

GB rail industry financial information 2011-12

April 2013



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Executive summary

Purpose

1. The rail industry receives substantial income from its customers and taxpayers and they have a right to know where their money goes and what it delivers. This second annual publication of GB rail industry financial information helps deepen our understanding of the rail industry's finances and strengthen accountability. It is one in a series of publications which we produce as part of our transparency programme. We have increased the scope of this year's analysis and we will seek to continue to work with the industry to develop and refine our analysis over time to inform the debate about the industry's value for money.

Summary of our findings

Overall observations

2. We present financial information and analysis about the Great Britain (GB) franchised rail industry, incorporating the national rail infrastructure manager, Network Rail and franchised train operating companies (TOCs) for the year 1 April 2011 to 31 March 2012 (2011-12). This information is summarised in Table 1 together with a comparison to 2010-11 and in Figures 1 to 6. More detailed analysis is presented in chapters 2 to 4.

3. Our analysis shows that the cost of running Britain's railways was around £11.6bn, an increase of 2.9% from 2010-11 with passengers increasingly covering the costs of the railways relative to taxpayers.

4. Passenger income was £7.2bn representing 58% of the industry's total income. Passenger income increased by 8.7% from 2010-11. This is partly attributable to a 7.2% increase in the number of passenger journeys. Adjusted for inflation¹, our analysis suggests that average income per passenger journey decreased by 3.6% in the same period.

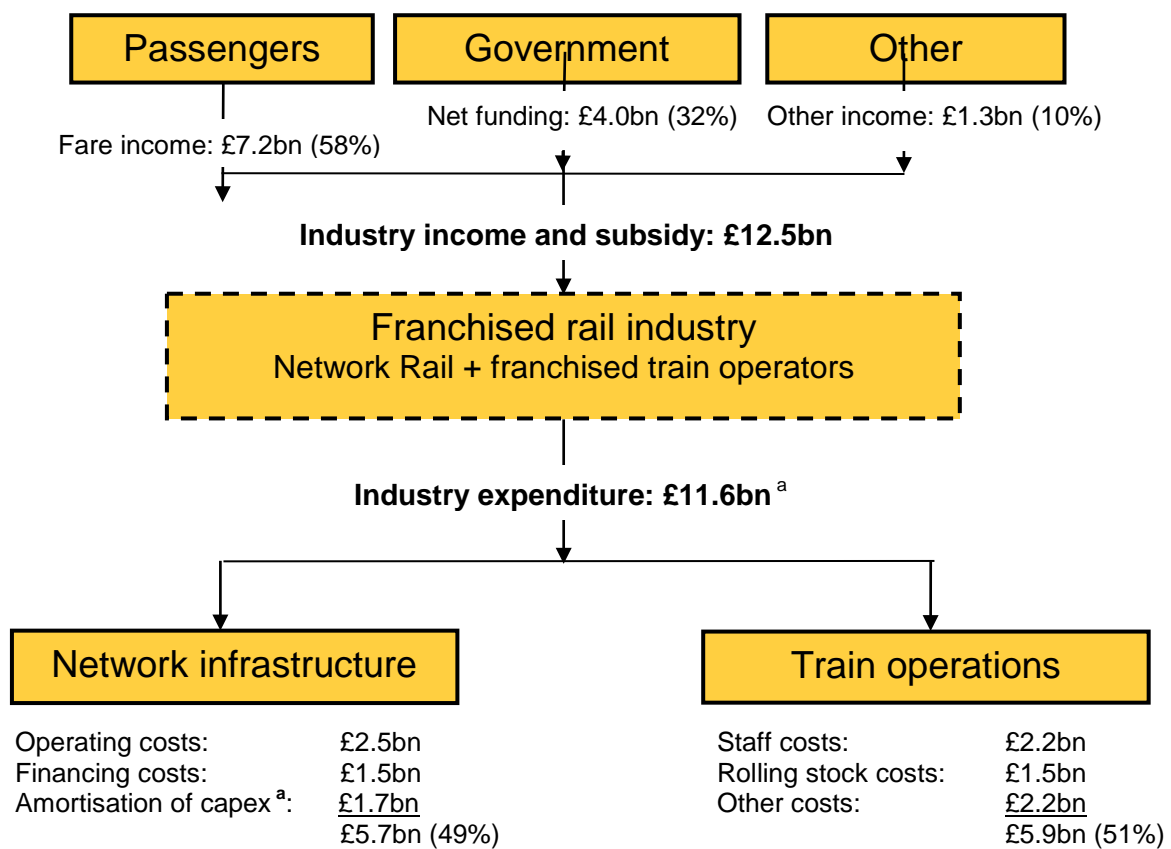
5. Government funding was £4.0bn representing 32% of the industry's total income. Government funding decreased by 0.5% compared to 2010-11. Adjusted for inflation, government funding reduced by 5.4% compared to 2010-11.

¹ The retail price index (RPI) increased by 5.2% from November 2010 to November 2011. The November RPI uplift was used in our analysis as this is the mid-point of the financial year April to March.

6. There are significant regional variations in the level of Government funding. For example, Government funding varied from £2.27 per passenger journey in England to £7.67 per passenger journey in Scotland and £9.15 per passenger journey in Wales.

7. Total industry expenditure was £11.6bn, an increase of 2.9% from 2010-11 and decrease of 2.1% adjusted from inflation. £5.9bn (51%) was incurred in train operations and £5.7bn (49%) was incurred in operating the rail infrastructure. Financing Network Rail's debt contributed £1.5bn (13%) of these costs.

Figure 1: Industry income and expenditure in 2011-12



^a Accruals basis. Industry expenditure was £14.4bn on a cash-basis. The difference is due to capital expenditure on rail infrastructure exceeding the current level of amortisation / depreciation. This is explained in Chapter 5.

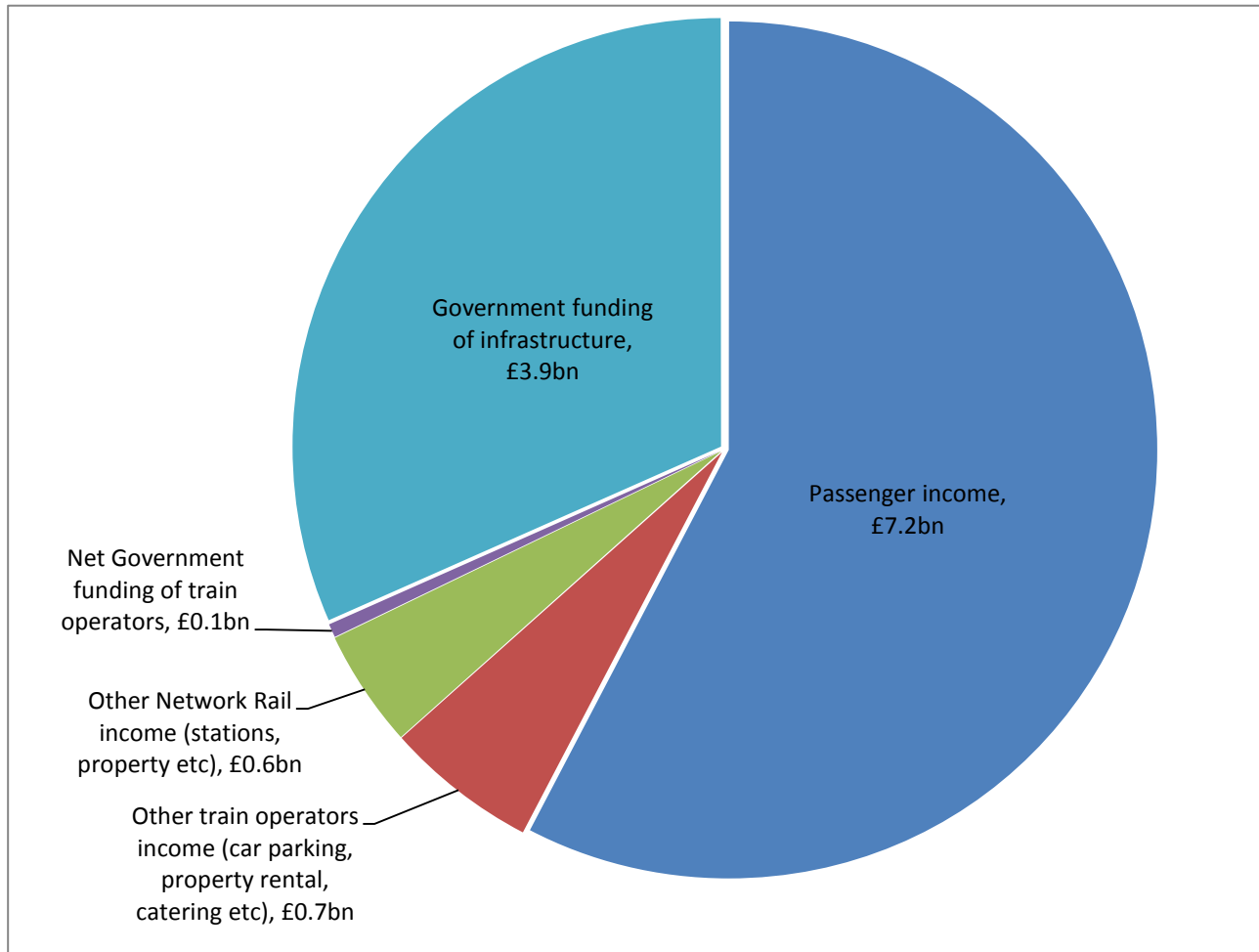
Table 1: Industry income, expenditure and government funding

£m	2011-12	2010-11 ²	Variance	%
Industry income				
Passenger income	7,198	6,625	573	8.7%
Other income	1,277	1,215	62	5%
	8,475	7,840	636	8.1%
Industry expenditure				
Train operating costs	5,933	5,498	435	7.9%
Infrastructure costs	5,678	5,784	-106	-1.8%
	11,611	11,282	329	2.9%
Income less expenditure	-3,136	-3,442	306	-8.9%
Government funding	4,011	4,030	-19	-0.5%
Surplus / (deficit)	875	588	287	48.8%

8. Our analysis shows the surplus of industry income compared to expenditure based on companies' management and regulatory accounting information. This amount will be different from aggregate statutory profits due to financial reporting adjustments for the treatment of 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.

