



OFFICE OF RAIL AND ROAD



GB rail industry financial information 2014-15

9 March 2016



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Feedback

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Summary

1. This fifth annual publication of GB rail industry financial information helps strengthen the industry's accountability, deepens our understanding of the rail industry's finances and informs debate about the value for money of the industry for its funders. This publication has now been classified as Official Statistics. This report is the result of a continuing collaborative effort by a number of organisations. We are particularly grateful to Network Rail, franchised train operating companies, the Rail Delivery Group, the Department for Transport, Transport Scotland, the Welsh Government, Transport for London and Merseytravel. Without their provision of data and quality assurance, this publication would not have been possible.
2. Our analysis is primarily focused on Network Rail and franchised passenger train operators. We also present more limited data for the freight and open access operators, as well as HS1. Whilst we recognise the importance of other components of the industry, such as engineering contractors, rolling stock companies or financial institutions, we do not currently have sufficient data to undertake further analysis. We only include Crossrail expenditure that forms part of the existing operational railway network. We exclude investment in HS2 development.
3. Due to the complexity of the rail network, with most operators running over more than one route, allocation assumptions must be made for both income and expenditure. Whilst we consider that the methods and data sources that we have employed provide a reasonable and informative analysis of the industry's finances at a sub-GB level, we recognise that different approaches could be used which would give a different interpretation of, for example, where government is providing financial support. There are different views within the industry and it is important for readers to recognise this. These are discussed in Chapter 7 (Methodology). **For this reason we suggest that care should be taken in interpreting those parts of our analysis that examine costs, income and government support at a sub-GB level.** Our key data tables are available on our website¹.
4. In 2014-15, the rail industry had income of £13.5 billion. Most of this was from passengers (71%), with governments providing 26% of funding. Other sources of income, such as property, provided 3%. After adjusting for payments within the industry, the overall cost of running Great Britain's railways was £13.6 billion, with 54% of these costs incurred on train operations and 46% on rail infrastructure.

¹ Office of Rail and Road, [GB Rail industry financial information annual releases](#)

5. Adjusted for RPI inflation², a comparison with 2013-14 shows that in 2014-15:

- Industry income from passenger fares has increased by £0.4 billion (5%), to £8.8 billion. This is primarily because the number of passenger journeys increased by 4% and partly because of fare increases of 1% in real terms. Most of the increase in journeys has been in London and the South East. Of the total fare income, 62% was from unregulated fares and 38% from regulated fares³.
- Governments' funding of the rail industry as a whole has reduced by 9%, from £3.9 billion to £3.5 billion. This includes funding from all government sources, including devolved administrations and passenger transport executives. After adjusting for the finance costs paid by Network Rail to the Department for Transport, government funding to the rail industry has reduced by 14%, to £3.1 billion.
- At an aggregate level, franchised train operators contributed significantly more to government than in previous years. Based on the methodology used for our analysis, this is the first year that payments to governments exceeded net support funding from governments. Whereas in 2013-14 franchises received net support of £0.1 billion, in 2014-15 they made net payments of £0.7 billion to governments. This was largely due to a change from governments supporting train operators to increased support for Network Rail. There was wide variation in net support or net premium between franchised operators. Open access operators and freight operators received no direct support.
- Rail infrastructure net funding from governments increased by 12% from £3.7 billion to £4.2 billion⁴. Following the PR13 determination⁵, Network Rail's income from train operator charges reduced by £0.8 billion while its net funding from governments has increased by £0.5 billion.
- Industry costs increased by £0.9 billion (7%), largely due to an increase in Network Rail's maintenance and renewals costs, as well as an increase in train operator costs.

6. Figure 1 illustrates the rail industry's major income and expenditure flows, including government funding, for the year 1 April 2014 to 31 March 2015. Income and expenditure showing Network Rail's expenditure on a cash basis is included in Table 3.5.

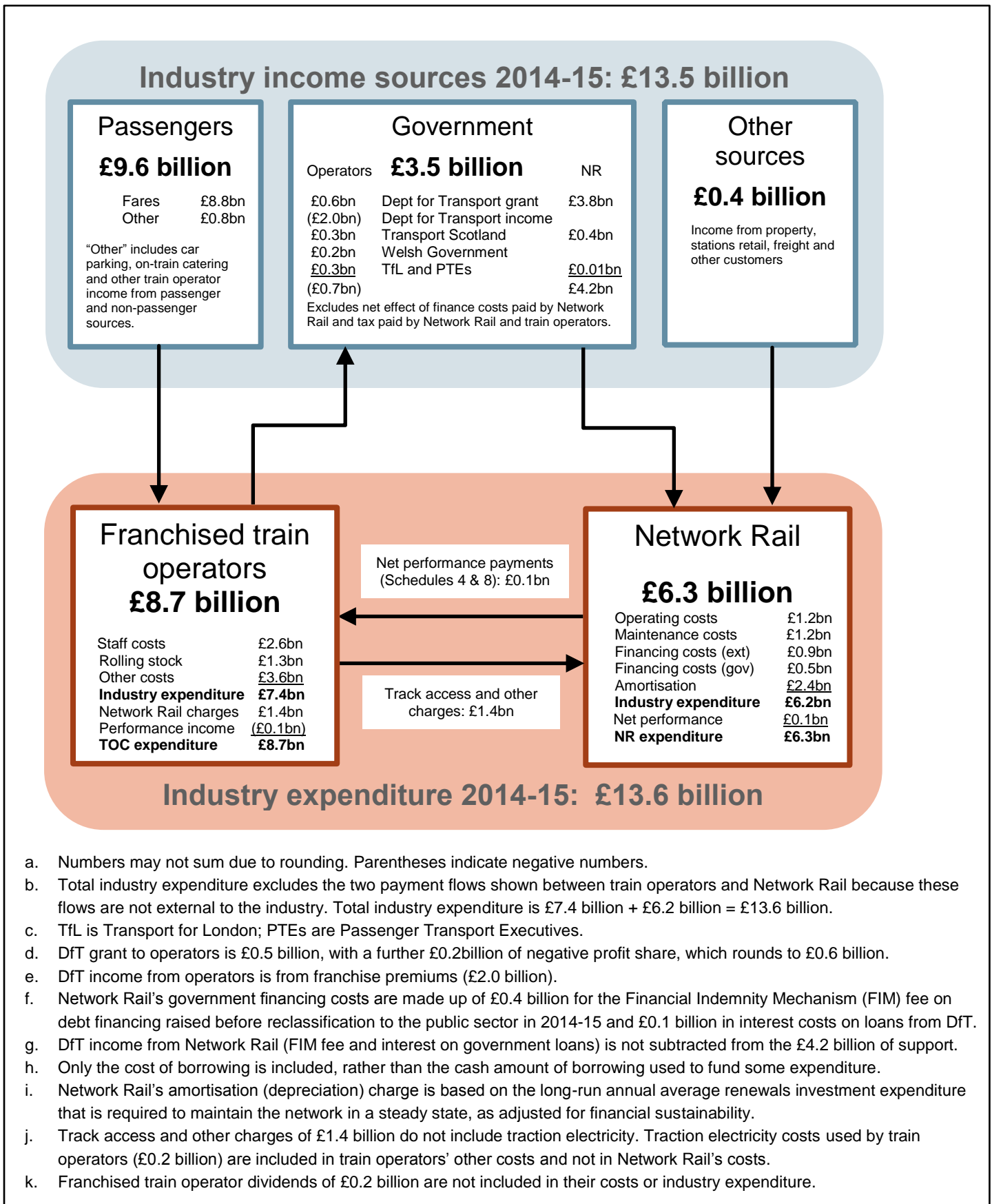
² See [Inflation and consolidation adjustments](#) in Chapter 7 (Methodology) for details.

³ Some unregulated fares are effectively capped by the price of regulated fares for the same journey type. As explained in Chapter 7 (Methodology), there are limitations to our fares analysis because the underlying data captures the origin and destination of a passenger journey but not the particular route taken by a passenger between those two points.

⁴ In 2014-15 prices, Network Rail's network grant was £3.9 billion in 2013-14, less a rebate to the Department for Transport of £0.1 billion, giving £3.7 billion after rounding.

⁵ Office of Rail and Road, [Final determination of Network Rail's outputs and funding for 2014-19](#), October 2013

Figure 1: Industry income, expenditure and government funding flows in 2014-15



7. Our analysis suggests that there were significant variations in income and expenditure between Scotland, Wales and England⁶. Average fare per journey varied from £4.45 in Scotland, to £5.35 in England and £5.86 in Wales⁷. This is because there were relatively more short distance journeys in England, compared with Scotland or Wales and passenger fare per kilometre varied from £0.10 in Scotland, to £0.12 in Wales and £0.14 in England. Average journey distance was 37 km in England (with 1,517 million journeys), 45 km in Scotland (101 million journeys) and 47 km in Wales (36 million journeys).
8. Total government funding varied from £1.66 per passenger journey in England to £6.70 per journey in Scotland and £9.14 per journey in Wales. The level of funding provided by government varied from 21% of total industry income in England to 56% in Scotland and 54% in Wales. The rail industry has high fixed costs, so these differences in funding are partly due to the very different average passenger densities, with 129 passengers per train in England, 81 in Scotland and 69 in Wales. This also partly explains the different levels of industry expenditure per passenger km: £0.21 in England, £0.28 in Scotland and £0.34 in Wales. Industry expenditure per train km is £27.44 in England, £23.07 in Scotland and £23.53 in Wales, largely due to the different intensities of network usage, which require higher levels of maintenance.

Changes in industry finances since 2010-11

9. Our analysis shows that there have been substantial changes to the rail industry's finances over the last five years. Adjusted for RPI inflation, since 2010-11:
 - funding from government sources has decreased by £1.1 billion (24%), which equates to a 37% decrease in government's financial contribution per passenger journey;
 - passenger fare income increased by £1.2 billion (17%), which was largely due to the 22% increase in passenger journeys (to 1,654 million journeys) and average fare per passenger journey decreasing by 4%⁸; and
 - industry costs increased by £0.5bn (4%)⁹. This increase is due to a number of variances in Network Rail and train operator costs.

⁶ Government funding for infrastructure is paid to Network Rail at the national level. Our sub-GB level analysis requires allocation of industry income and costs. There are overlaps between rail franchises and rail franchises may run on more than one Network Rail operating route. There is no definitive way to do this and different stakeholders have different views as to how this should be done. This means that care is required in understanding and interpreting our analysis because different approaches can give different allocations.

