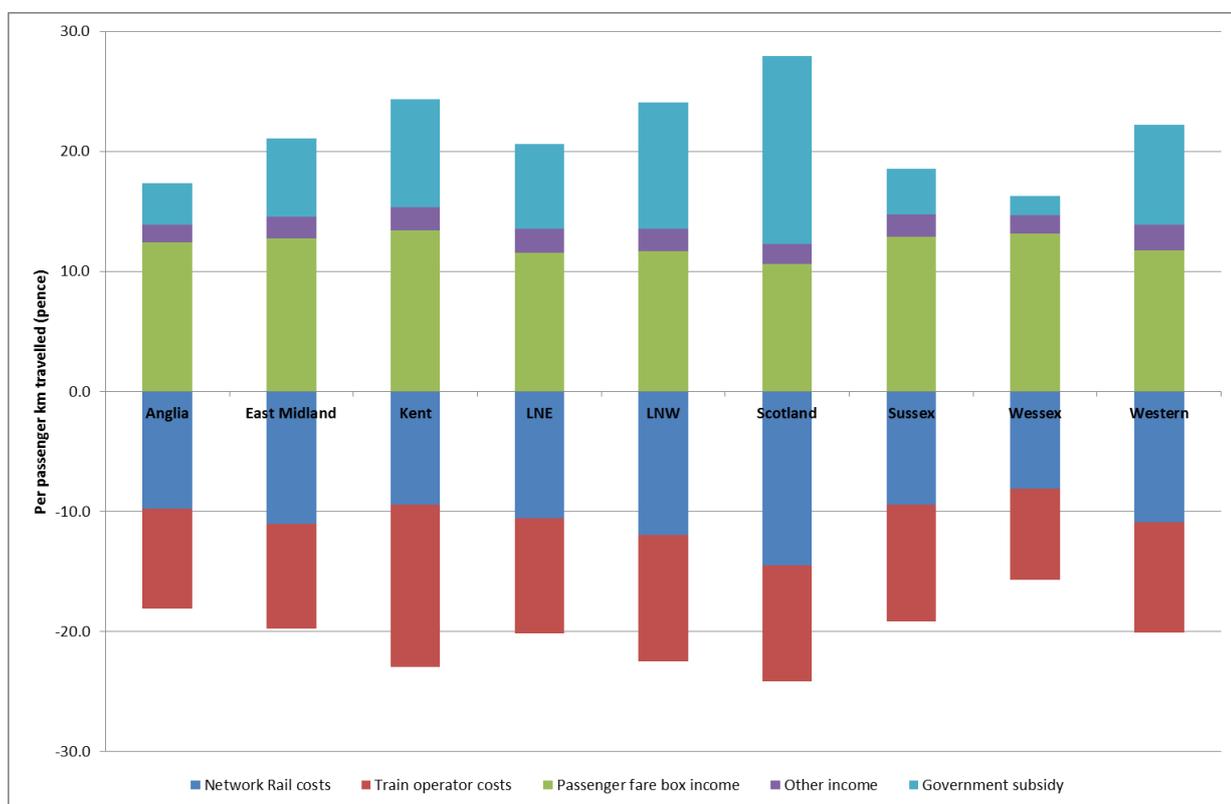
^a As explained in endnote ii, this is not an accounting profit in a statutory reporting sense.

There are significant regional variations in industry income and expenditure. The London Northwest (LNW) operating route received the largest share of industry income and net government funding (20.5% and 29.9% of the industry total respectively) and incurred the highest expenditure (23.4%). London North East (LNE) and Western were the second and third largest operating routes based on these financial measures. These were also the largest and busiest operating routes as measured by train

and passenger distance travelled, number of passenger journeys, route length, track length and number of stations.

East Midland was the smallest operating route based on its share of industry income and expenditure (5.3% and 4.9% respectively), although both the Wessex and Sussex operating routes received a lower share of government funding (2.6% and 3.9% compared to 4.4% in East Midland).