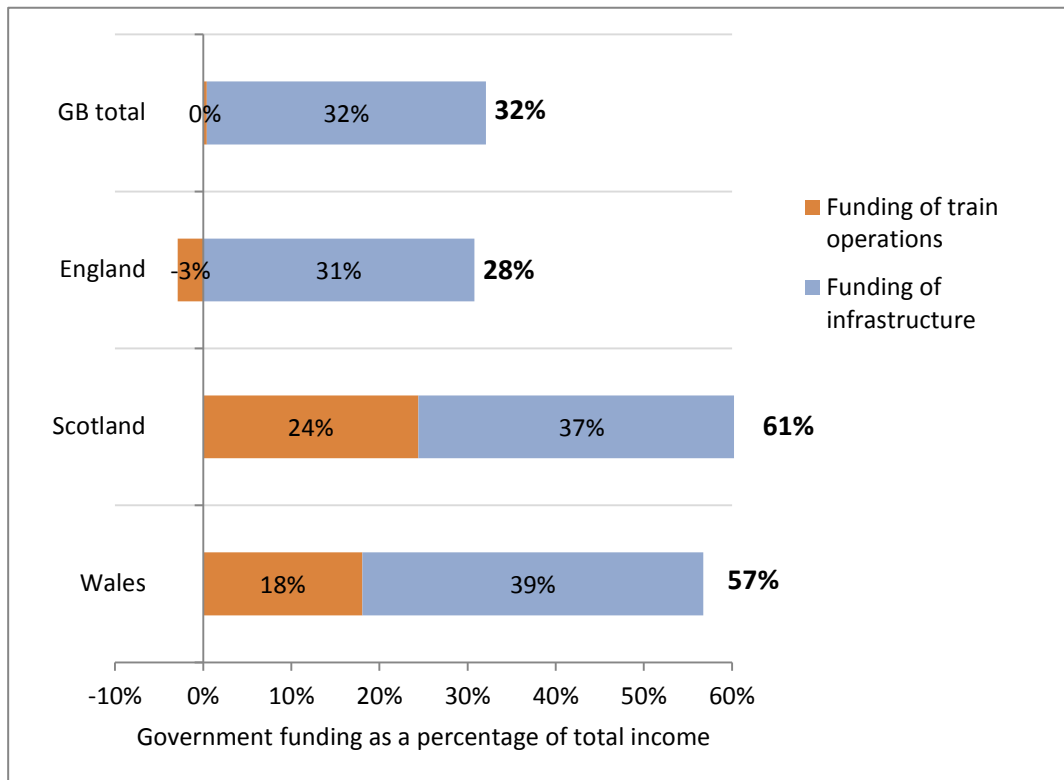
² 2010-11 financial information has been restated for improvements to data quality and changes to our analytical approach. These changes are explained in Chapter 5 (Methodology). As examined in this report, taking into account passenger growth and inflation, passenger income and train operating costs have decreased from 2010-11.

Figure 2: Composition of industry income including government funding



9. As shown in Figures 3 and 4, our analysis shows that there were significant variations in the level of government funding compared to passenger and other income in 2011-12, in particular between England, Scotland and Wales, and also between franchises.

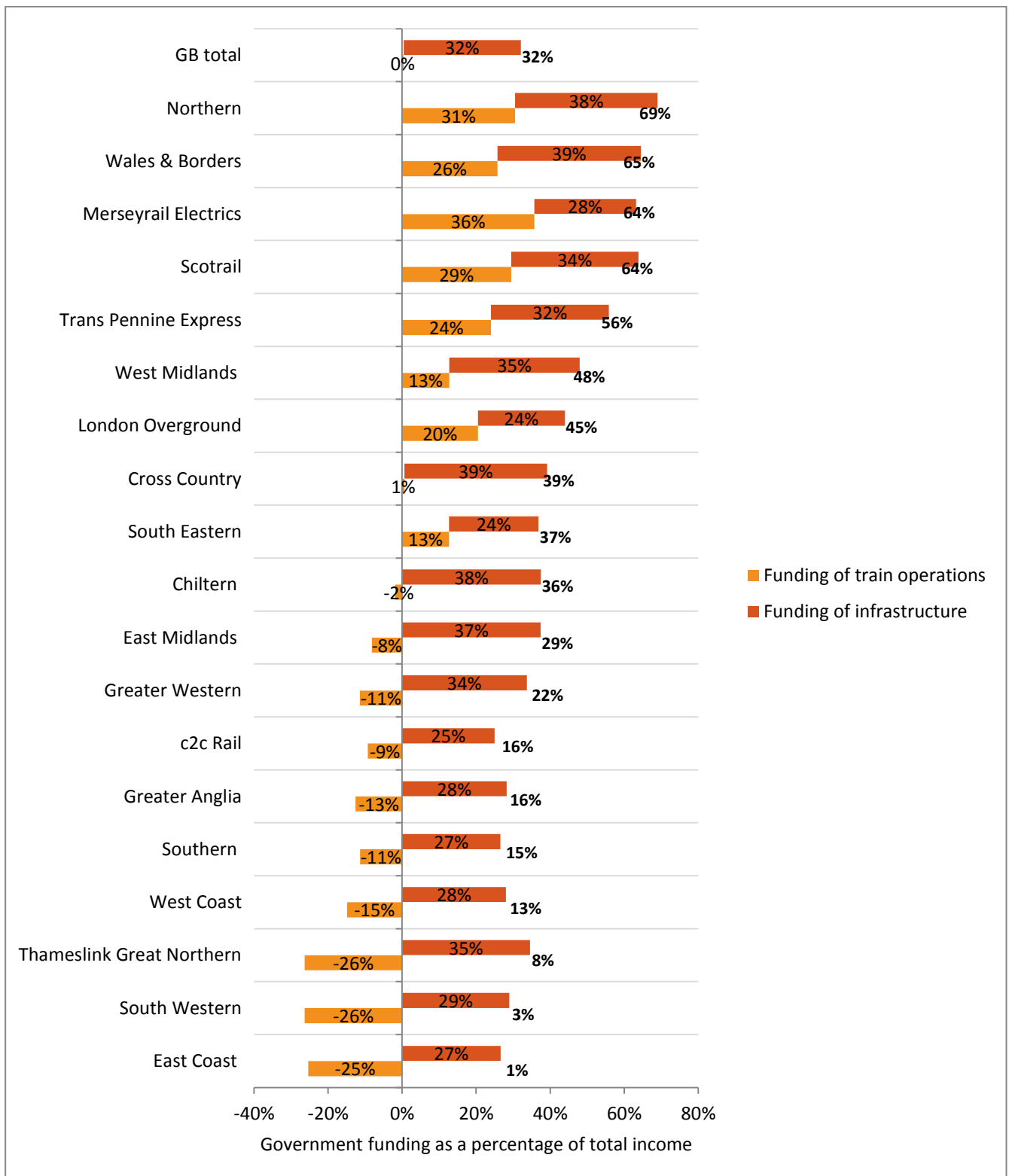
Figure 3: The contribution of government funding to total industry income



10. As a proportion of total income England had the lowest level of government funding in 2011-12 (28% of total England industry income) compared to 57% for Wales and 61% for Scotland. These differences are primarily due to variances in payments to and from franchised train operators. For example, train operators in Scotland received (net) £268m government funding, representing 24% of total industry income in Scotland, whereas train operators in England paid (net) £313m to governments, representing 3% of total industry income in England. Whilst not as large, there are also national variances in government funding of infrastructure (31% of total England income compared to 37% for Scotland and 39% for Wales).

11. Taking into account governments' funding of infrastructure as well as franchise payments / receipts, our analysis shows that passengers across all franchises were net recipients of government funding. As shown in Figure 4, rural franchises were generally the highest recipients of government funding, followed by London commuter and intercity franchises.

Figure 4: The contribution of government funding to total industry income by franchise



12. Net government funding was £2.27 per passenger journey in England, £7.67 in Scotland and £9.15 in Wales. Net government funding per passenger kilometre travelled was £0.06 in England, £0.17 in Scotland and £0.19 in Wales.

Table 2: Changes in income and expenditure from 2010-11

	2011-12	Variance from 2010-11 (%)	Variance adjusted for RPI inflation ³
Passenger income	£7,198m	8.7%	3.3%
Passenger income per journey	£4.93	1.3%	-3.6%
Passenger income per passenger km travelled	£0.13	3.7%	-1.4%
Train operators' expenditure	£5,933m	7.9%	2.6%
Train operators' expenditure per passenger km	£0.10	3%	-2.1%
Infrastructure expenditure	£5,678m	-1.8%	-6.6%
Infrastructure expenditure per track km	£0.18m	-1.7%	-6.5%
Infrastructure expenditure per train km	£11.22	-6.9%	-11.4%
Infrastructure expenditure per passenger km	£0.10	-6.3%	-10.9%

Passenger income

13. Passenger income represents ticket income from passenger journeys as opposed to non-ticket industry income such as car parking and retail income at stations⁴. Passenger income was £7.2bn in 2011-12 which was £0.6bn (8.7%) higher than in 2010-11. Adjusted for inflation, passenger income was £0.2bn (3.3%) higher than in 2010-11.

14. As summarised in Table 2, the increase in passenger income compared to 2010-11 needs to be considered in the light of the passenger growth in 2011-12 with the number of passenger journeys increasing by 7.2% and total distance travelled by passengers increasing by 4.8%. The average passenger fare in 2011-12 was £4.93⁵, an increase of 1.3%⁶ compared to 2010-11 and the average fare per passenger kilometre travelled was £0.13, an increase of 3.7% compared to 2010-11. Adjusted for inflation, the average passenger fare in 2011-12 decreased by 3.6% and the average fare per passenger kilometre travelled decreased by 1.4%.

³ The retail price index (RPI) increased by 5.2% from November 2010 to November 2011. The November RPI uplift was used in our analysis as this is the mid-point of the financial year April to March.

⁴ Within the industry passenger income is commonly known as farebox income.

⁵ Calculated by dividing total passenger income by the total number of passenger journeys.

⁶ Regulated fares increased by 5.8% in January 2011 and 5.9% in January 2012. Further details are available on ATOC's website www.atoc.org. ORR publishes an index of the average price of rail fares. The index increased by 6.1% from January 2011 to January 2012 which is significantly higher than suggested by our analysis. The variation may be due the way the index is calculated as it does not easily capture changes in types of tickets available, e.g. one-off rates. A review of the methodology underpinning the rail fares index is currently underway.

15. The regional variations in passenger income in 2011-12 are significantly lower than the regional variations in the level of government funding discussed above. Per passenger journey, passenger income was highest in Wales (£5.39) followed by England (£4.98) and Scotland (£4.03). Per passenger kilometre travelled, passenger income was highest in England (£0.13) followed by Wales (£0.11) and Scotland (£0.09). This implies that taxpayers rather than passengers are paying for regional variations in industry expenditure.

16. There was a low variability of passenger income between train operators, which is perhaps surprising considering the different nature of the 19 franchises, covering both longer distance intercity operators, short distance commuter and rural operators. The coefficient of variation of passenger income per passenger kilometre travelled was 15.6% across train operators. London Overground received the highest passenger income per passenger kilometre travelled (£0.14 per passenger kilometre) and Merseyrail the lowest (£0.07 per passenger kilometre travelled).