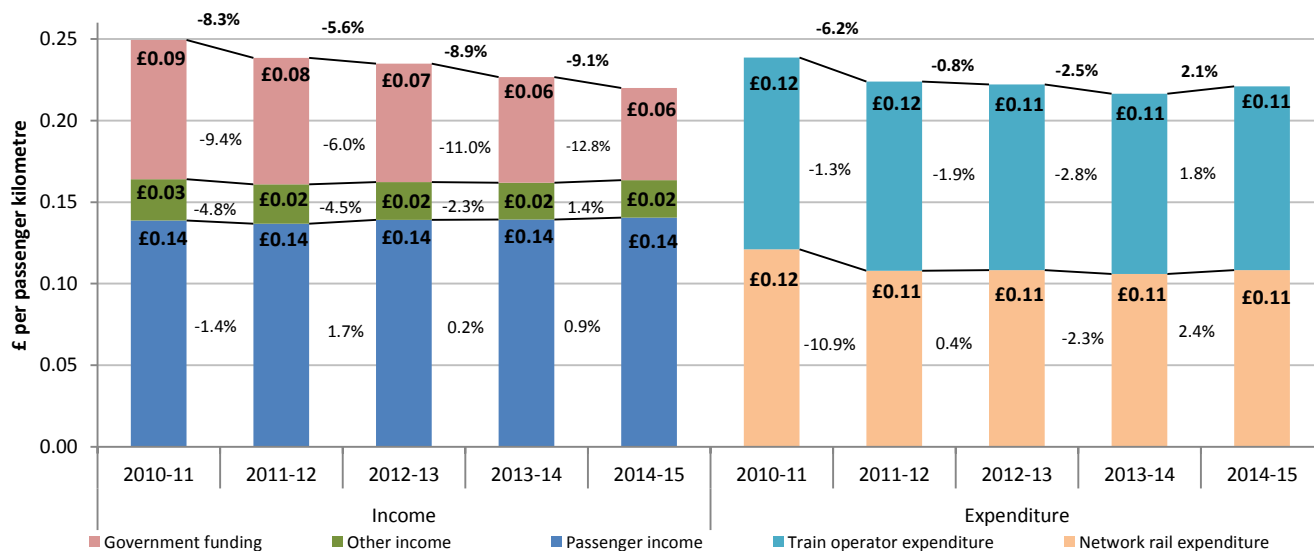
⁷ Average fares are calculated based on total ticket income divided by the total number of passenger journeys. Ticket income is also called "farebox income".

⁸ This average is based on all fares, across Great Britain. There are, of course, wide variations in fare types and distances travelled. Fares are examined further in Chapter 2 (Key findings).

⁹ This excludes £0.4bn of additional amortisation for financial sustainability as explained in ORR's PR13 determination, which is not a change in underlying industry costs.

10. These variances are based on relatively high-level analysis using a short time series and do not identify underlying trends. However, the industry has seen sustained growth in demand and Figure 2 shows income and expenditure per passenger kilometre.

Figure 2: Industry income, expenditure and government funding per passenger km, 2010-15



Notes:
Values are in 2014-15 prices.
This figure excludes intra-industry income and expenditure.
Percentage differences are year on year changes.
The underlying data for this Figure is in Table 3.1a.

1. Introduction

Purpose of the report

- 1.1 Increasing transparency about the rail industry's finances should help to strengthen the industry's accountability and inform debate about the value for money of the industry for its funders, both passengers and governments. In its *Rail 2020* report¹⁰, the Transport Select Committee fully endorsed this need for more transparency about the rail industry's finances. The UK Government and Scottish Government are also of the view that providing better information on public services will help to increase the usefulness of those services. The Secretary of State's guidance to ORR asks that we continue to develop transparency on whole industry costs, revenue and efficiency, and that we benchmark costs and publish the results¹¹.
- 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. We consider that transparency strengthens the industry's accountability and deepens our understanding of the rail industry's finances to improve informed debate about the value for money of the industry for its funders.
- 1.3 The information presented within this report should:
- (a) help passengers understand what they are paying for;
 - (b) clarify where government, in its different forms, is providing support;
 - (c) allow interested parties to gain a better understanding of industry financial performance;
 - (d) improve industry planning and co-operation;
 - (e) support increased route level and train operator accountability; and
 - (f) provide better data to facilitate benchmarking of costs and efficiencies.
- 1.4 Our industry financials publications provide a more comprehensive understanding of industry income and expenditure than has recently been available. They are the result of a collaborative effort by a number of organisations. We are particularly grateful to franchised train operating companies, Network Rail, the Rail Delivery Group (RDG), the Department for Transport (DfT), Transport Scotland, the Welsh Government, Transport for London and Merseytravel, without whose support this work would not have been possible.

¹⁰ House of Commons Transport Committee, [Rail 2020](#), HC329 2012-13, 17 December 2012, paras 29-32

¹¹ Secretary of State for Transport, [Guidance to the Office of Rail Regulation](#), July 2012

Industry structure and rationale for our analytical approach

1.5 The GB rail industry comprises the national rail infrastructure provider, Network Rail, franchised train operators which provide passenger services on the rail infrastructure, other freight and open access operators and the supply chain (rolling stock leasing companies, engineering contractors and other suppliers). The primary focus of our analysis is Network Rail and the franchised train operating companies.

1.6 At the time of our periodic review in 2013, Network Rail had ten operating routes whose geographies are shown in Figure 1.1. The operating routes are:

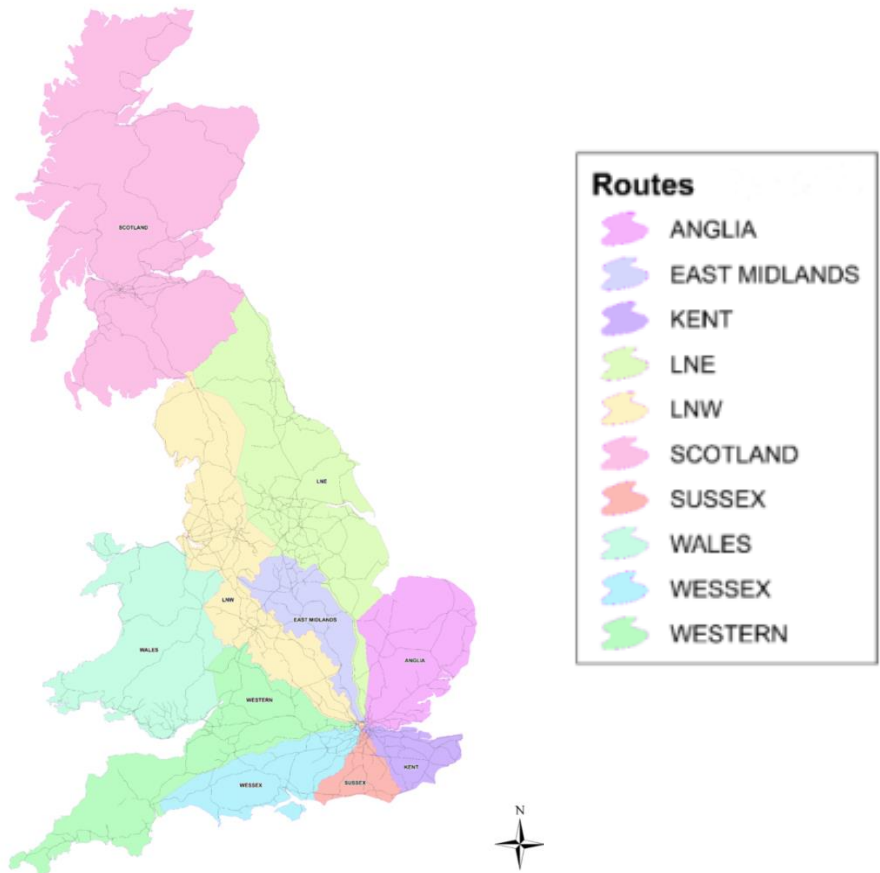
- Anglia;
- East Midlands;
- Kent;
- London North East (LNE);
- London North West (LNW);
- Scotland;
- Sussex;
- Wessex;
- Western; and
- Wales.

Network Rail has since moved to an eight-route structure, with LNE and East Midlands having merged to form “LNE and East Midlands” and the Sussex and Kent routes having merged to form the “Southeast” route. However, for the purposes of reporting, Network Rail continues to produce regulatory accounts on a 10-route basis and our analysis here is consistent with that approach.

1.7 Network Rail is a not-for-dividend government-owned company, which uses its profits to reinvest in the industry or pay down debt¹².

¹² Network Rail was [re-classified by the Office for National Statistics \(ONS\)](#) as a public sector body in the national accounts on 1 September 2014 following a change to the European System of Accounts.