Industry income, expenditure and government funding per passenger km travelled



Fare box income

Average fare box income^{iv} was 12.1 pence per passenger kilometre travelled. Using this measure, there was relatively little variation in fare box income between operating routes. It was highest in the Kent operating route at 13.4 pence per kilometre and lowest in the Scotland operating route at 10.6 pence per kilometre.

Government funding

Average government funding was 7.5 pence per passenger kilometre travelled. Using this measure, there was significant variability in

government funding between operating routes with government funding highest in the Scotland operating route at 15.6 pence per kilometre and lowest in the Wessex operating route at 1.7 pence per kilometre. This is consistent with the relative passenger densities in these operating routes with Wessex having the highest average passenger density of any operating route (143 passengers per train) and Scotland the lowest (84 passengers per train).^v

Expenditure

Average network costs were £0.37 million per route kilometre.^{vi} Using this measure, there was

a fairly high level of variability in network costs between operating routes. Network costs were highest in the Sussex operating route at £0.77 million per route kilometre and lowest in the Scotland operating route at £0.21 million per route kilometre. Average network costs were £12.10 per train kilometre travelled. Using this measure, there was a much lower level of variability in network costs between operating routes. Network costs were highest in the Kent operating route at £12.80 per train kilometre travelled and lowest in the Western operating route at £11.20 per train kilometre travelled.

Average train operator costs were £10.90 per train kilometre travelled. Using this measure, there was a fairly high level of variability in

network costs between operating routes. Train operator costs were highest in the Kent operating route at £18.10 per train kilometre travelled and lowest in the Scotland operating route at £8.10 per train kilometre travelled.

Your views are important

We are keen to discuss our analysis and any ideas for how it can be developed with interested parties. Please contact: Gordon Cole, Regulatory Finance, Office of Rail Regulation, One Kemble Street, London, WC2B 4AN, email: gordon.cole@orr.gsi.gov.uk.

ⁱ Our analysis largely excludes freight and open access train operators as these are significantly smaller components of the industry than franchised train operators (which contribute over 96% of Network Rail's track access charges). Information is less readily available for these operators and there is a lower need for public accountability as they are not direct recipients of government support. Our analysis also does not explicitly focus on less integrated components of the rail industry, in particular engineering contractors and rolling stock leasing companies ('ROSCOs').

ⁱⁱ I.e. the difference between income and expenditure (either surplus or a deficit) based on companies' management and regulatory accounting information. This will be different to aggregate statutory profits due to statutory financial reporting adjustments for the treatment of deferred tax, pension schemes, derivative fair values, dividends etc. There are also timing differences between Network Rail's revenue and expenditure due to its ability to phase the timing of its expenditure differently within a control period compared to what we assumed in our periodic review determination. Using a cash-based approach for Network Rail's capital expenditure the industry in total would be in deficit by £1.3bn due to the currently higher level of renewals and enhancements expenditure being incurred than the level of amortisation / depreciation. The difference is funded by Network Rail borrowing.

ⁱⁱⁱ Geographically disaggregated financial information is presented for each of Network Rail's nine operating routes. The operating routes in 2010-11 were Anglia, East Midland, Kent, London North East (LNE), London North West (LNW), Scotland, Sussex, Wessex and Western. Network Rail has subsequently created a separate operating route for Wales from parts of the LNW and Western operating routes. There is a general consensus that disaggregation by operating route is the most useful as operating routes are aligned to the management responsibilities within Network Rail, the boundaries of the operating routes give a reasonable geographic alignment to franchised train operations, the structure aligns with the current reporting for Scotland, and nine operating routes are considered an appropriate number to make informed observations about regional financial performance.

^{iv} I.e. ticket income from passenger journeys as opposed to non-ticket income such as car parking and the sale of food and drink on trains.

^v Calculated by dividing passenger kilometres travelled by train kilometres travelled.

^{vi} Route length is a measure of network length rather than individual track lengths within an operating route. This measure is not affected by the number of individual tracks that may run alongside each other on a line.

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