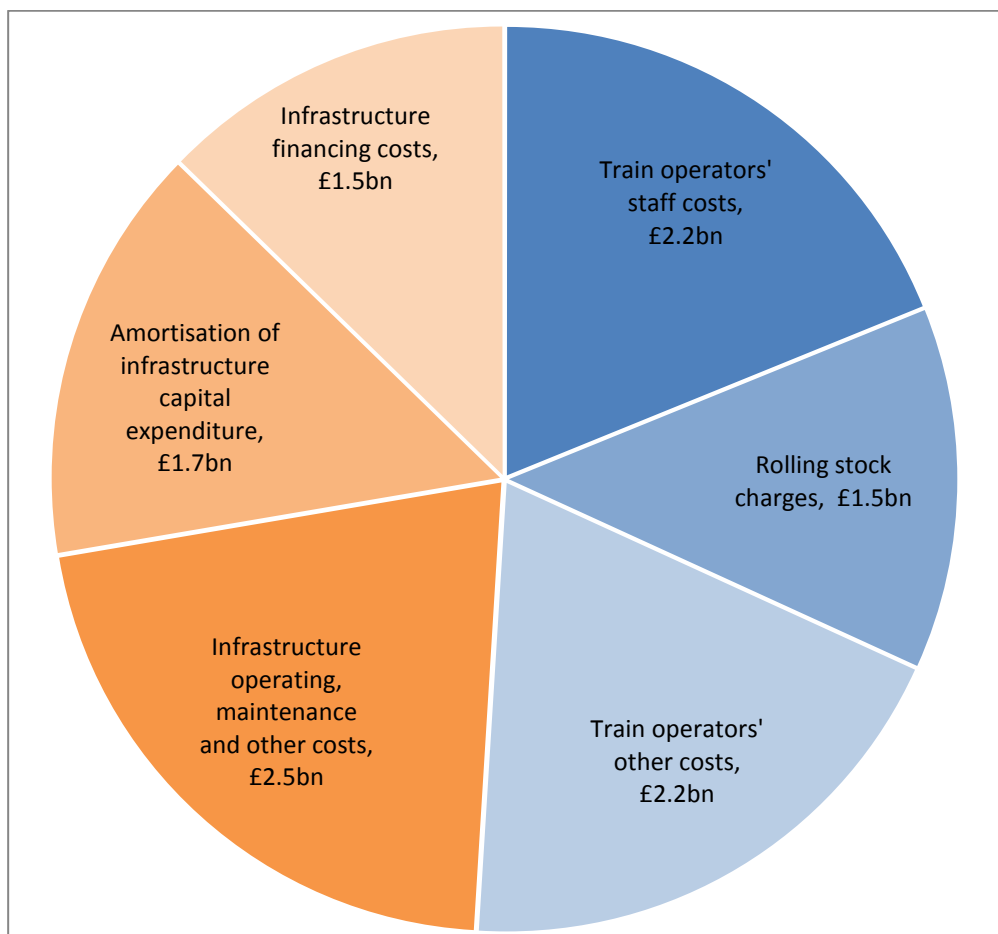
Other income

17. The rail industry received £1.3bn of income in 2011-12 from sources other than passenger income, an increase of 5.1% compared to 2010-11. Train operators received £0.7bn from car parking, property rental, catering and other sales. Network Rail received £0.6bn from its stations and property portfolio, and charges to freight and open access train operators.

Industry expenditure

18. Total industry expenditure in 2011-12 was £11.6bn of which £5.9bn (51%) was incurred in train operations and £5.7bn (49%) was incurred in operating the rail infrastructure.

Figure 5: Composition of industry expenditure in 2011-12



Train operators' expenditure

19. As shown in Table 2, train operators' expenditure excluding Network Rail charges was £5.9bn in 2011-12, an increase of 7.9% compared to 2010-11. Adjusted for inflation, train operators' expenditure increased by 2.6%. Taking account of both inflation and passenger growth, train operators' costs decreased by 2.1% compared to 2010-11.

20. Average train operator expenditure was £0.10 per passenger kilometre travelled. Using this measure, train operators' expenditure was highest in Wales (£0.14 per passenger kilometre), followed by Scotland (£0.13 per passenger kilometre) and England (£0.10 per passenger kilometre). These results contrast with our findings for average train operator expenditure per train kilometre travelled. Using this measure England had the highest average train operator costs (£12.05 per train kilometre), followed by Scotland (£10.25 per train kilometre) and Wales (£9.24 per train kilometre). The difference in these results is most likely due to a combination of differences in the average length of passenger journeys (38 kilometres in England, compared to 45 kilometres in Scotland and 49 kilometres in Wales) and differences in average train densities (119 passengers per train in England, compared to 76 in Scotland and 65 in Wales).

21. Some train operators have noted that their costs and related franchise authority funding have increased in 2011-12 to pay for investment in increased services, outputs or service quality that were agreed as part of the award of their franchises or to give them competitive advantage with other modes to gain market share. We have not sought to investigate the financial impact of these changes as part of this work.

Network Rail's expenditure

22. As shown in Table 2, Network Rail's expenditure⁷ was £5.7bn in 2011-12, a decrease of 1.8% compared to 2010-11. Adjusted for inflation, Network Rail's expenditure decreased by 6.6%.

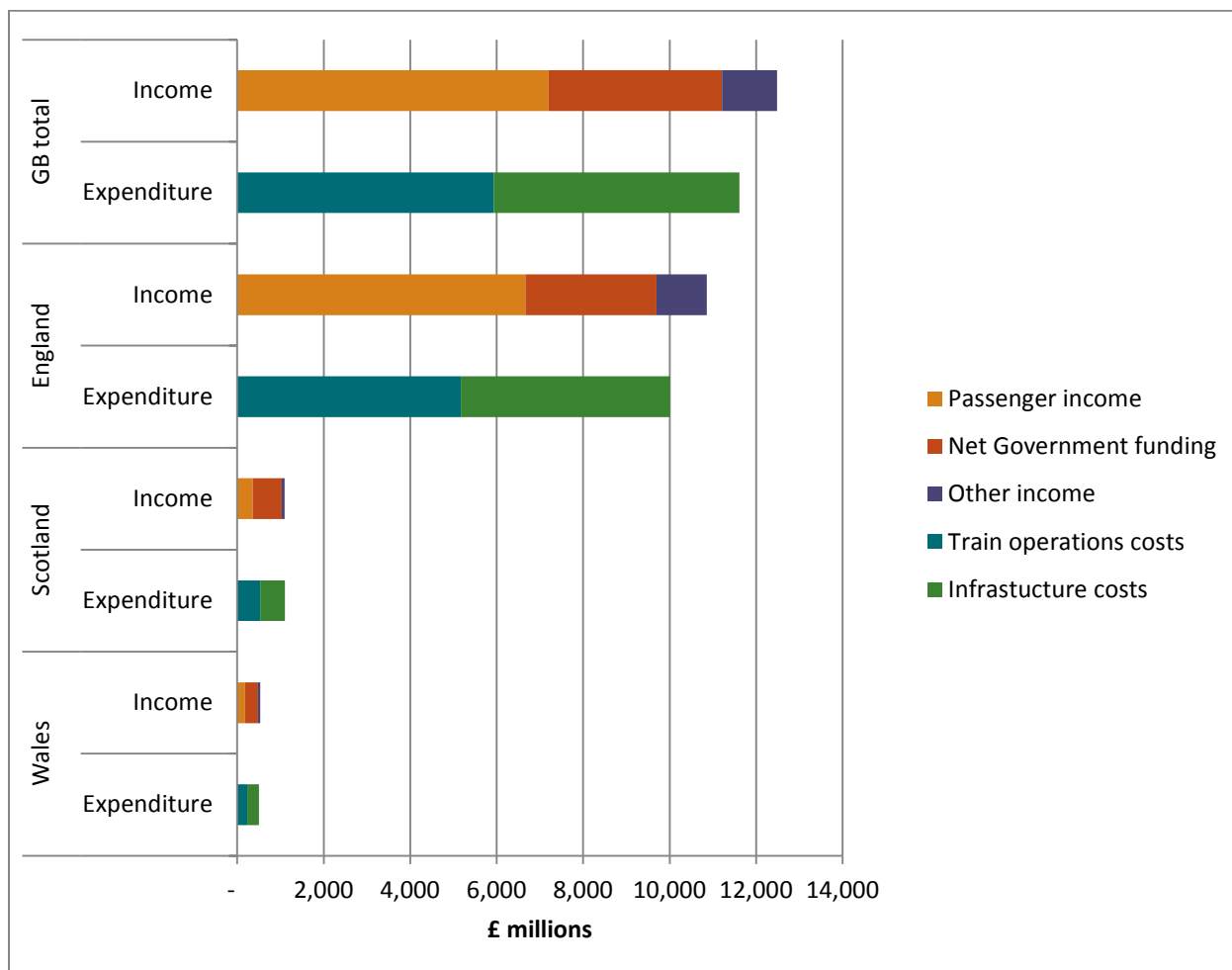
23. Average Network Rail expenditure was £0.18m per track kilometre. Using this measure, Network Rail's expenditure was highest in England (£0.20m per track kilometre) followed by Scotland (£0.13m per track kilometre) and Wales (£0.11 per track kilometre).

24. Network Rail spent £4.5bn on capital projects (renewals and enhancements to the network) in 2011-12. This expenditure was £2.8bn greater than the £1.7bn that the company was funded for amortisation of capital expenditure and which has been included as capex amortisation / depreciation in our industry costs analysis⁸. This difference was funded by Network Rail borrowing.

⁷ Our analysis also includes £11m of expenditure by TfL on the core East London Line. For convenience we generally only refer to Network Rail in this analysis.

⁸ See Chapter 5 (Methodology) for an explanation of these differences.

Figure 6: Comparison of income and expenditure for GB, England, Scotland and Wales



Structure of the report

25. Our objectives for this work are explained in Chapter 1. Financial information and analysis for the GB rail industry as a whole, and separately for England, Scotland and Wales is presented in Chapter 2. This information is then presented for each of the ten regional operating routes in Chapter 3 and for each of the 19 rail franchises in Chapter 4. The methodology underpinning our analysis is explained in Chapter 5. Supporting information is included as an annex to the report. Our analysis is also available in Excel format at <http://www.rail-reg.gov.uk/upload/xls/industry-financials-2011-12.xls>.

26. The complex geographical structure of the GB rail industry makes it difficult to analyse industry financial information at a sub-GB level. Whilst we consider that the methods and data sources that we have employed provide as reasonable and accurate analysis as is currently practicable, we recognise that there is no one right answer to this problem and that care is needed in interpreting our analysis.

1. Introduction

Purpose of this report

1.1 We consider that there is a need for greater transparency about the rail industry's finances to strengthen accountability and to improve informed debate about the value for money of the industry for its funders, both passengers and Governments. In its recent Rail 2020 report, the Transport Select Committee fully endorsed this need for more transparency about the rail industry's finances. The UK Government is also seeking greater transparency in public services more generally and the Scottish Government is of the view that providing better information on public services will help to increase the usefulness of those services.

1.2 The complex structure of the British rail industry makes it difficult for stakeholders to understand the income, expenditure and government funding of the industry as a whole and we consider that transparency has a vital role to play in driving the behavioural changes necessary for rail industry reform. This second annual publication of Great Britain (GB) rail industry financial information⁹ aims to help address this need and to inform the debate about the industry's value for money for its funders, both passengers and the taxpayer.

1.3 The information presented within this report will help:

- (a) interested parties to gain a better understanding of industry financial performance;
- (b) allow a clearer picture of where Government is providing support;
- (c) inform decisions on the future structure of the rail industry;
- (d) improve industry planning;
- (e) improve partnerships and co-operation within the industry;
- (f) enable more efficient regulation and incentives for the rail industry, e.g. to support efficiency and revenue sharing mechanisms;
- (g) support increased route level accountability and decision making; and
- (h) provide better benchmarking data of costs and efficiencies.

1.4 This report provides a more comprehensive understanding of industry income and expenditure than has previously been available since privatisation. It is the result of a collaborative effort by a number of organisations. We are particularly grateful to Network Rail, the Association of Train Operating Companies (ATOC) and its members, the Department for Transport (DfT), Transport Scotland, the Welsh Government,

⁹ Our 2010-11 publication is available at <http://www.rail-reg.gov.uk/server/show/ConWebDoc.10814>.

Transport for London (TfL) and Merseytravel¹⁰ without whose support this work would not have been possible.