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



Source: Network Rail

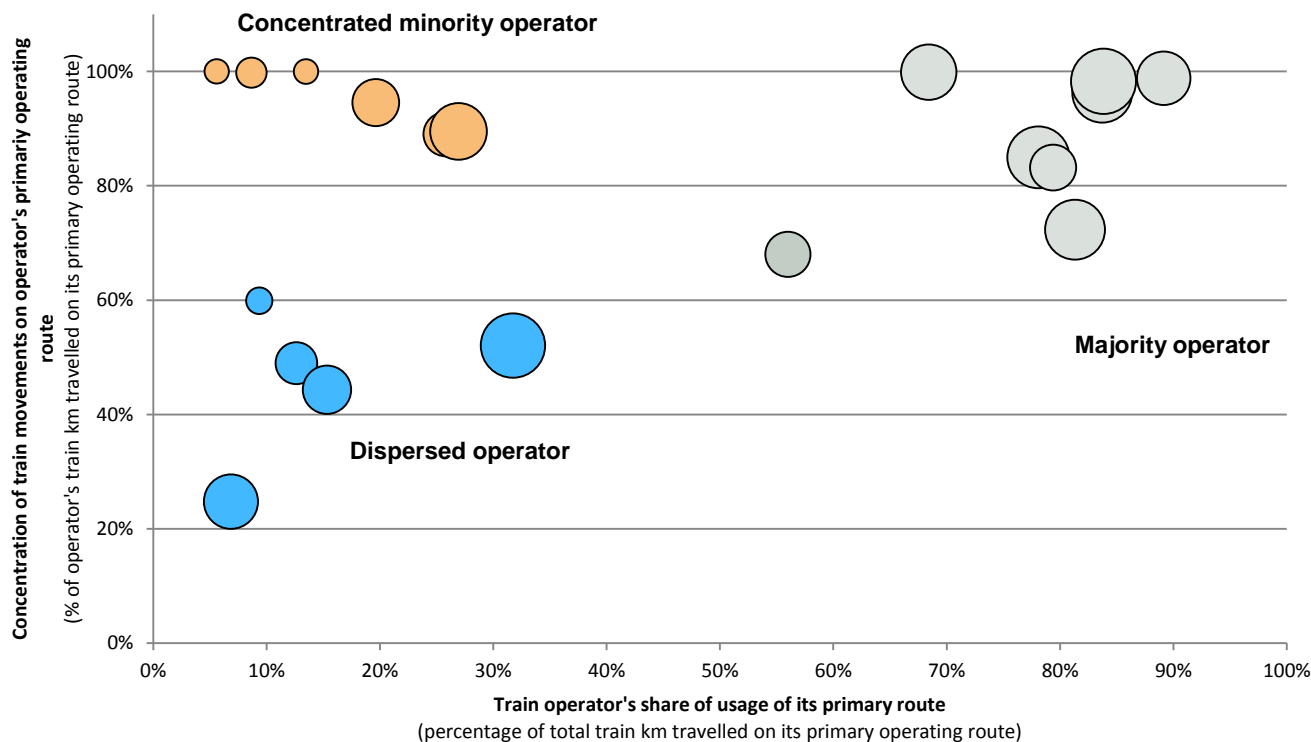
- 1.8 There are currently 19 train operators that operate passenger services under franchise from government. These are shown with their owning groups in Annex C. DfT is the franchising authority for the majority of England & Wales franchises (16). Transport Scotland, TfL and Merseytravel are the franchising authorities for the ScotRail, London Overground and Merseyrail franchises respectively¹³.
- 1.9 As shown in Figure 1.2, there are overlaps between rail franchises and rail franchises may run on more than one Network Rail operating route. For example, five franchises make use of the central spine of the west coast mainline (West Coast, West Midlands, London Overground, ScotRail and Southern)¹⁴.

¹³ In addition, TfL assumed responsibility for awarding the franchise for TfL Rail in May 2015.

¹⁴ As another example, of the six train operators which each travelled in excess of 2.5 million train kilometres on the London North East operating route (Cross Country, East Coast Mainline, East Midlands, Northern Rail, Trans Pennine Express and First Capital Connect) only one (East Coast Mainline) did not travel at least this distance on at least one other operating route.

1.10 Taken together with the different sources of government funding, this structure significantly complicates understanding of the rail industry’s finances at a sub-GB level. Further details are available in Annex A, which shows the distance travelled by each train operator in each operating route in 2014-15.

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



Notes:

Bubble size represents total train km of each operator.

Concentrated minority operator: More than 50% of train km are on one route and its share of route traffic is less than 50%.

Majority operator: More than 50% of train km are on one route and its share of traffic on that route is more than 50%.

Dispersed operator: Less than 50% of train km are on one route and its share of traffic on that route is less than 50%.

Source: ORR analysis of Network Rail data

1.11 For these reasons, there is not 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 variances in the costs of managing the physical infrastructure, whereas disaggregation by train operators is arguably more useful for understanding variances in passenger income. Using a mixture of both is perhaps most useful for understanding some items such as government funding.

1.12 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, operating route and franchise (passenger service) level within this report. Most information in this report is presented on an accruals basis, with income and expenditure being more consistently matched, to mirror the underlying substance of transactions. Using the accruals basis necessitates some judgments to be made,

based on accounting standards. Some tables are presented on a cash basis, with income and expenditure recorded when cash flows, rather than when income is earned and expenditure is incurred. The cash basis tables are clearly indicated.

- 1.13 Our analysis is primarily focused on Network Rail and franchised passenger train operators. We also present limited data for the freight and open access operators, as well as HS1 in Chapter 6 (Freight, open access and HS1). Whilst we recognise the importance of other components of the industry, such as engineering contractors, rolling stock companies or financial institutions, we do not currently have sufficient data to undertake further analysis. We only include Crossrail expenditure that forms part of the existing operational railway network. We exclude investment in HS2 development.
- 1.14 We have not attempted to analyse industry income and expenditure at a greater level of granularity, for example for individual train or passenger journeys. This would require a significant increase in the amount of data and analysis required, and its value would be questionable because many items of income and expenditure cannot accurately be attributed beneath the level at which costs are actually managed. However, we do provide analysis of average 'unit costs', for example, industry costs per passenger journey.
- 1.15 We do not make any comment on the value for money of the industry for taxpayers or passengers. However, the affordability of rail and other regulated services are considered in a recent United Kingdom Regulators Network (UKRN) publication¹⁵.

Interpreting our analysis

- 1.16 For the reasons explained above a significant challenge in developing and presenting our analysis is how to allocate financial information to the overlapping geographies of franchises and operating routes.
- 1.17 We consider that the methods and data sources that we have employed provide a reasonable and informative analysis of the industry's finances. However, at the sub-GB level we recognise that different approaches could be used to allocate income and costs, which would give a different interpretation of, for example, where government is providing financial support. Differing views exist across the industry on how these costs should be allocated and our approach is not supported by all stakeholders. We will keep our methodology under review and would welcome feedback on our approach. Therefore it is important that these parts of the analysis are placed in their proper context and not given undue weight within the overall messages of this report. For this reason we suggest that care is taken in interpreting those parts of our analysis that examine costs, income and government support at a sub-GB level.

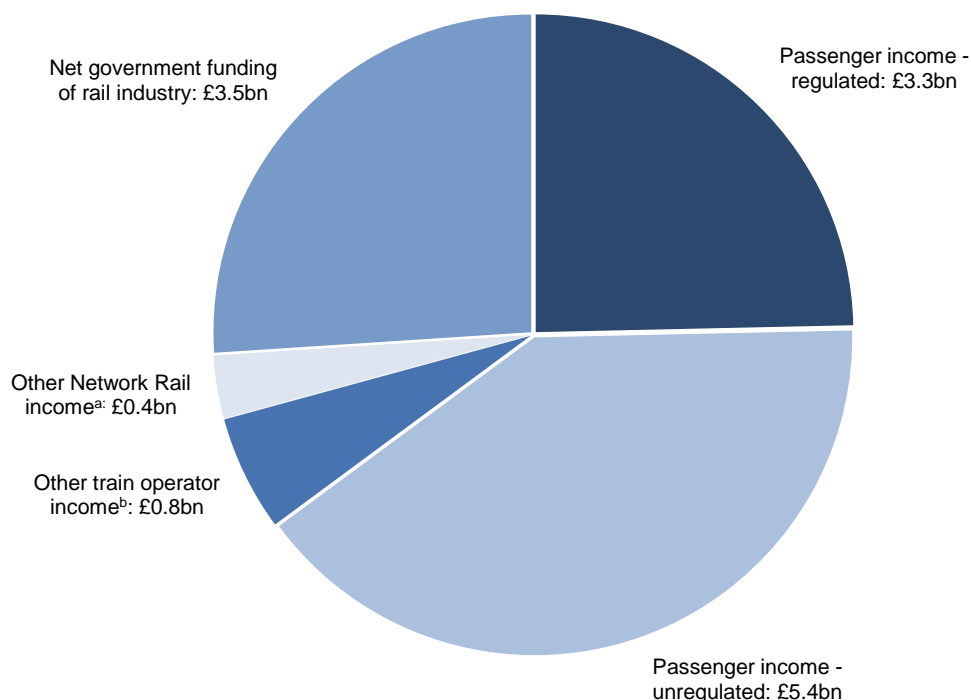
¹⁵ UK Regulators Network, [Understanding affordability pressures in essential services](#), 20 January 2015

2. Key findings

Industry income

2.1 The rail industry received £13.5 billion of income in 2014-15. As shown in Figure 2.1, the majority of this income was from passenger fares £8.8 billion (65%). Governments contributed a net total of £3.5 billion (26%). Train operators received £0.8 billion from car parking, on-board catering and other sources, and Network Rail received £0.4 billion from property, stations retail, freight and other customers.

Figure 2.1: Sources of industry income in 2014-15



^a Income from property, stations retail outlets, freight and open access operators etc.

^b Income from car parking, on board catering etc.

Passenger fare income

2.2 Passenger fare income represents ticket income from passenger journeys, as opposed to non-fare industry income such as catering and car parking¹⁶. Passenger income from fares was £8.8

¹⁶ Within the industry, passenger income is commonly known as farebox income.

billion in 2014-15 which was £0.6 billion (7.5%) higher than in 2013-14. Adjusted for inflation, passenger income was £0.4 billion (5.4%) higher than in 2013-14.

- 2.3 The increase in passenger fare income compared with 2013-14 needs to be considered alongside passenger growth. The number of passenger journeys increased in 2014-15 by 4.2%. Also, the average distance of a journey increased by 0.3%, to 37.7 km.
- 2.4 The average passenger income per journey (average fare) in 2014-15 was £5.30¹⁷ and the average income per passenger kilometre travelled was £0.14. The average passenger income per journey in 2014-15 increased by 1.1% in real terms compared with 2013-14 and the average passenger income per passenger kilometre travelled increased by 0.9% in real terms. These figures represent the change in the average revenue raised, not changes in specific types of fare.
- 2.5 Per passenger journey, average fare was highest in Wales (£5.86) followed by England (£5.35) and Scotland (£4.45). Average fare per passenger kilometre travelled was highest in England (£0.14) followed by Wales (£0.12) and Scotland (£0.10).
- 2.6 On a passenger kilometre basis, there was a high variability of passenger income between train operators, which reflects the different nature of the passenger services provided by the 19 franchises, covering both longer distance intercity, short distance commuter and regional services. London Overground received the highest passenger fare income per passenger kilometre travelled (£0.18 per passenger kilometre) and Merseyrail the lowest (£0.07 per passenger kilometre travelled).