Industry structure and rationale for our analytical approach

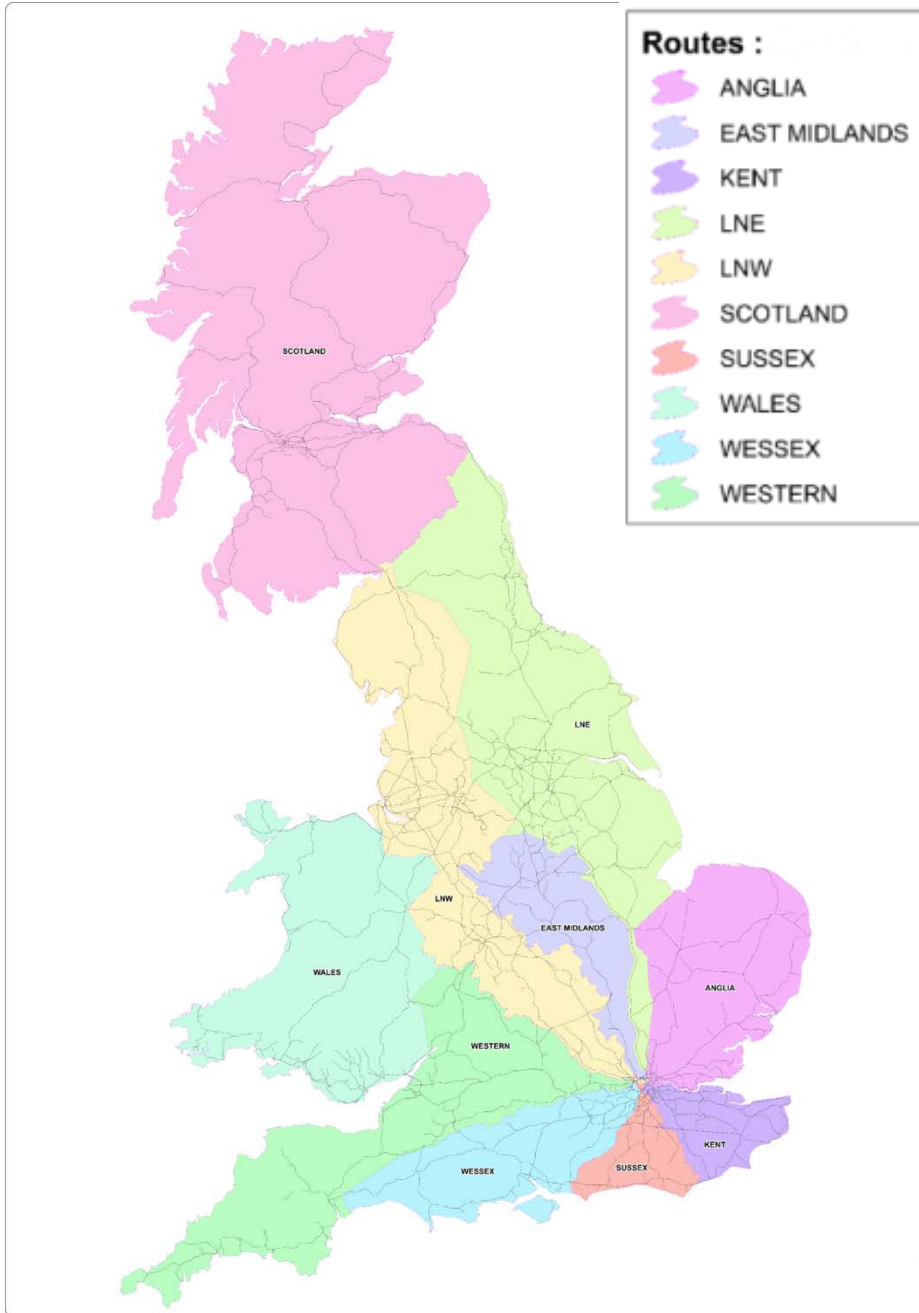
1.5 The primary constituents of the GB rail industry are the national rail infrastructure provider, Network Rail, and the franchise train operators which provide passenger services on the rail infrastructure.

1.6 Network Rail manages the rail infrastructure through ten regional operating routes whose geographies are shown in Figure 1.1. The operating routes are Anglia, East Midland, Kent, London North East (LNE), London North West (LNW), Scotland, Sussex, Wessex, Western and Wales¹¹. Network Rail is a not-for-dividend company which reinvests most of its profits in the industry.

¹⁰ Merseytravel is the Merseyside passenger transport executive.

¹¹ Network Rail created a separate operating route for Wales in 2011-12 increasing the number of its operating routes from nine to ten. More information about Network Rail's operating routes is available at http://www.networkrail.co.uk/Network_Specifications.aspx.

Figure 1.1 Geographical coverage of Network Rail’s ten regional operating routes



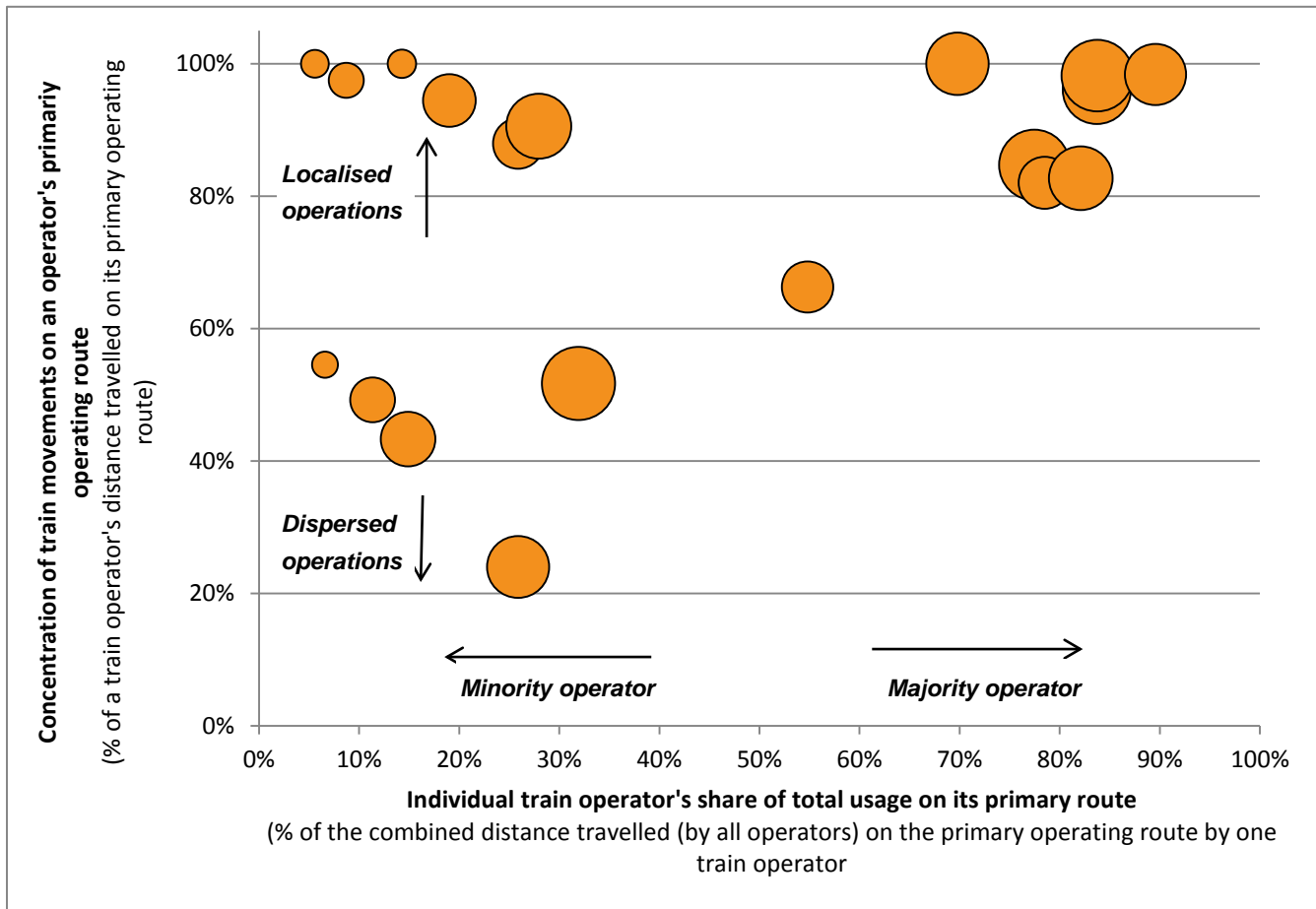
Source: Network Rail

1.7 There are currently 19 train operators, which operate passenger services under franchise from government. DfT is the franchising authority for the majority of England & Wales franchises (16). Transport Scotland, TfL and Merseytravel have franchising authority for the ScotRail, London Overground and Merseyrail franchises respectively¹².

¹² There are potentially confusing naming differences between some rail franchises and the names of the train companies that operate under these franchises. Within our analysis we use the name of the franchise as opposed to the name of the train operator because franchise names change less frequently than the names of the train operators. For example, we refer to the Thameslink Great Northern franchise rather than to First Capital Connect which currently operates this franchise. We have also not differentiated between National Express East Anglia and Abellio where there was a change to the Greater Anglia franchise in 2011-12. These naming differences are shown in Annex A.

1.8 As shown in Figure 1.2 there is a significant overlap between the geographies of most franchises and overlap between the geographies of franchises and regional operating routes. For example, five franchises make use of the central spine of the west coast mainline (West Coast, West Midlands, London Overground, ScotRail and Southern)¹³. Taken together with the different sources of government funding, this structure significantly complicates understanding of the rail industry's financial performance at a sub-GB level. Further details are available in Annex A.

Figure 1.2 Alignment and overlap of rail franchise geographies and operating routes



Source: ORR analysis

1.9 For these reasons there is no one best way to present rail industry financial information at a sub-GB level. For example, geographical disaggregation by operating route is arguably more useful for understanding regional variances in infrastructure costs, whereas disaggregation by franchise is arguably more useful for understanding variances in industry income. Using a mixture of both is arguably most useful for understanding some items such as government funding.

1.10 In order to best achieve our objectives for this work we consider that it is most informative to present financial information separately at a national, regional and rail franchise (passenger service) level within

¹³ As another example, of the five train operators which travelled in excess of 2.5 million train kilometres on the London North East operating route in 2011-12 (New Cross Country, East Coast Mainline, Northern Rail and First Capital Connect) only one (East Coast Mainline) did not travel at least this distance on at least one other operating route.

this report. This represents a significant increase in the amount of disaggregated information compared to our 2010-11 publication¹⁴.

1.11 Our primary analysis largely excludes freight and open access train operators as these are significantly smaller components of the industry¹⁵, information is less readily available and there is a lower need for public accountability as they do not receive significant government funding. A high-level analysis of these operators is included in Chapter 5 (Methodology). Our analysis also does not explicitly focus on components of the rail industry which are not directly involved in the provision of rail services, in particular engineering contractors¹⁶ and financial institutions¹⁷ as they are not considered core railway activities¹⁸.

1.12 We have not attempted to analyse industry income and expenditure at a greater level of granularity, for example for individual train journeys. This would require a significant increase in the amount of data and analysis required, and its value would be questionable as many items of income and expenditure cannot accurately be attributed beneath the level at which costs are actually managed.

Structure of the report

1.13 Chapter 2 summarises rail industry financial information for Great Britain as a whole, and separately for England, Scotland and Wales. Chapter 3 summarises this information for each of the ten regional operating routes and Chapter 4 summarises this information for each of the 19 rail franchises.

1.14 The methodology underpinning our analysis is explained in Chapter 5 (Methodology). Our analysis is also available in Excel format at <http://www.rail-reg.gov.uk/upload/xls/industry-financials-2011-12.xls>.

1.15 Annex A summarises the regional operations of franchised train operators.

Care required in understanding and interpreting our analysis

1.16 For the reasons explained above, a significant challenge in developing our analysis was how to allocate financial information to the overlapping and misaligned geographies of franchises and operating routes. Whilst we consider that the methods and data sources that we have employed provide as reasonable and accurate analysis as is currently practicable, we recognise that there is no one right answer to this problem. The methods and data sources underpinning our analysis are explained in Chapter 5 (Methodology).

¹⁴ Publishing information in this way is similar to the requirements of International Financial Reporting Standard (IFRS) 8 *Operating Segments*. IFRS 8 requires companies to segmentally report certain profit and loss and balance sheet items by geographical area and by business activity.

¹⁵ Although we do include a summary of freight and open access operators income and expenditure in Chapter 5 (Methodology).

¹⁶ Network Rail contracts out a large proportion of its renewals and enhancements work to engineering and construction companies such as Amey, Balfour Beatty and Carillion.

¹⁷ The majority of trains are operated under lease finance contracts from rolling stock leasing companies ('ROSCOs').

¹⁸ It is also unclear how accurately the income and expenditure relating solely to these companies' rail activities can be separately identified using currently available information.

1.17 Because of the structural complexity of the industry, care is needed in interpreting our analysis. An example of this need for care is the franchise payments to train operators in Scotland where our analysis shows that total government funding of franchised train operations in the Scotland was £268m, which is £30m lower than Transport Scotland's franchise payments to ScotRail. The difference is due to four train operators who operate passenger services within Scotland under franchise from DfT, not Transport Scotland. Under their franchise agreements, these four operators made net payments to DfT, whereas ScotRail received funding from Transport Scotland.

1.18 There might be some differences in numbers in the tables in this report due to rounding.

Feedback

1.19 We welcome comments on the content of this document. These should be sent to:

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2. GB rail industry financial information disaggregated by country

2.1 GB rail industry financial information for 2011-12 is presented in this chapter, together with analysis for England, Scotland and Wales.

2.2 Our analysis shows that the cost of running the railway was £11.6bn of which the majority (£10.0bn) was incurred in England, followed by £1.1bn in Scotland and £0.5bn in Wales. Government provided £4.0bn of funding, the majority of which (£3.5bn) was from DfT. Passenger income was £7.2bn and other income (car parking, stations and property income etc. was £1.3bn).

Table 2.1	Industry income, expenditure and government funding
Table 2.2	Industry income
Table 2.3	Industry expenditure
Table 2.4	Government funding
Table 2.5	Industry income, expenditure and government funding – a cash-based approach for Network Rail's capital expenditure ¹⁹
Table 2.6	High level analysis of industry financial information in 2011-12

Table 2.1: Summary of industry income, expenditure and government funding in 2011-12

£m	GB total	England	Scotland	Wales
Industry income^a				
Passenger income	7,198	6,665	355	178
Other income	1,277	1,157	68	52
	8,475	7,822	423	230
Industry expenditure^a				
Train operations	5,933	5,169	533	231
Infrastructure	5,678	4,839	569	270
	11,611	10,008	1,102	501
Income less expenditure	-3,136	-2,186	-679	-271
Government funding^a	4,011	3,034	675	302
Surplus / (deficit)^b	875	848	-4	31

^a Tables 2.2, 2.3 and 2.4 provide more detailed information about income, expenditure and government funding

^b As explained in Chapter 5 (Methodology) this is not an accounting profit in a statutory reporting sense

¹⁹ The approach adopted in Table 2.5 shows the amount of money that Network Rail spent during the year, rather than the amortisation / depreciation (accruals-based) approach to Network Rail's expenditure shown in Table 2.1.

Table 2.2: Industry income in 2011-12

£m	GB total	England	Scotland	Wales
Franchised train operators				
Passenger income	7,198	6,665	355	178
Other	723	636	42	45
	7,921	7,301	397	223
Infrastructure				
Fixed charges	887	710	132	45
Variable charges	528	488	30	10
Other	873	787	63	23
Less income from train operators	-1,734	-1,464	-199	-71
	554	521	26	7
Total industry income	8,475	7,822	423	230

Table 2.3: Industry expenditure in 2011-12

£m	GB total	England	Scotland	Wales
Franchised train operators				
Staff costs	2,183	1,884	201	98
Rolling stock charges	1,501	1,315	140	46
Other	3,983	3,434	391	158
Less charges paid to Network Rail	-1,734	-1,464	-199	-71
	5,933	5,169	533	231
Infrastructure				
Controllable opex	906	770	87	49
Non-controllable opex	420	378	31	11
Maintenance	979	845	84	50
Amortisation of capital expenditure	1,730	1,442	206	82
Financing costs	1,470	1,250	148	72
Other	173	154	13	6
	5,678	4,839	569	270
Total industry expenditure	11,611	10,008	1,102	501

Table 2.4: Government funding of the rail industry in 2011-12

£m	GB total	England	Scotland	Wales
Franchised train operators				
Franchise payments to government	-1,558	-1,493	-36	-29
Franchise receipts from government	1,093	685	300	108
Profit sharing/other revenue support	516	495	4	17
	51	-313	268	96
Infrastructure (Network Rail)				
Government grants	3,989	3,374	407	208
Rebates to government	-40	-38	0	-2
TfL (East London Line)	11	11	0	0
	3,960	3,347	407	206
Net government funding	4,011	3,034	675	302
Sources of government funding				
	Total	Train operators	Network Rail	
Department for Transport	3,056	-486	3,542	
Transport Scotland	705	298	407	
Welsh Government	130	130	0	
Other (TfL and Merseyside PTE)	121	110	11	
	4,011	51	3,960	

Table 2.5: Industry income, expenditure and government funding in 2011-12 using a cash-based approach for Network Rail's capital expenditure²⁰

£m	GB total	England	Scotland	Wales
Industry income				
Passenger income	7,198	6,665	355	178
Other income	1,277	1,157	68	52
	8,475	7,822	423	230
Industry expenditure				
Train operators	5,933	5,169	533	231
Network Rail non-capex expenditure	3,948	3,397	363	188
Network Rail capex - renewals	2,455	1,995	299	161
Network Rail capex – enhancements	2,077	1,947	115	15
	14,413	12,508	1,310	595
Income less expenditure (cash basis)	-5,938	-4,686	-887	-365
Government funding	4,011	3,034	675	302
Surplus / (deficit) (cash basis)	-1,927	-1,652	-212	-63

²⁰ This approach shows the actual amount of money that Network Rail spent during the year, rather than the accruals-based (amortisation / depreciation) approach to Network Rail's capital expenditure shown in Table 2.1.

Table 2.6: High level analysis of industry financial information in 2011-12

£m	GB total	England	Scotland	Wales
Government funding				
Share of government funding	n/a	75.6%	16.9%	7.5%
Government funding / total income (%)	32.1%	28.0%	61.5%	56.8%
Government funding per passenger journey (£)	2.75	2.27	7.67	9.15
Government funding per passenger km travelled (£)	0.07	0.06	0.17	0.19
Passenger income				
Passenger income per passenger journey (£)	4.93	4.98	4.03	5.39
Passenger income per passenger km (£)	0.13	0.13	0.09	0.11
Industry expenditure				
Industry expenditure per train km travelled (£)	22.95	23.33	21.19	20.04
Industry expenditure per passenger km travelled (£)	0.20	0.20	0.28	0.31
Train operator expenditure per passenger km travelled (£)	0.10	0.10	0.13	0.14
Network Rail expenditure per train km travelled (£)	11.22	11.28	10.94	10.80
Network Rail expenditure per passenger km travelled (£)	0.10	0.09	0.14	0.17
Train operator share of total costs (%)	51.1%	51.6%	48.4%	46.1%
Income / expenditure				
Passenger income / industry expenditure (%)	62.0%	66.6%	32.2%	35.5%
Income (excl. gov funding) less expenditure per pass. journey (£)	-2.15	-1.63	-7.72	-8.21
Income (excl. gov funding) less expenditure per pass. km (£)	-0.06	-0.04	-0.17	-0.17

3. GB rail industry financial information disaggregated by regional operating route

3.1 Our analysis of rail industry financial information for 2011-12 is presented separately for each of Network Rail's ten regional operating routes in this chapter.

3.2 Our analysis shows that there are significant variations in industry income, expenditure and government funding across the ten regional operating routes. These variations are summarised in the Executive Summary.

Table 3.1	Industry income, expenditure and government funding
Table 3.2	Industry income
Table 3.3	Industry expenditure
Table 3.4	Government funding
Table 3.5	Industry income, expenditure and government funding – a cash-based approach for Network Rail's capital expenditure ²¹
Table 3.6	High level analysis of industry financial information in 2011-12

²¹ The approach adopted in Table 3.5 shows the actual amount of money that Network Rail spent during the year, rather than the amortisation / depreciation (accruals-based) approach to Network Rail's expenditure shown in Table 3.1.

Table 3.1: Summary of industry income, expenditure and government funding in 2011-12 by regional operating route

£m	Operating route										Total
	Anglia	Kent ^c	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	
Industry income ^a											
Passenger income	825	660	1,038	1,474	441	617	866	744	178	355	7,198
Other income	91	124	195	289	92	108	103	155	52	68	1,277
	916	784	1,233	1,763	533	725	969	899	230	423	8,475
Industry expenditure ^a											
Train operators	522	623	850	1,374	286	450	505	559	231	533	5,933
Infrastructure	564	419	830	1,338	310	390	504	484	270	569	5,679
	1,086	1,042	1,680	2,712	596	840	1,009	1,043	501	1,102	11,612
Income less expenditure	-170	-258	-447	-949	-63	-115	-40	-144	-271	-679	-3,137
Government funding ^a	203	397	615	1,166	170	122	56	306	302	675	4,011
Surplus ^b	33	139	168	217	107	7	16	162	31	-4	874

^a Tables 3.2, 3.3 and 3.4 provide more detailed information about income, expenditure and government funding

^b As explained in Chapter 5 (Methodology) this is not an accounting profit in a statutory reporting sense

^c Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

Table 3.2: Industry income in 2011-12 by regional operating route

£m	Operating route										GB total
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators											
Passenger income	825	660	1,038	1,474	441	617	866	744	178	355	7,198
Other	46	46	133	161	57	58	65	70	45	42	723
	871	706	1,171	1,635	498	675	931	814	223	397	7,921
Infrastructure (Network Rail)											
Fixed charges	61	59	135	207	51	46	66	85	45	132	887
Variable charges	55	48	62	125	52	49	52	45	10	30	528
Other	94	117	119	173	29	73	87	95	23	63	873
Less income from train operators	-165	-146	-254	-377	-97	-118	-167	-140	-71	-199	-1,734
	45	78	62	128	35	50	38	85	7	26	554
Total industry income	916	784	1,233	1,763	533	725	969	899	230	423	8,475

^a Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

Table 3.3: Industry expenditure in 2011-12 by regional operating route

£m	Operating route										GB total
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators											
Staff costs	195	174	314	494	101	181	216	209	98	201	2,183
Rolling stock charges	195	150	199	380	61	113	124	93	46	140	1,501
Other	297	445	591	877	221	274	332	397	158	391	3,983
Less charges paid to Network Rail	-165	-146	-254	-377	-97	-118	-167	-140	-71	-199	-1,734
	522	623	850	1,374	286	450	505	559	231	533	5,933
Infrastructure (Network Rail)											
Controllable opex	88	63	147	219	45	61	72	75	49	87	906
Non controllable opex	57	61	41	78	32	43	47	19	11	31	420
Maintenance	106	68	152	256	50	50	74	89	50	84	979
Amortisation of capital expenditure	160	118	249	395	92	119	157	152	82	206	1,729
Financing costs	139	102	216	343	79	103	136	132	72	148	1,470
Other	14	7	25	47	12	14	18	17	6	13	175
	564	419	830	1,338	310	390	504	484	270	569	5,679
Total industry expenditure	1,086	1,042	1,680	2,712	596	840	1,009	1,043	501	1,102	11,612

^a Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

Table 3.4: Government funding of the rail industry in 2011-12 by regional operating route