Contribution of different fare types to passenger income

- 2.7 Governments determine which fares are regulated through the specification of franchise agreements with train operators¹⁸. In general, fares regulation is considered necessary around major commuter cities where there are limited alternatives to rail travel. Fares regulation also applies outside urban areas, to some weekly season tickets, long-distance off-peak return fares and shorter distance standard return fares.
- 2.8 As shown in Figure 2.2 the majority (62%) of passenger fare income came from unregulated fares and the remainder (38%) from regulated fares. Our analysis also showed that 57% of all journeys were covered by unregulated fares. The greater contribution of unregulated fares to total passenger income is mostly due to the greater use of unregulated fares for standard on-

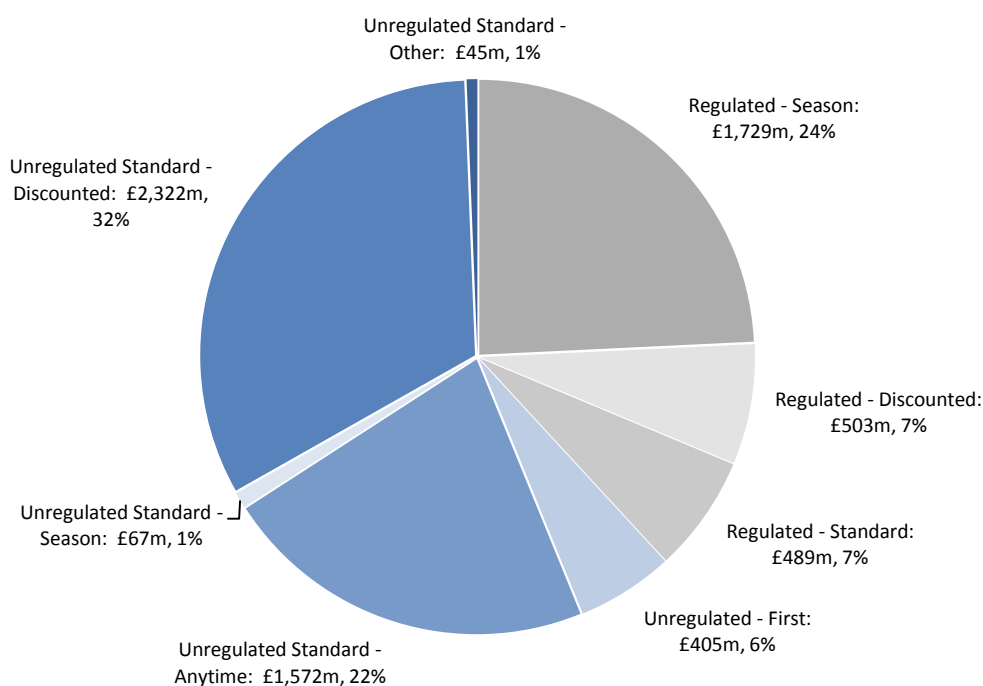
¹⁷ Calculated by dividing total passenger income by the total number of passenger journeys.

¹⁸ ORR, [Fares information](#)

the-day or advance purchase long-distance journeys. On average, unregulated fares per journey are normally more expensive than an unregulated commuter season ticket¹⁹.

2.9 During 2014, the largest share of passenger income came from unregulated discounted fares (32%), regulated season fares (24%), followed by unregulated standard anytime fares (22%), regulated discounted fares (7%) and regulated standard fares (7%).

Figure 2.2: Contribution of fares to passenger income in 2014²⁰

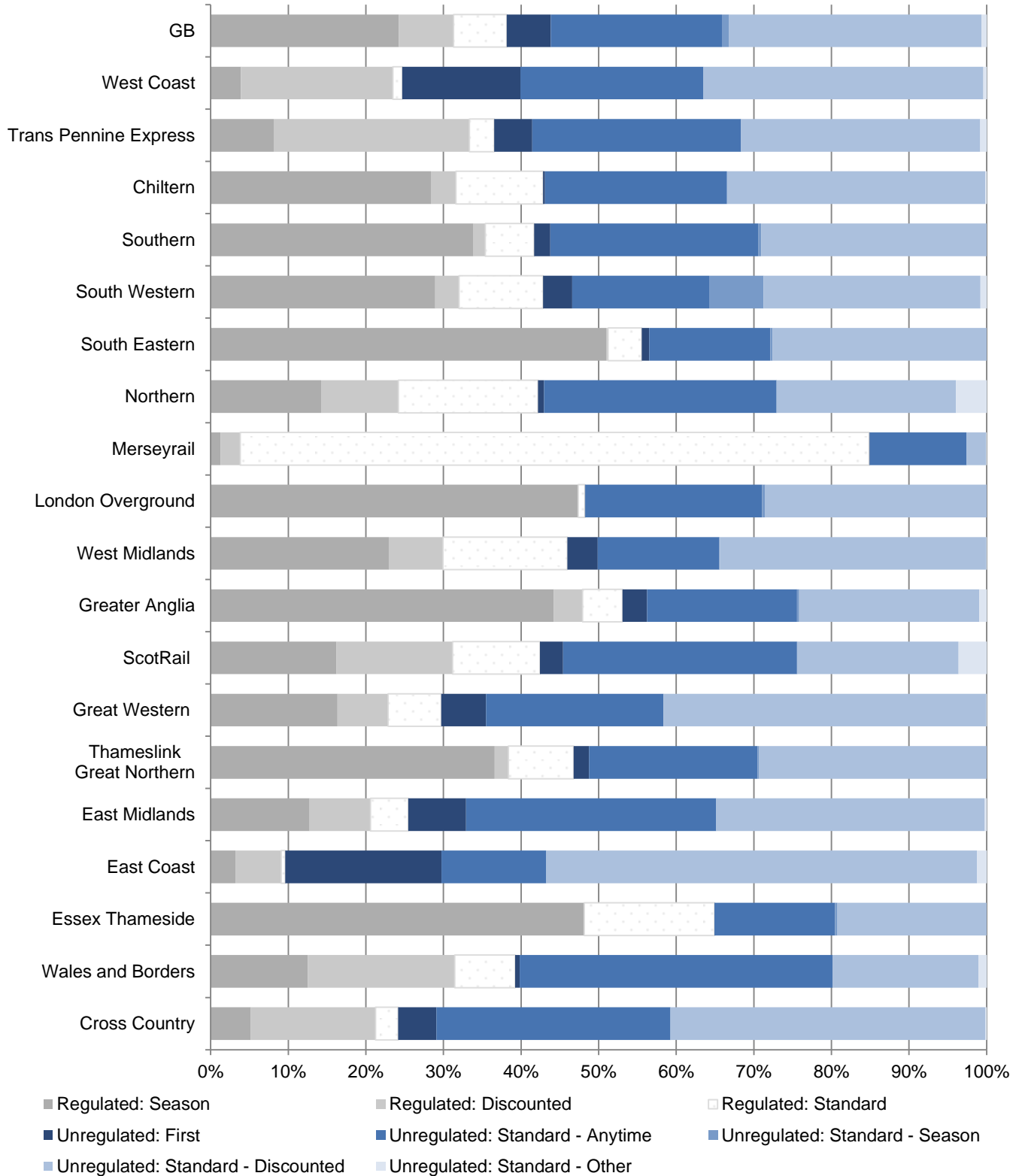


2.10 As shown in Figure 2.3 there are significant variances between the contributions from different ticket types to train operators' revenues, which reflects the different markets in which they operate. For example, commuter routes in London and the South East typically have a greater proportion of their passenger fare income from regulated standard season tickets, compared with other ticket types. Conversely, unregulated standard class discounted tickets make up a greater proportion of operator farebox income on long-distance routes.

¹⁹ Some unregulated fares are effectively capped by the price of alternative regulated fares and as a result, the proportion of revenue which is effectively regulated, as opposed to directly regulated, will be higher.

²⁰ We used the LENNON passenger income database to calculate the relative contribution of different fare types and applied this to train operators' total passenger income. As explained in Chapter 7 (Methodology), the LENNON data was for the calendar year 2014 and does not include all tickets for every journey. However we consider that our approach provides a reasonable estimate of the contribution of different fare types to overall passenger income.

Figure 2.3: Contribution of fares to passenger income by franchise in 2014



Other industry income

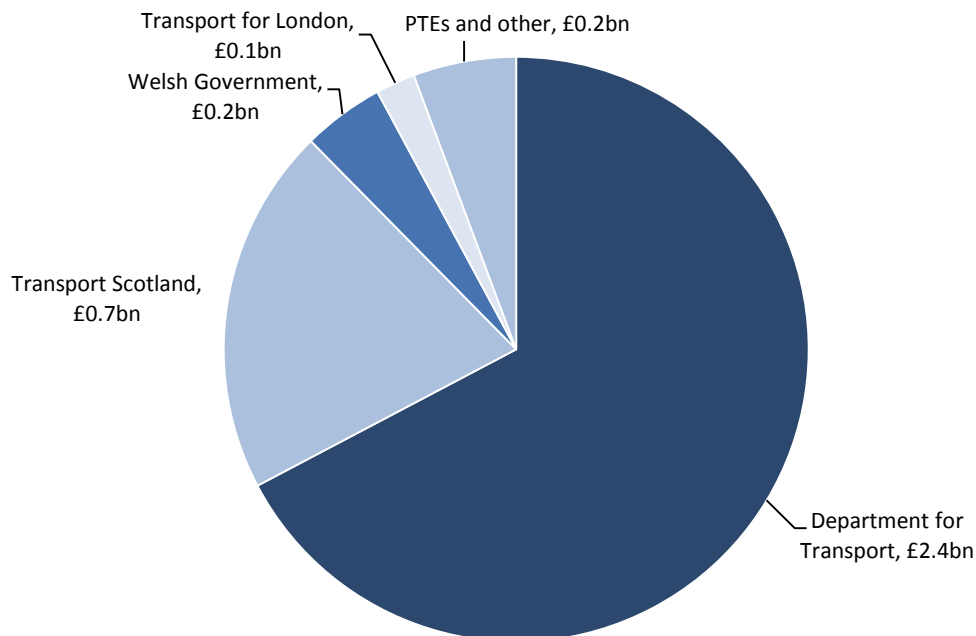
2.11 The rail industry received £1.2 billion of income in 2014-15 from sources other than passenger fares and government funding²¹. Train operators received £0.8 billion from car parking, property income, catering and other income. Network Rail received £0.4 billion from its stations and property portfolio, and charges to freight and open access train operators²².