£m	Operating route										
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB total
Franchised train operators											
Franchise payments to government	-161	-14	-258	-198	-108	-113	-357	-284	-29	-36	-1,558
Franchise receipts from government	0	90	220	367	3	1	0	4	108	300	1,093
Profit sharing / other revenue support	64	42	15	43	34	19	102	176	17	4	516
	-97	118	-23	212	-71	-93	-255	-104	96	268	51
Network Rail											
Government grants	293	282	645	964	243	218	315	414	208	407	3,989
Rebates to government	-4	-3	-7	-10	-2	-3	-4	-4	-2	0	-40
TfL East London Line	11	0	0	0	0	0	0	0	0	0	11
	300	279	638	954	241	215	311	410	206	407	3,960
Net government funding	203	397	615	1,166	170	122	56	306	302	675	4,011

^a Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

Table 3.5: Industry income and expenditure in 2011-12 using a cash-based approach for Network Rail's capital expenditure by regional operating route

£m	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	
Industry income											
Passenger income	825	660	1,038	1,474	441	617	866	744	178	355	7,198
Other income	91	124	195	289	92	108	103	155	52	68	1,277
	916	784	1,233	1,763	533	725	969	899	230	423	8,475
Industry expenditure											
Train operators	522	623	850	1,374	286	450	505	559	231	533	5,933
Network Rail non-capex expenditure	404	301	581	943	218	271	347	332	188	363	3,950
Network Rail capex - renewals	235	159	566	362	111	110	168	284	161	299	2,455
Network Rail capex - enhancements	87	670	246	266	125	182	95	276	15	115	2,077
	1,237	1,753	2,243	2,945	740	1,013	1,115	1,451	595	1,310	14,415
Income less expenditure (cash basis)	-332	-969	-1,010	-1,182	-207	-288	-146	-552	-365	-887	-5,940
Government funding	203	397	615	1,166	170	122	56	306	302	675	4,011
Surplus / (deficit) (cash basis)	-129	-572	-395	-16	-37	-166	-90	-246	-63	-212	-1,929

^a Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

Table 3.6: High level analysis of industry financial information in 2011-12

£m	Operating route										
	Anglia	Kent ^a	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	GB total
Government funding											
Share of government funding	5.1%	9.9%	15.3%	29.1%	4.2%	3.0%	1.4%	7.6%	7.5%	16.8%	100.0%
Gov. funding / total income (%)	18.1%	33.6%	33.3%	39.8%	24.1%	14.4%	5.5%	25.4%	56.8%	61.5%	32.1%
Gov. funding per pass. journey (£)	0.90	2.20	4.66	4.82	3.39	0.65	0.25	3.26	9.15	7.67	2.74
Gov. funding per pass. km (£)	0.03	0.09	0.07	0.10	0.06	0.03	0.01	0.05	0.19	0.17	0.07
Passenger income											
Pass. income per pass. journey (£)	3.67	3.67	7.86	6.09	8.82	3.28	3.81	7.91	5.39	4.03	4.93
Pass. income per passenger km (£)	0.14	0.15	0.12	0.12	0.15	0.14	0.13	0.13	0.11	0.09	0.13
Industry expenditure											
Industry exp. per train km (£)	22.63	29.77	22.70	23.18	22.07	23.33	21.47	23.18	20.04	21.19	22.90
Industry exp. per pass. km (£)	0.18	0.23	0.19	0.22	0.20	0.19	0.15	0.18	0.31	0.28	0.20
Train operator exp. per pass. km (£)	0.09	0.14	0.10	0.11	0.10	0.10	0.08	0.10	0.14	0.13	0.10
Network Rail exp. per train km (£)	11.76	11.97	11.22	11.44	11.48	10.83	10.72	10.76	10.80	10.94	11.20
Network Rail exp. per pass. km (£)	0.10	0.09	0.09	0.11	0.10	0.09	0.08	0.08	0.17	0.14	0.10
Train operator share of total costs (%)	48.1%	59.8%	50.6%	50.7%	48.0%	53.6%	50.0%	53.6%	46.1%	48.4%	51.1%
Income / expenditure											
Pass. income / industry exp. (%)	75.9%	63.3%	61.8%	54.4%	74.0%	73.5%	85.8%	71.3%	35.5%	32.2%	62.0%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.76	-1.43	-3.39	-3.92	-1.26	-0.61	-0.18	-1.53	-8.21	-7.72	-2.15
Income (excl. gov funding) less expenditure per pass. km (£)	-0.03	-0.06	-0.05	-0.08	-0.02	-0.03	-0.01	-0.02	-0.17	-0.17	-0.06

^a Care is required in comparing Kent to other operating routes due to some of Southeastern's services in Kent use of the High Speed 1 rail infrastructure.

4. GB rail industry financial information disaggregated by rail franchise

4.1 Our analysis of rail industry financial information for 2011-12 is presented separately for each of the 19 rail franchises in this chapter.

4.2 Our analysis shows that there are significant variations in industry income, expenditure and government funding across the 19 rail franchises. These variances are summarised in the Executive Summary.

Table 4.1	Industry income, expenditure and government funding
Table 4.2	High level analysis of industry financial information in 2011-12

Table 4.1: Summary of industry income, expenditure and government funding in 2011-12 by franchise

£m	Franchise																				Total
	c2c Rail	Chiltern	Cross Country	East Coast	East Midlands	Greater Anglia	Greater Western	Northern	South Eastern ^d	Southern	South Western	Thames-link	Trans Pennine Express	Wales & Borders	West Coast	West Midlands	London Over-ground	Mersey-rail	ScotRail		
Franchised train operators																					
Passenger income ¹	126	120	389	587	293	548	738	204	586	609	795	466	166	108	820	225	93	45	280	7,197	
Net franchise receipts from government ¹	0	0	5	0	0	0	0	303	132	0	0	0	108	130	0	70	42	67	298	1,155	
Other ¹	5	16	9	79	49	22	76	54	38	57	60	48	14	45	49	35	15	17	36	723	
Train operator income³	131	137	403	666	341	570	814	561	756	666	854	514	287	284	869	329	150	130	614	9,075	
Staff costs ¹	27	43	80	117	83	122	218	201	158	175	185	111	49	91	143	106	54	47	172	2,182	
Rolling stock costs ¹	23	18	143	85	27	147	66	60	140	111	106	77	48	39	221	52	24	12	102	1,501	
Net franchise payments to government ¹	15	4	0	177	42	90	126	0	0	95	243	155	0	0	156	0	0	0	0	1,105	
Other (including Network Rail charges) ¹	53	82	200	269	215	179	404	261	424	269	275	162	122	137	315	176	63	55	322	3,982	
Train operator expenditure³	118	147	423	649	367	538	814	521	723	649	809	506	220	268	835	333	141	114	596	8,770	
Train operator income less expenditure^a	13	-10	-20	17	-26	32	0	40	34	17	45	9	68	16	35	-4	8	16	18	305	
Network Rail																					
Franchised train operator access charges ²	24	32	90	108	78	119	134	111	135	114	147	108	37	65	160	75	11	16	169	1,733	
Net government grant ³	41	86	275	186	194	203	373	382	252	221	267	204	143	196	294	193	48	52	347	3,957	
Other ³	7	11	36	24	25	37	47	50	35	39	44	28	19	26	40	26	8	7	49	556	
Network Rail income³	72	128	401	318	297	359	554	544	422	374	458	339	199	287	494	293	67	75	565	6,246	
Network Rail expenditure³	80	120	364	245	257	388	456	515	381	389	433	286	192	258	412	268	76	74	484	5,678	
Network Rail income less expenditure^a	-8	8	37	73	40	-29	98	29	41	-15	25	53	7	29	82	25	-9	1	81	568	
Industry income^b	179	233	713	876	560	810	1,233	994	1,043	926	1,166	746	449	505	1,203	548	205	189	1,009	13,589	
Industry expenditure^b	174	235	696	786	547	807	1,135	925	968	924	1,096	684	374	460	1,087	527	207	172	911	12,716	
Industry income less expenditure^a	5	-2	17	90	14	2	98	69	75	2	70	62	75	45	116	21	-1	17	99	873	
Less net government funding ^c	-26	-82	-280	-9	-152	-113	-247	-685	-384	-126	-24	-49	-251	-326	-138	-263	-90	-119	-645	-4,008	
Industry income less expenditure excluding government funding^a	-21	-83	-262	81	-138	-110	-149	-617	-309	-124	46	13	-176	-281	-22	-242	-92	-103	-546	-3,134	

Source data: (1) train operators' management accounts; (2) Network Rail's regulatory financial statements; (3) own analysis.

^a As explained in Chapter 5 (Methodology) this is not an accounting profit in a statutory reporting sense.

^b Including government funding and excluding inter-industry income and expenditure.

^c Calculated as the sum of the government funding of rail infrastructure and the franchise receipts and payments lines within this table

^d Care is required in comparing Southeastern's income and expenditure to other franchised train operators due to some of Southeastern's services use of the High Speed 1 rail infrastructure.

Table 4.2: High level analysis of industry financial information in 2011-12 by franchise

£m	Franchise																			GB total
	c2c Rail	Chiltern	Cross Country	East Coast	East Midlands	Greater Anglia	Greater Western	Northern	South Eastern ^a	Southern	South Western	Thames-link	Trans Pennine Express	Wales & Borders	West Coast	West Midlands	London Over-ground	Mersey-rail	ScotRail	
Government funding																				
Share of gov. funding	0.6%	2.0%	7.0%	0.2%	3.8%	2.8%	6.2%	17.1%	9.6%	3.1%	0.6%	1.2%	6.3%	8.1%	3.4%	6.6%	2.3%	3.0%	16.1%	100%
Funding / total income	15.7%	35.7%	39.2%	1.2%	29.3%	15.7%	22.3%	69.0%	36.8%	15.2%	2.6%	8.2%	55.9%	64.5%	13.2%	48.0%	44.0%	63.2%	63.9%	32.1%
Funding per pass. journey (£)	0.71	4.15	8.47	0.46	6.34	0.92	2.58	7.49	2.32	0.73	0.12	0.49	10.11	11.48	4.57	4.42	0.88	2.74	7.95	2.74
Funding per pass. km (£)	0.03	0.08	0.09	0.00	0.07	0.03	0.04	0.32	0.09	0.03	0.00	0.01	0.16	0.29	0.02	0.13	0.14	0.19	0.24	0.07
Passenger income																				
Per pass. journey (£)	3.46	6.11	11.78	31.05	12.25	4.46	7.71	2.22	3.54	3.50	3.81	4.68	6.68	3.81	27.16	3.78	0.90	1.04	3.45	4.93
Per passenger km (£)	0.13	0.12	0.12	0.12	0.13	0.14	0.13	0.10	0.14	0.14	0.14	0.13	0.11	0.09	0.14	0.11	0.14	0.07	0.10	0.13
Industry expenditure																				
Industry exp. per train km (£)	23.61	23.34	21.28	28.13	22.13	21.52	23.58	20.23	30.22	23.29	21.18	20.99	21.96	19.63	25.60	22.36	29.52	26.02	20.49	22.89
Industry exp. per pass. km (£)	0.16	0.23	0.21	0.12	0.23	0.18	0.17	0.43	0.23	0.19	0.15	0.15	0.24	0.40	0.16	0.25	0.32	0.27	0.34	0.20
Train operator exp. per pass. km (£)	0.08	0.11	0.10	0.07	0.11	0.08	0.09	0.19	0.14	0.10	0.07	0.07	0.12	0.18	0.09	0.12	0.20	0.15	0.16	0.10
Network Rail exp. per pass. km (£)	0.08	0.12	0.11	0.05	0.12	0.10	0.08	0.24	0.09	0.09	0.08	0.08	0.12	0.23	0.07	0.13	0.12	0.12	0.18	0.10
Train operator share of total costs (%)	49.8%	48.0%	47.7%	59.7%	49.0%	45.9%	54.8%	44.3%	60.7%	53.1%	49.2%	45.9%	48.7%	44.0%	55.7%	49.1%	63.1%	57.0%	46.9%	51.1%
Income / expenditure																				
Pass. income / industry exp. (%)	79.1%	52.2%	55.9%	96.4%	58.1%	76.4%	73.1%	22.0%	60.5%	73.4%	93.2%	88.2%	44.3%	23.5%	88.1%	42.6%	44.9%	26.2%	30.8%	62.0%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.57	-4.24	-7.95	4.28	-5.76	-0.90	-1.56	-6.74	-1.87	-0.72	0.22	0.13	-7.10	-9.90	-0.72	-4.06	-0.89	-2.36	-6.73	-2.15
Income (excl. gov funding) less expenditure per pass. km (£)	-0.02	-0.08	-0.08	0.02	-0.06	-0.03	-0.03	-0.29	-0.07	-0.03	0.01	0.00	-0.11	-0.25	0.00	-0.12	-0.14	-0.16	-0.20	-0.06

^a Care is required in comparing Southeastern's income and expenditure to other franchised train operators due to some of Southeastern's services use of the High Speed 1 rail infrastructure.