Government funding

2.12 Industry income from government sources was £3.5 billion²³ in 2014-15, representing 26% of the industry's total income²⁴.

2.13 The net contributions from the various sources of government funding of the rail industry are shown in Figure 2.4. Whilst the Department for Transport was the largest single net contributor with 67%, other parts of government, most notably Transport Scotland and the Welsh Government, made significant contributions.

Figure 2.4: Sources of government funding in 2014-15



²¹ Network Rail has a gross revenue requirement, which is the amount of funding it needs to maintain and sustain its network and to meet regulatory outputs. This revenue requirement is met by track access charges and also from “other single till income”, such as rents received from letting out commercial property in stations, arches, etc.

²² In supporting tables, Network Rail other income includes schedule 4 income received from train operators. From a purely Network Rail perspective it is income, whereas from an industry perspective it has been removed from other income in Figure 1 because it is shown as a net intra-industry transaction.

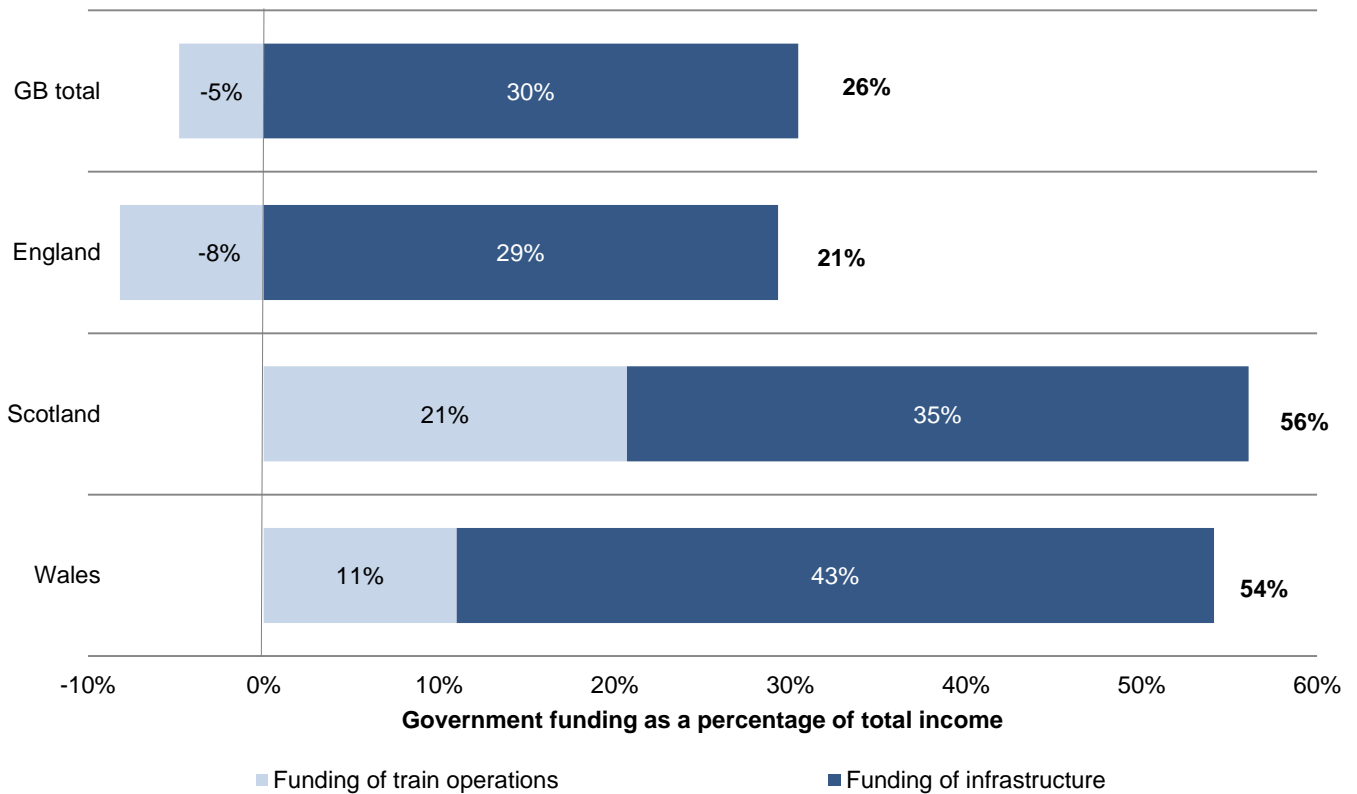
²³ Excludes net effect of taxation paid by Network Rail and train operators.

²⁴ Our analysis primarily uses financial information from industry sources. Note that there are differences between the amount of franchise receipts and payments reported as income / expenditure by train operators and the amounts reported by government. Therefore, the figures quoted in this report may differ from ORR’s Rail Finance Statistical Release. See Chapter 7 (Methodology), paragraph 7.5 for further details. These differences are shown in Table 4.4.

- 2.14 Government as a whole contributed £4.2 billion to Network Rail and received a net contribution of £0.7 billion from train operators. However, there were significant regional variations, which are examined below. In real terms, total government funding to the industry reduced by 9% compared to 2013-14, 16% compared to 2012-13, 20% compared to 2011-12 and 24% compared to 2010-11.
- 2.15 Network Rail receives network grant from DfT and Transport Scotland in lieu of fixed track access charges that it would otherwise receive from franchised train operators. Therefore understanding changes to government funding for Network Rail or train operators needs to take into account the policy choices that governments have made about where industry funding is allocated. This means that movements in government funding to Network Rail or train operators in isolation cannot be used to draw conclusions about the efficiency of that part of the industry.
- 2.16 In real terms, net government funding of Network Rail has increased by £0.5 billion (12%) since 2013-14 but Network Rail's total income has reduced by £0.5 billion as a result of ORR's PR13 determination²⁵.
- 2.17 Net receipts of £0.7 billion from train operators to governments and PTEs were made up of £1.3 billion of payments to some train operators, which were offset by £2.0 billion of receipts from other train operators. Compared to 2013-14, there was a £0.8 billion real terms reduction in track access charges levied on train operators by Network Rail.
- 2.18 Our analysis suggests that there are significant variations in the level of government funding between England, Scotland and Wales. However, due to the overlapping geographies of franchises and operating routes there are different ways in which government funding can be allocated to different geographies and therefore care is required in understanding and interpreting our analysis.

²⁵ ORR, [Annual efficiency and finance assessment of Network Rail 2014-15](#), para 2.46

Figure 2.5: The contribution of government funding to industry income by country in 2014-15



2.19 Annex B shows total government funding to Network Rail and train operators as a percentage of total industry income across rail franchises. Using the infrastructure cost allocation method explained in Chapter 7 (Methodology) our analysis suggests that passengers on regional franchises were the greatest beneficiaries of government funding with passengers on intensively used London commuter and intercity franchises receiving substantially less support. Our analysis suggests that the income from passengers (and other customers) of two franchises, South Western and East Coast, is sufficient to cover the costs of the relevant train and network operations. Our analysis also suggests that two other franchises (Southern and Thameslink Great Northern) are also close to this position.

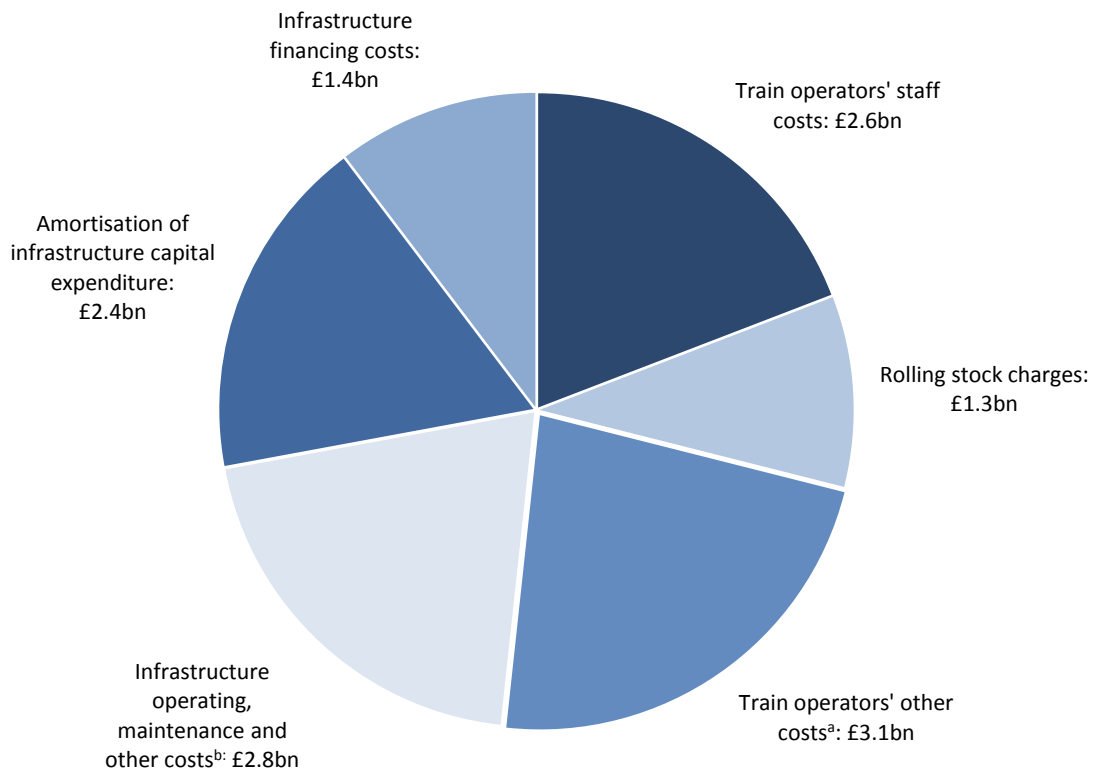
2.20 The regional differences in government funding largely reflect the fact that the rail network has a largely fixed cost base whereas there are significant differences in regional passenger markets. For example, on regional franchises there is lower and more dispersed demand and greater competition for passengers from other modes of transport. In comparison there is greater underlying demand and rail is often the only viable transport option for many commuter routes.

2.21 Importantly, it is partly for these reasons that the level of government funding received cannot be used as an indicator of the financial effectiveness of any individual train operator.