5. Methodology

Source data

Rail infrastructure financial data

5.1 Network Rail publishes both statutory and regulatory financial statements for each financial year 1 April to 31 March. The format of the regulatory financial statements is prescribed by ORR and includes comprehensive information about the company's income and expenditure²². The regulatory financial statements have been disaggregated between England & Wales and Scotland since 2006-07 and for 2011-12 include statements on income and expenditure for each operating route.

5.2 Because the regulatory financial statements have (a) arguably more meaningful and detailed categorisations of income and expenditure and (b) include regionally disaggregated information, we have used financial information from the regulatory financial statements rather than statutory financial statements within our analysis.

5.3 Our analysis also includes a small component of expenditure by TfL on the core East London Line. This information was provided in a submission to us by TfL.

Franchised train operators financial data

5.4 There are currently 19 train operators which operate regional passenger services under franchise from government. As summarised in Annex A DfT is the franchising authority for the majority of England & Wales franchises. Transport Scotland, TfL and Merseytravel have franchising authority for the ScotRail, London Overground and Merseyrail franchises respectively.

5.5 Annex A shows the potentially confusing naming differences between a number of the rail franchises and the names of the train companies that currently operate under these franchises. Within this publication we use the name of the franchise rather than the current train operator because franchise names change less frequently than the train operators. For example, we refer to the Thameslink Great Northern franchise rather than to First Capital Connect which currently operates this franchise. We have also not differentiated between National Express East Anglia and Abellio where there was a change to the Greater Anglia franchise in 2011-12.

²² Our regulatory accounting guidelines for Network Rail are available at: <http://www.rail-reg.gov.uk/upload/pdf/regulatory-accounting-guidelines-2011.pdf>.

5.6 Statutory financial statements are available from Companies House for all train operators. However, due to the flexibility of the Companies Act financial reporting requirements there are significant differences between the information presented within different train operators individual statutory financial statements. This limits the extent to which this information can be used to develop an understanding of whole industry income and expenditure. In particular:

- (a) train operators statutory financial statements have various financial year-ends complicating comparisons across consistent time periods²³;
- (b) items of income and expenditure are presented in different formats and with different levels of detail (in both the primary statements and the accompanying notes)²⁴; and
- (c) differences in accounting policies may result in differences to reported income and expenditure. This is not expected to have a significant impact due to the similar nature of train operators' businesses and our understanding of the similar accounting policies that are applied within the industry²⁵.

5.7 Franchised train operators are also required to submit four-weekly management accounts to government as part of their franchise agreements. These avoid the problems noted above for the purposes of our analysis. In particular:

- (a) four-weekly management accounts can be collated over consistent twelve month periods, thereby avoiding the problem of different year-ends; and
- (b) the formats of management accounts submitted to government are largely standardised and include detailed information about income and expenditure.

5.8 For these reasons, with the agreement of train operators, we have used information from franchised train operators' management accounts within our analysis.

Disaggregation of financial information

5.9 There are various ways in which GB rail industry financial information can be analysed. These include:

- (a) at the **national level** for Great Britain in total and separately for England, Scotland and Wales;
- (b) at a **regional level**, for example, separately for each of Network Rail's regional operating routes;
- (c) at the passenger **service level**, for example, separately for each franchise train operator, or in aggregate for similar types of passenger services (such as for long distance or regional operators); and
- (d) at a greater level of granularity, for example for individual train journeys.

5.10 As the usefulness of these different forms of analysis will depend on their intended use there is no one right way, or best way to present our findings. For example, regionally disaggregated information is

²³ Of a randomly selected sample of eleven train operator financial statements downloaded from the Companies House website, two had year-ends in December, one in January, six in March and two in May.

²⁴ For example, of the sample of eleven train operator financial statements, three did not disclose information about franchise payments to or from government. Within expenditure, non-staff operating costs were presented in five separate formats with different levels of detail.

²⁵ For example, of the sample of eleven train operator financial statements, all reported under UK Generally Accepted Accounting Principles ('UK GAAP'), used the same operating lease approach for train financing and had similar depreciation policies and asset lives for similar asset types.

arguably more useful for understanding regional variances in investment, whereas disaggregation by service type is arguably more useful for understanding variances in passenger revenues. Using both is useful for understanding some items such as government funding,

5.11 In order to best achieve our objectives for this work²⁶ we have chosen to present financial information separately at a national, regional operating route and franchise level within this report. This represents a significant increase in the amount of disaggregated information compared to our 2010-11 publication^{27, 28}.

5.12 We have not attempted to analyse industry income and expenditure at a greater level of granularity, for example for individual train journeys. This would require a significant increase in the amount of data and analysis required, and its value would be questionable as many items of income and expenditure cannot accurately be attributed beneath the level at which costs are actually managed.

National and regional analysis – basis of disaggregation

5.13 The methodology underpinning the national and regional operating route analyses presented in Chapters 2 and 3 is explained below.

Network Rail financial information

5.14 The majority of Network Rail's regionally disaggregated financial information included within our analysis has been taken from Network Rail's 2011-12 regulatory financial statements. To prepare this information, Network Rail classified income and expenditure into three categories dependent on how the items are managed:

(a) *directly attributed – route managed*. For items such as signaller staff costs and managed stations operations and maintenance there is a direct alignment between management responsibility and operating route so that costs can be directly attributed to an individual operating route.

(b) *centrally managed – attributable to routes*. For these items, management responsibility may not be locally based, however, the income and expenditure are incurred locally, so attributing these items to the applicable operating route is relatively straightforward. These include the majority of renewals and enhancements costs.

(c) *centrally managed – network wide*. Income and expenditure in this category is incurred for the whole network, for example, insurance costs. Network Rail has allocated network-wide income and expenditure to operating routes based on the total number of train miles travelled in each operating route.

5.15 Our analysis includes some items of expenditure (amortisation, financing costs, corporation tax and rebates) that Network Rail has reported separately for England & Wales, and Scotland but not separately between England & Wales operating routes. Within our analysis these items have been allocated between England & Wales operating routes in proportion to train kilometres travelled within each operating route.

²⁶ These objectives are set out in Chapter 1 (Introduction).

²⁷ Publishing information in this way is similar to the requirements of International Financial Reporting Standard (IFRS) 8 *Operating Segments*. IFRS 8 requires companies to segmentally report certain profit and loss and balance sheet items by geographical area and by business activity.

²⁸ Our 2010-11 publication is available at <http://www.rail-reg.gov.uk/server/show/ConWebDoc.10814>.

This is considered the most appropriate approach for allocating these items based on currently available information. It is consistent with Network Rail's approach for allocating network wide costs, our approach for allocating train operators' expenditure and our approach in 2010-11²⁹.

Franchised train operators' financial information

5.16 As explained in Chapter 1 (Introduction) there are significant overlaps between the geographies of rail franchises, between the geographies of rail franchises and regional operating routes, and between the geographies of rail franchises and nations. These overlaps significantly complicate any analysis of franchised train operators' income and expenditure between regional operating routes and between nations. Our methodology for allocating train operators' income and expenditure is explained below.

5.17 Train operators' expenditure has been allocated between regional operating routes, and between nations in proportion to train distance travelled in each operating route in 2010-11³⁰. This is considered a reasonable approach for allocating expenditure across operating routes as the majority of train operators' expenditure (staff, rolling stock, fuel and maintenance costs) is expected to vary closely with train distance travelled. It also seems a reasonable approach for allocating centrally incurred train operator overheads and franchise payments to and from government.

5.18 Train operators' income has been allocated between operating routes /nations using revenue information from the rail industry's central ticketing system, LENNON. This is a different approach to our 2010-11 analysis where train operators' income was allocated in proportion to train distance travelled in each regional operating route.

5.19 As explained in our 2010-11 publication, using train distance travelled might not be the most appropriate metric for allocating train operators' income to regions / nations. In particular, passenger fare income will vary with passenger density which is expected to be higher close to urban centres and lower on rural stretches of a train journey. With support from ATOC, the DfT provided us with LENNON³¹ information which more accurately attributes passenger income between regional operating routes / nations.

5.20 Unfortunately the most recently available LENNON data was only available for 2010-11. We have therefore allocated 2011-12 train operator income to regional operating routes / nations in proportion to the regional distribution of the 2010-11 LENNON data. However, a further complication with using the 2010-11 LENNON data does not include the Wales operating route as this was only created in 2011-12. Train

²⁹ As part of our 2010-11 analysis we investigated the accuracy of using train kilometres for allocating financing costs for the Scotland operating route. Allocating financing costs in proportion to train kilometres travelled resulted in an allocation which was £3m (2%) lower than Network Rail's actual attribution for Scotland. This is considered sufficiently accurate for the purpose of our analysis.

³⁰ This information was provided to us by Network Rail and is considered the most appropriate currently available to the industry. Network Rail has identified some issues relating to route boundaries which it is currently improving; however, these are likely to have only a minor effect on our analysis.

³¹ The LENNON database holds information on the majority of rail tickets purchased in Great Britain and is used to allocate the revenue from ticket sales between train operating companies.

operator income for Wales has therefore been allocated from the London North West and Western operating routes in proportion to train distance travelled in each of the three operating routes in 2011-12.

5.21 This approach has resulted in some differences to the allocation of train operators' income between operating routes / nations compared to the approach used in our 2010-11 publication. The most significant of these changes is for Scotland where using LENNON data rather than train distance travelled reduces West Coast and East Coast income allocated to Scotland by £71m, with offsetting increases to train operator income in the London North West and London North East operating routes.

5.22 We recognise that this analysis could be improved by asking train operators to attribute their own income and expenditure between regional operating routes / nations. However, this could result in the adoption of many different allocation approaches which in itself could be confusing. Whilst this could be overcome by requiring a consistent approach we have not sought for train operators to undertake such an analysis as it is not clear that the potential benefits of more accurately allocating train operators' income and expenditure to regional operating routes / nations would outweigh the administrative cost to train operators.

Franchise level analysis – basis of disaggregation

5.23 The methodology underpinning the franchise level analysis presented in Chapter 4 is explained below.

Franchised train operators' financial information

5.24 As explained earlier in this chapter, the train operator financial information included within our analysis has been taken from train operator's cumulative management accounting submissions to government for the period 1 April 2011 to 31 March 2012.