Industry expenditure

2.22 Total industry expenditure in 2014-15 was £13.6 billion of which £7.4 billion (54%) was incurred in train operations and £6.2 billion (46%) was incurred in operating rail infrastructure, excluding intra-industry charges.

Figure 2.6: Breakdown of industry expenditure in 2014-15



^a Fuel, train maintenance costs, and net incentive payments (or receipts) etc.

^b Includes traction electricity.

Train operators' expenditure

2.23 Train operators' expenditure excluding Network Rail charges was £7.4 billion in 2014-15, a real terms increase of 8% compared with 2013-14. Taking account of RPI inflation and passenger growth (i.e. the total distance travelled by passengers), train operators' costs increased by 1.8% compared with 2013-14.

2.24 Average train operator expenditure was £0.11 per passenger kilometre travelled. Using this measure, train operators' expenditure was highest in Wales (£0.15 per passenger kilometre), followed by Scotland (£0.14 per passenger kilometre) and England (£0.10 per passenger kilometre). These variances are likely to reflect different levels of passenger density (i.e. the average number of passengers on a train). Average train densities were 129 passengers per train in England, compared to 81 in Scotland and 69 in Wales.

- 2.25 Average train operator expenditure was £13.65 per train kilometre travelled. Using this measure England had the highest average train operator costs (£14.12 per train kilometre), followed by Scotland (£11.53 per train kilometre) and Wales (£10.07 per train kilometre). These variances will likely reflect the different lengths of trains (trains in England have, on average, more carriages per train), and also the type of trains that are in use (England has a higher proportion of higher cost rolling stock, for example, Pendolino trains).
- 2.26 There are significant variances in train operating costs between franchises. There will be many reasons for these variances including the nature of the franchise specifications, such as local geography and demographics, which drives rail demand, as well as other drivers of costs which are more controllable by train operators such as staff salaries. There are also other costs which are only partially controllable by train operators, such as rolling stock leasing costs, where train operators have only limited choice about what trains they can operate²⁶. In addition rolling stock lease arrangements can vary significantly between operators, for example, in some cases train maintenance is included. This report does not seek to investigate or explain the reasons for the differences in train operating costs across franchises. For the reasons stated above care is required in interpreting our analysis in this area and the information provided cannot be used to draw conclusions about the comparative financial performance of individual operators. This is clearly an important subject and by providing more transparent information about train operators' costs, we hope to inform the public debate about the value for money of the rail industry as a whole.
- 2.27 Train operators paid £1.4 billion in track access and other charges to Network Rail, a real terms decrease of 36% compared with 2013-14 as a result of ORR's PR13 determination.

Infrastructure expenditure (Network Rail)

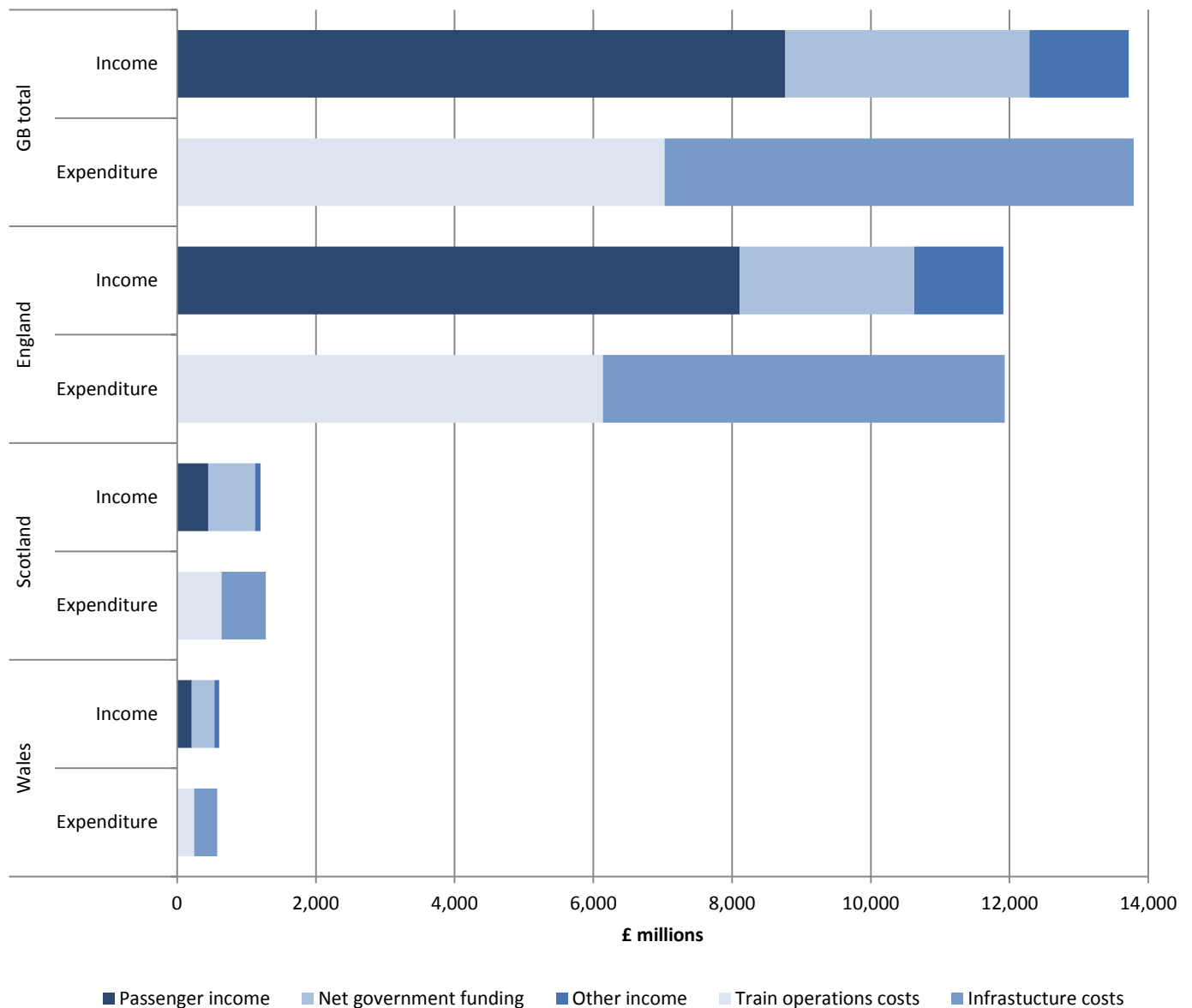
- 2.28 Expenditure on rail infrastructure was £6.3 billion in 2014-15, a real terms increase of 9.1% compared to 2013-14. The increase is largely due to a 28% increase in amortisation costs, because of the changes to Network Rail's funding determined by ORR in PR13, and a 22% increase in maintenance costs largely as a result of the reclassification of reactive maintenance from renewals to maintenance. This is partially offset by an 18% decrease in operating costs, largely due to one-off events and other issues in the previous year, as explained in ORR's 2014-15 Annual Efficiency and Finance Assessment of Network Rail.

²⁶ For example, rolling stock charges paid by the West Coast franchise were £119 million and those paid by East Coast franchise were £47 million. A key driver for this variance is likely to be the costs associated with the type and age of rolling stock used by these operators. The Virgin West Coast fleet mostly comprises Class 390 Pendolinos with an average age of 10.4 years. East Coast's fleet mostly comprises InterCity 125 and 225 vehicles with an average age of 29.3 years (source: ORR Data Portal).

2.29 Network Rail average expenditure was £0.22 million per track kilometre. Using this measure, Network Rail's expenditure was highest in England (£0.24 million per track kilometre) followed by Scotland (£0.15 million per track kilometre) and Wales (£0.13 million per track kilometre).

2.30 On a cash basis, Network Rail spent £2.9 billion on renewals and £2.9 billion on enhancements in 2014-15. This expenditure was £3.5 billion higher than the £2.4 billion of amortisation of capital expenditure that ORR included in its PR13 determination, which was included as capex amortisation / depreciation in our industry costs analysis. Costs exceeding Network Rail's income were funded by borrowing.

Figure 2.7: Income and expenditure for GB, England, Scotland and Wales in 2014-15



3. GB rail industry financial information disaggregated by country

- 3.1 GB rail industry financial information for 2014-15 is presented in this chapter, together with separate analysis for England, Scotland and Wales.
- 3.2 Numbers in tables may not sum due to rounding.

Table 3.1	Summary of industry income, expenditure and government funding in 2014-15
Table 3.1a	Industry income, expenditure and government funding at GB level
Table 3.2	Industry income in 2014-15
Table 3.3	Industry expenditure in 2014-15
Table 3.4	Government funding of the rail industry in 2014-15
Table 3.4a	Sources of government funding
Table 3.5	Industry income, expenditure and government funding in 2014-15 using a cash-based approach for Network Rail's capital expenditure ²⁷
Table 3.6	High-level analysis of industry financial information in 2014-15

²⁷ The approach adopted in Table 3.5 shows in cash terms Network Rail spending on renewals and enhancements to the rail network during the year rather than the regulatory amortisation used in Table 3.1.

Table 3.1: Summary of industry income, expenditure and government funding in 2014-15

£m	GB total	England	Scotland	Wales
Industry income^a				
Passenger income	8,770	8,111	448	210
Other income	3,077	2,696	265	116
Less: intra-industry income ^b	-1,647	-1,413	-185	-48
	10,200	9,394	528	278
Industry expenditure^a				
Franchised train operators expenditure	8,673	7,552	825	296
Rail infrastructure expenditure	6,762	5,791	640	331
Less: intra-industry expenditure ^b	-1,647	-1,413	-185	-48
	13,788	11,930	1,280	579
Income less expenditure	-3,589	-2,536	-752	-301
Government funding^a	3,519	2,516	675	328
Surplus / (deficit)^c	-70	-20	-77	27

^a Tables 3.1a, 3.2, 3.3 and 3.4 provide more detailed information about industry income, expenditure and government funding.

^b Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). This does not include the impact of net incentive payments as shown in Figure 1.

^c As explained in Chapter 7 (Methodology) this is not an accounting profit in a statutory reporting sense due to statutory financial reporting adjustments for the treatment of deferred tax, pension costs, interest costs, dividends etc.

Table 3.1a: Industry income, expenditure and government funding at GB level

(£m except where stated)	2014-15	Variance to 2014-15 ^a			
		2013-14	2012-13	2011-12	2010-11
Industry income					
Passenger fare income ^b	8,770	448	727	1,010	1,261
Other income (incl. intra-industry) ^c	3,077	-730	-356	-167	-246
Less: intra-industry income ^d	-1,647	811	449	223	299
	10,200	529	820	1,066	1,314
Industry expenditure					
Train operating expenditure (incl. intra-industry)	8,673	-392	-3	221	133
Infrastructure expenditure	6,762	440	498	641	205
Less: intra-industry expenditure ^c	-1,647	811	449	223	525
	13,788	859	945	1,084	863
Income less expenditure	-3,589	-330	-125	-18	450
Government funding	3,519	-345	-685	-870	-1,104
Surplus / (deficit)^e	-70	-675	-810	-888	-654
Passenger income per passenger journey (£)	5.30	0.06	-0.05	-0.02	-0.22
Passenger income per passenger km travelled (£)	0.14	0.00	0.00	0.00	0.00
Government funding per passenger journey (£)	2.13	-0.31	-0.67	-0.88	-1.27
Industry expenditure per passenger journey (£)	8.34	0.19	-0.21	-0.37	-1.16

^a Adjusted for RPI inflation.

^b As explained in Chapter 7 (Methodology) train operator management accounts are used as the source for this figure, whereas the Rail Usage Statistics published figure uses LENNON data.

^c Other income is the sum of intra-industry income (£1,647m), plus non-passenger train operator income (£795m), plus other income Network Rail receives from sources other than track access charges (£635m).

^d Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). This does not include the impact of net incentive payments as shown in Figure 1.

^e As explained in Chapter 7 (Methodology) this is not an accounting profit in a statutory reporting sense due to statutory financial reporting adjustments for the treatment of deferred tax, pension schemes, interest costs, dividends etc.

Table 3.2: Industry income in 2014-15

£m	GB total	England	Scotland	Wales
Franchised train operators				
Passenger income	8,770	8,111	448	210
Other	795	703	48	44
	9,564	8,814	496	254
Network Rail income				
Fixed charges	440	325	92	23
Variable charges ^a	865	800	51	14
Other ^b	977	868	74	35
	2,282	1,993	217	72
Less: Network Rail income from franchised train operators ^c	-1,647	-1,413	-185	-48
Total industry income	10,200	9,394	528	278

^a Variable charges are: variable usage charges, traction electricity charges, electrification asset usage charges and the capacity charge. In Figure 1, traction electricity charges are included with the party that incurs them (mostly operators).

^b Network Rail's other income is income not from passenger train operators. Material items include income received from property (£283m), station income (£258m), freight operators (£74m), depots (£65m), open access operators (£27m) and schedule 4 net income (£201m).

^c Data sourced from Network Rail regulatory financial statements.

Table 3.3: Industry expenditure in 2014-15

£m	GB total	England	Scotland	Wales
Franchised train operators				
Staff costs	2,603	2,239	254	110
Fuel costs – diesel	305	249	34	22
Fuel costs – traction electricity (paid to NR)	257	239	17	1
Rolling stock charges	1,329	1,149	138	42
Network Rail charges	1,389	1,174	168	47
Other operating expenditure	2,729	2,450	209	70
Interest & exceptional expenditure/income	-5	-5	0	0
Corporation tax	67	57	5	5
	8,673	7,552	825	296
Infrastructure				
Controllable operating costs	906	769	89	48
Non-controllable operating costs ^a	561	502	46	13
Maintenance ^b	1,199	1,026	106	67
Amortisation of capital expenditure	2,389	2,006	257	126
Financing costs ^c	1,403	1,200	128	75
Corporation tax	-4	-4	0	0
Other ^d	308	292	14	2
	6,762	5,791	640	331
Less: Network Rail income from franchised train operators ^e	-1,647	-1,413	-185	-48
Total industry expenditure	13,788	11,930	1,280	579

^a Includes traction electricity and business rates.

^b This includes £13 million that TfL spent on maintaining the East London Line (ELL), which is part of the London Overground network.

^c Financing costs paid by Network Rail include cash interest paid on nominal and index-linked debt (some of which is paid to the Department for Transport), expenditure on the Financial Indemnity Mechanism (paid to the Department for Transport) and accretion on index-linked debt (which is payable when index-linked debt matures).

^d Other costs include Schedule 4 costs, which are paid by Network Rail when it takes a track possession to undertake works. However, Network Rail also receives income under Schedule 4 and in all tables Network Rail's Schedule 4 costs are included within total industry expenditure. Likewise, in all tables Network Rail's Schedule 4 income is shown as Other income. In the text and figures within the Summary and Chapter 2 (Key findings), the net Schedule 4 cashflows are shown as an intra-industry cashflow and are netted off from total industry expenditure. This means that the total industry expenditure in Table 3.8 is £13.8 billion, but is £13.6 billion in Figure 1.

^e Data sourced from Network Rail regulatory financial statements. Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). The £1,647m is the adjustment for intra-industry income and expenditure based on Network Rail's regulatory financial statements but we recognise that this number could be different depending on which source data is used and does not include the impact of net incentive payments as shown in Figure 1.

Table 3.4: Government funding of the rail industry in 2014-15

£m	GB total	England	Scotland	Wales
Franchised train operators (source: train operators)^a				
Franchise payments to government	-2,003	-1,888	-46	-69
Franchise receipts from government	987	567	288	133
Profit sharing/other revenue support	158	147	7	3
Total excluding PTE funding	-859	-1,174	249	67
Passenger Transport Executive (PTE) funding	200	200	0	0
	-659	-974	249	67
Franchised train operators (source: government excluding PTEs)^a				
Franchise payments to government	-1,529	-1,481	-40	-8
Franchise receipts from government	727	382	260	85
	-802	-1,099	220	78
Infrastructure (Network Rail)				
Government grants	4,164	3,477	426	261
Rebates to government	0	0	0	0
TfL (East London Line)	13	13	0	0
	4,177	3,490	426	261
Net government funding (source: train operators + Network Rail accounts)^a	3,519	2,516	675	328
Net government funding (source: government + Network Rail accounts)^a	3,375	2,391	646	339

Table 3.4a: Sources of government funding

Sources of government funding £m	Total	Train operators	Network Rail
Department for Transport	2,367	-1,371	3,738
Transport Scotland	715	289	426
Welsh Government	159	159	0
Transport for London	77	64	13
Passenger Transport Executives ^b	200	200	0
	3,519	-659	4,177

^a The franchise payments/receipts to train operators per government is available on the [ORR data portal](#). There are differences in the amount of Government funding recognised in train operators' and government financial statements. We understand that this is largely due to the income recognition criteria set out in accounting standards, which require train operators to match receipts from government to the period in which the relevant expenditure occurs in their income statements. Therefore, the timing of the recognition of this income in train operators' financial statements will not necessarily match the expenditure shown in governments' financial statements.

^b This comprises Passenger Transport Executive (PTE) funding of Northern Rail and Merseyrail.

Table 3.5: Industry income, expenditure and government funding in 2014-15 using a cash-based approach for Network Rail's capital expenditure²⁸

£m	GB total	England	Scotland	Wales
Industry income				
Passenger income	8,770	8,111	448	210
Other income	3,077	2,696	265	116
Less: intra-industry income ^a	-1,647	-1,413	-185	-48
	10,200	9,394	528	278
Industry expenditure				
Train operators	8,673	7,552	825	296
Network Rail non-capex expenditure	4,373	3,785	383	205
Network Rail capex - renewals	2,949	2,544	270	135
Network Rail capex - enhancements	2,919	2,553	322	44
Less: intra-industry expenditure ^a	-1,647	-1,413	-185	-48
	17,267	15,021	1,615	632
Income less expenditure (cash basis)	-7,068	-5,627	-1,087	-354
Government funding	3,519	2,516	675	328
Income less expenditure including net government funding (cash basis)	-3,549	-3,111	-412	-26

^a Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). This figure used in our analysis does not include the impact of net incentive payments as shown in Figure 2.

²⁸ This approach shows Network Rail's actual expenditure during the year. Table 3.1 presents the information consistent with the accruals-based accounting approach recognising the cost of an asset over its useful life. Therefore table 3.1 includes within infrastructure costs the amortisation of capital expenditure whereas table 3.5 includes Network Rail capex – renewals and enhancements on a cash basis.

Table 3.6: High-level analysis of industry financial information in 2014-15

	GB total	England	Scotland	Wales
Government funding				
Share of government funding (%)	100.0%	71.5%	19.2%	9.3%
Government funding / total income (%)	25.6%	21.1%	56.1%	54.1%
Government funding per passenger journey (£)	2.13	1.66	6.70	9.14
Government funding per passenger km travelled (£)	0.06	0.04	0.15	0.19
Passenger income				
Passenger income / total income (%)	63.9%	68.1%	37.3%	34.7%
Passenger income per passenger journey (£)	5.30	5.35	4.45	5.86
Passenger income per passenger km travelled (£)	0.14	0.14	0.10	0.12
Industry expenditure				
Industry expenditure per train km travelled (£)	26.79	27.44	23.07	23.53
Industry expenditure per passenger km travelled (£)	0.22	0.21	0.28	0.34
Industry expenditure per journey (£)	8.34	7.86	12.71	16.14
Network Rail expenditure per train km travelled (£)	13.14	13.32	11.53	13.46
Network Rail expenditure per passenger km travelled (£)	0.11	0.10	0.14	0.20
Train operator share of total costs (%)	51.0%	51.5%	50.0%	42.8%
Income / expenditure				
Passenger income / industry expenditure ^a (%)	63.6%	68.0%	35.0%	36.3%
Income (excl. gov funding) less expenditure per passenger journey (£)	-2.17	-1.67	-7.47	-8.39
Income (excl. gov funding) less expenditure per passenger km (£)	-0.06	-0.05	-0.17	-0.18

^a Excludes enhancements.

4. GB rail industry financial information disaggregated by operating route

- 4.1 Our analysis of rail industry financial information for 2014-15 is presented separately for each of Network Rail's ten operating routes in this chapter.
- 4.2 Our analysis shows that there are significant variations in industry income, expenditure and government funding across the ten operating routes. These variations are summarised in the Summary.