5.25 The operating model for London Overground is different to that used by other train operators. Instead of franchising the services out, Rail for London (RfL), a subsidiary of TfL, has entered into a concession agreement with London Overground Rail Operations Limited ('London Overground') to run services. This operating contract means that RfL retains risk on revenue, and reports the passenger income, whilst leaving the train operator to manage performance of the service. Therefore the revenue and cost split between the London Overground and RfL is different to those between other train operators and government. To support our analysis, London Overground and TfL worked together to provide consolidated information for London Overground that is consistent with the financial information for other train operators.

5.26 There was a change to the Greater Anglia franchise in 2011-12 with Abellio taking over the franchise from National Express in February 2012. For simplicity we have presented financial information for the Greater Anglia franchise as a whole for 2011-12 rather than separately for National Express and Abellio operations of the franchise.

Network Rail financial information

5.27 Network Rail's expenditure (and its income from non-franchised train operators) in each regional operating route has been allocated to franchises in proportion to train distance travelled by each franchise operator in that operating route. This is essentially the same approach as we have used for allocating train operators' expenditure to regional operating routes.

5.28 We investigated using alternative approaches to allocate Network Rail's expenditure to franchises, for example, in proportion to fixed track access charges by paid by franchise operators. As explained in our Periodic Review 2008 determination³², England & Wales franchised train operators pay fixed track access charges on the basis of timetabled vehicle miles on strategic route sections, for each of which Network Rail assigned forecast maintenance and renewals expenditure in control period 4 (CP4). Common costs such as British Transport Police (representing approximately 30% of total costs recovered through the fixed charge) were allocated to franchise operators at a national level. However, a different approach was adopted for Scotland whereby only ScotRail pays fixed track access charges in relation to these costs in Scotland.

5.29 Given the amount of detailed work that Network Rail has undertaken over the past two years to attribute its costs at a regional level as part of its devolution to regional business units³³ we consider that allocating Network Rail's regional expenditure in proportion to train distance travelled by each franchise operator in each operating route provides the best allocation that is currently practicable.

A cash-based approach for Network Rail's capital expenditure

5.30 The majority of Network Rail's renewals and enhancements expenditure is capitalised and amortised (or depreciated) over the life of the assets for regulatory and statutory financial reporting purposes. Network Rail's amortisation in our Periodic Review 2008 determination is based on the long-run annual average investment expenditure that is required in order to maintain the network in a steady state³⁴.

5.31 Network Rail's expenditure presented in Tables 1, 3.1, 4.1 and 5.1 includes the annual amortisation charge for capital expenditure³⁵, rather than the amount of cash spent on these renewals and enhancements projects. This is consistent with the accruals-based accounting approach to recognise the cost of an asset over its useful life. However, as it is also informative to understand actual cash expenditure by the rail industry we have presented industry income and expenditure, including Network Rail's capital expenditure on a cash flow basis in Tables 3.5, 4.5 and 5.5.

³² This is available at <http://www.rail-reg.gov.uk/upload/pdf/383.pdf>.

³³ See <http://www.networkrail.co.uk/devolution.aspx> for further details.

³⁴ See Chapter 15 of our Periodic Review 2008 determination for further details.

³⁵ Our regulatory approach for calculating the amortisation of capital expenditure is explained in Chapter 15 of the Periodic Review 2008 determination. This is available at <http://www.rail-reg.gov.uk/upload/pdf/383.pdf>.

Adjustments to determine industry income and expenditure

5.32 Similar to the consolidation adjustments that are required to prepare group statutory financial statements, adjustments are required to our analysis to avoid overstating industry income and expenditure for money flows that are internal to the industry.

5.33 Network Rail's income from franchise operators includes fixed and variable usage charges, traction electricity charges and stations income. Network Rail's regulatory financial statements include information on these items for each franchise operator. This information has been used to determine the appropriate consolidation adjustment to Network Rail's income and train operator's expenditure to avoid overstating industry income and expenditure.

5.34 Franchise operators perform a variety of services on behalf of other operators including station access, train maintenance and staffing. However, franchise operators have informed us that these services typically represent less than 2% of turnover. No adjustment has been made in our analysis for this internal industry income on the grounds of materiality.

Industry surplus / (deficit)

5.35 Table 1 and similar disaggregated tables included within our report show the net difference between industry income and expenditure (either surplus or deficit) based on companies' management and regulatory accounting information. This amount 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.

Freight and open access operations

5.36 Our analysis includes Network Rail's income from freight (£51m) and open access operations (£27m) in 2011-12³⁶. Our analysis also includes but does not separately identify Network Rail's costs incurred from freight and open access operations so as not to overly complicate our analysis³⁷.

5.37 As explained in Chapter 1 (Introduction) our analysis does not include freight and open access train operators' income and expenditure as these are significantly smaller components of the industry than franchised train operators, information is less readily available for freight and open access train operators and there is a lower need for public accountability as they are not direct recipients of government support.

5.38 As summarised in Table 5.1 we have undertaken a limited analysis using the most recently available statutory financial statements to estimate the income and expenditure of freight and open access train operators. Care is required in using this analysis due some of some freight operators' financial statements

³⁶ These items are included within the Network Rail other income category.

³⁷ As part of our 2013 periodic review we have estimated that freight avoidable costs are around £300 to £400m per annum. This represents the element of Network Rail's fixed costs which are attributable to freight services.

including non-GB freight specific business activities. For example, Colas Rail's business includes the operation of rail maintenance machinery (so called yellow plant), so Table 5.1 overstates Colas Rail's income and costs from freight. Similarly, we understand that GB Rail Freight's income and costs include the company's Eurotunnel activities and that some of DB Schenker's freight activities are managed and reported under different legal entities. Table 5.1 has also not been adjusted for the different accounting periods covered in these companies' financial statements.

Table 5.1: Non-franchised train operators' income and expenditure in 2011-12 (approximate)

£m	Turnover	Operating costs	Other costs / income	Profit after tax
Freight operators¹				
GB Rail Freight ^a	73	69	1	3
Colas Rail ^a	133	122	9	2
DB Schenker ^a	452	413	-7	46
Mendip ^a	24	22	1	1
Direct Rail Services ^b	50	48	1	2
Freightliner ^c	164	131	29	4
	895	803	33	59
Open access operators²				
Grand Central ^a	17	25	-8	-9
Heathrow Express ^a	64	58	6	4
First Hull Trains ^b	22	22	0	0
	102	105	-3	-5
Open access operators (international)				
Eurostar ^a	825	738	87	21

^a Year ended 31 December 2011

^b Year ended 31 March 2012

^c Year ended 31 March 2011

¹ Freight operators paid £51m of access charges to Network Rail in 2011-12 (source: Network Rail)

² Open access operators paid £26m of access charges to Network Rail in 2011-12 (source: Network Rail)

High Speed 1

5.39 High Speed 1 ('HS1') is a rail infrastructure concession that connects London to the Channel Tunnel via Stratford, Ebbsfleet and Ashford. The concession is owned by Borealis Infrastructure Europe (UK) Ltd and OTPPB Investments (UK) Limited. Southeastern and Eurostar operate passenger train services on HS1.

5.40 The focus of our analysis is the GB franchised rail industry and our analysis does not explicitly include HS1 due to the difficulty of reliably separating HS1's costs arising from national and international train operations³⁸. However, our analysis does include Southeastern's income and expenditure from its operations on HS1.

5.41 HS1's latest statutory financial statements are for the 15 months ended 31 March 2012 and are summarised in Table 5.2.

³⁸ This is a similar issue to the difficulty of separately identifying Network Rail's infrastructure costs in relation to freight and open access operations which is explained above.

Table 5.2: Summary of HS1's income and expenditure for the 15 months ended 31 March 2012

	£m
Turnover	341
Operating expenditure	-234
Net interest payable	-172
Reversal of impairment of fixed assets	528
Profit before tax	462
Increase in cash	47

5.42 Excluding the one-off impairment reversal and assuming that HS1's income and expenditure accrued evenly over this period, HS1 made approximately £50m loss on its day-to-day operations, and its cash reserves increased by approximately £38m during the 12 month period covered in our analysis. Extending our analysis to including HS1 would therefore not have a significant effect on our analysis.

Non-financial information

5.43 We have included some non-financial information in our analysis to inform users' interpretation of the financial information presented. This non-financial information has been taken from National Rail Trends, ORR's official publication on passenger usage and rail performance data³⁹.

³⁹ Information about National Rail Trends is available at <http://www.rail-reg.gov.uk/server/show/nav.1863>.

Annex A – Geographical overlap of rail franchises and regional operating routes

Table A1: Distance travelled by train operators in each regional operating route in 2011-12

Franchise	Franchise operator	Franchising authority	Operating route										Total train km travelled (millions)	
			Anglia	Kent	LNE	LNW	Midland	Sussex	Wessex	Western	Wales	Scotland		
c2c Rail	c2c Rail	DfT	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.7
Chiltern	Chiltern	DfT	0.0	0.0	0.0	9.7	0.0	0.0	0.0	0.0	0.2	0.0	0.0	9.9
Cross Country	New Cross Country	DfT	1.2	0.0	6.8	7.9	4.3	0.0	1.5	7.9	1.0	2.0	32.7	
East Coast	East Coast	DfT	0.0	0.0	19.0	0.0	0.3	0.0	0.0	0.0	0.0	2.3	21.6	
East Midlands	East Midlands Trains	DfT	1.2	0.0	5.0	1.5	15.1	0.0	0.0	0.0	0.0	0.0	22.8	
Greater Anglia	NEX East Anglia + Abellio	DfT	33.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	33.3	
Greater Western	First Great Western	DfT	0.0	0.0	0.0	0.1	0.0	0.6	3.4	35.4	3.3	0.0	42.8	
Northern	Northern Rail	DfT	0.0	0.0	23.6	21.7	0.4	0.0	0.0	0.0	0.0	0.0	45.7	
South Eastern	Southeastern	DfT	0.0	31.6	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	32.0	
Southern	Southern	DfT	0.0	2.8	0.0	0.7	0.0	29.3	2.8	0.0	0.0	0.0	35.6	
South Western	South West Trains	DfT	0.0	0.0	0.0	0.0	0.0	0.1	39.4	0.7	0.0	0.0	40.3	
Thameslink Great Northern	First Capital Connect	DfT	2.0	0.9	11.0	0.0	7.2	3.9	0.0	0.0	0.0	0.0	25.2	
Trans Pennine Express	First Transpennine Express	DfT	0.0	0.0	8.3	7.6	0.0	0.0	0.0	0.0	0.0	1.1	17.0	
Wales & Borders	Arriva Trains Wales	DfT	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.2	19.3	0.0	23.5	
West Coast	Virgin Trains	DfT	0.0	0.0	0.0	32.8	0.0	0.0	0.0	0.0	0.6	2.9	36.4	
West Midlands	London Midland	DfT	0.0	0.0	0.0	22.3	0.0	0.0	0.0	1.0	0.3	0.0	23.6	
London Overground	LOROL	TfL	3.8	0.0	0.0	1.5	0.0	1.7	0.0	0.0	0.0	0.0	7.0	
Merseyrail Electrics	Merseyrail	Merseyside PTE	0.0	0.0	0.0	6.6	0.0	0.0	0.0	0.0	0.0	0.0	6.6	
ScotRail	First ScotRail	TS	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	43.6	44.4	
Total train distance travelled (km millions)			48.2	35.3	73.8	117.2	27.3	36.1	47.1	45.4	24.6	52.1	507.2	

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