Table 4.1	Summary of industry income, expenditure and government funding in 2014-15 by operating route
Table 4.2	Industry income in 2014-15 by operating route
Table 4.3	Industry expenditure in 2014-15 by operating route
Table 4.4	Government funding of the rail industry in 2014-15 by operating route
Table 4.5	Industry income, expenditure and government funding in 2014-15 using a cash-based approach for Network Rail's capital expenditure by operating route ²⁹
Table 4.6	High-level analysis of industry financial information in 2014-15

²⁹ The approach adopted in Table 4.5 shows the actual expenditure that Network Rail spent on renewals and enhancements to the rail network during the year rather than the regulatory amortisation included in Table 4.1.

Table 4.1: Summary of industry income, expenditure and government funding in 2014-15 by operating route

£m	Operating route										Total
	Anglia	Kent ^d	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Industry income^a											
Passenger income	1,056	835	1,232	1,819	510	771	1,052	837	210	448	8,770
Other income	274	261	457	702	152	270	299	280	116	265	3,077
Less: intra-industry income ^b	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647
	1,193	967	1,456	2,127	586	910	1,181	973	278	528	10,200
Industry expenditure^a											
Train operators	815	827	1,231	2,034	401	654	766	822	296	825	8,673
Infrastructure	638	574	1,063	1,547	352	435	561	621	331	640	6,762
Less: intra-industry expenditure ^b	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647
	1,317	1,272	2,062	3,187	676	960	1,157	1,299	579	1,280	13,788
Income less expenditure	-123	-305	-605	-1,060	-90	-49	24	-326	-301	-752	-3,589
Government funding^a	204	311	559	1,131	113	3	-101	296	328	675	3,519
Surplus^c	80	6	-46	71	23	-46	-77	-30	27	-77	-70

^a Tables 4.2, 4.3 and 4.4 provide more detailed information about income, expenditure and government funding.

^b Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). This does not include the impact of net incentive payments as shown in Figure 1.

^c As explained in Chapter 7 (Methodology) this is not an accounting profit in a statutory reporting sense due to statutory financial reporting adjustments for the treatment of deferred tax, pension costs, interest costs, dividends etc.

^d Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

Table 4.2: Industry income in 2014-15 by operating route

£m	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators											
Passenger income	1,056	835	1,232	1,819	510	771	1,052	837	210	448	8,770
Other	63	59	126	180	51	78	81	64	44	48	795
	1,119	894	1,358	1,999	561	848	1,133	901	254	496	9,564
Infrastructure (Network Rail)											
Fixed charges	34	27	65	100	20	16	26	37	23	92	440
Variable charges	82	70	140	226	45	86	85	66	14	51	865
Other	95	105	126	196	36	90	107	113	35	74	977
	211	202	331	522	101	192	218	216	72	217	2,282
Less: income from train operators	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647
Total industry income	1,193	967	1,456	2,127	586	910	1,181	973	278	528	10,200

^a Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

Table 4.3: Industry expenditure in 2014-15 by operating route

£m	Operating route										Total	
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland		
Franchised train operators												
Staff costs	226	206	375	571	115	210	258	279	110	254	2,603	
Fuel costs – diesel	8	0	60	78	33	1	7	62	22	34	305	
Fuel costs – traction electricity (paid to NR)	41	35	33	55	7	29	38	1	1	17	257	
Rolling stock charges	190	117	175	292	64	110	116	85	42	138	1,329	
Network Rail charges	96	95	200	339	69	101	132	143	47	168	1,390	
Other operating expenditure	244	373	382	685	110	202	210	242	70	209	2,727	
Interest and exceptional expenditure / (income)	2	-6	3	-7	-1	0	-2	6	0	0	-5	
Corporation tax	8	7	4	20	2	3	7	5	5	5	67	
	815	827	1,231	2,034	401	654	766	822	296	825	8,673	
Infrastructure (Network Rail)												
Controllable operating costs	90	73	147	209	42	67	62	79	48	89	906	
Non controllable operating costs	71	62	77	124	25	53	66	24	13	46	561	
Maintenance ^b	142	96	151	296	64	67	94	116	67	106	1,199	
Amortisation of capital expenditure	194	189	426	530	124	136	188	219	126	257	2,389	
Financing costs	112	119	248	316	74	79	112	140	75	128	1,403	
Corporation tax	0	0	-1	-1	0	0	-1	-1	0	0	-4	
Other	29	35	15	73	23	33	40	44	2	14	308	
	638	574	1,063	1,547	352	435	561	621	331	640	6,762	
Less: Network Rail income from franchised train operators (per NR) ^c	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647	
Total industry expenditure	1,317	1,272	2,062	3,187	676	960	1,157	1,299	579	1,280	13,788	

^a Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

^b This includes £13 million that TfL spent on maintaining the East London Line (ELL).

^c Includes the following track access and other charges paid by franchised train operating companies to Network Rail: Variable usage charge (£167m), Traction electricity charges (£258m), Electrification asset usage charges (£15m), Capacity charges (£407m), Fixed charges (£428m), Station long term charges (£201m), Station qualifying expenditure (£54m), Stations facility charge (£27m) and other charges £(89m). This does not include the impact of net incentive payments as shown in Figure 1.

Table 4.4: Government funding of the rail industry in 2014-15 by operating route

£m	Operating route										Total
	Anglia	Kent ^b	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators (source: train operators)^a											
Franchise payments to government	-233	-40	-323	-192	-203	-196	-567	-134	-69	-46	-2,003
Franchise receipts from government	48	15	196	179	69	54	1	4	133	288	987
Profit sharing / other revenue support	-3	34	-97	31	27	-41	167	29	3	7	158
Total excluding PTE funding	-188	9	-224	19	-107	-182	-399	-102	67	249	-859
PTE funding	0	0	62	137	1	0	0	0	0	0	200
Surplus / (deficit)	-188	9	-162	156	-106	-182	-399	-102	67	249	-659
Franchised train operators (source: government excluding PTEs)^a											
Franchise payments to government	-224	-20	-343	-135	-113	-187	-390	-69	-8	-40	-1,529
Franchise receipts from government	13	34	80	243	1	7	0	4	85	260	727
Surplus / (deficit)	-212	13	-263	108	-112	-180	-389	-65	78	220	-802
Network Rail											
Government grant to Network Rail	379	302	721	975	219	185	298	398	261	426	4,164
Less: Network Rail rebates to Government	0	0	0	0	0	0	0	0	0	0	0
TfL East London Line	13	0	0	0	0	0	0	0	0	0	13
	392	302	721	975	219	185	298	398	261	426	4,177
Net government funding (source: train operators + NR accounts)^a	204	311	559	1,131	113	3	-101	296	328	675	3,519
Net government funding (source: government + NR accounts)^a	181	315	458	1,083	107	5	-91	333	339	646	3,375

^a The franchise payments/receipts to train operators per government is available on the [ORR data portal](#). There are differences in the amount of Government funding recognised in train operators' and government financial statements. We understand that this is largely due to the income recognition criteria set out in accounting standards, which require train operators to match receipts from government to the period in which the relevant expenditure occurs in their income statements. Therefore, the timing of the recognition of this income in train operators' financial statements will not necessarily match the expenditure shown in governments' financial statements. ^b Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

Table 4.5: Industry income and expenditure in 2014-15 using a cash-based approach for Network Rail's capital expenditure by operating route

£m	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Industry income											
Passenger income	1,056	835	1,232	1,819	510	771	1,052	837	210	448	8,770
Other income	274	261	457	702	152	270	299	280	116	265	3,077
Less: intra-industry income	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647
	1,193	967	1,456	2,127	586	910	1,181	973	278	528	10,200
Industry expenditure											
Train operators expenditure	815	827	1,231	2,034	401	654	766	822	296	825	8,673
Network Rail non-capex expenditure	444	385	637	1,017	228	299	373	402	205	383	4,373
Network Rail capex - renewals	257	231	480	626	153	162	302	333	135	270	2,949
Network Rail capex - enhancements	97	528	271	690	154	102	65	646	44	322	2,919
Less: intra-industry expenditure	-137	-130	-233	-394	-77	-130	-170	-144	-48	-185	-1,647
	1,477	1,842	2,387	3,973	859	1,088	1,336	2,059	632	1,615	17,267
Income less expenditure (cash basis)	-283	-875	-930	-1,846	-273	-177	-155	-1,086	-354	-1,087	-7,068
Government funding	204	311	559	1,131	113	3	-101	296	328	675	3,519
Surplus / (deficit) (cash basis)	-80	-564	-371	-715	-160	-174	-256	-790	-26	-412	-3,549

^a Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

Table 4.6: High-level analysis of industry financial information in 2014-15

	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Government funding											
Share of government funding (%)	5.8%	8.8%	15.9%	32.1%	3.2%	0.1%	-2.9%	8.4%	9.3%	19.2%	100.0%
Gov. funding / total income (%)	14.6%	24.3%	27.7%	34.7%	16.2%	0.3%	-9.3%	23.3%	54.1%	56.1%	25.6%
Gov. funding per pass. journey (£)	0.78	1.48	3.74	4.24	1.97	0.01	-0.40	2.92	9.14	6.70	2.13
Gov. funding per pass. km (£)	0.03	0.06	0.06	0.08	0.04	0.00	-0.01	0.05	0.19	0.15	0.06
Passenger income											
Pass. income per pass. journey (£)	4.02	3.98	8.23	6.82	8.86	3.55	4.17	8.25	5.86	4.45	5.30
Pass. income per passenger km (£)	0.16	0.17	0.13	0.13	0.16	0.16	0.15	0.14	0.12	0.10	0.14
Industry expenditure											
Industry exp. per train km (£)	26.35	36.15	27.29	26.99	24.54	26.87	24.55	28.56	23.53	23.07	26.79
Industry exp. per pass. km (£)	0.20	0.25	0.21	0.23	0.21	0.19	0.16	0.22	0.34	0.28	0.22
Train operator exp. per pass. km (£)	0.10	0.14	0.10	0.12	0.10	0.11	0.08	0.11	0.15	0.14	0.11
Network Rail exp. per train km (£)	12.77	16.32	14.07	13.10	12.78	12.18	11.90	13.65	13.46	11.53	13.14
Network Rail exp. per pass. km (£)	0.10	0.11	0.11	0.11	0.11	0.09	0.08	0.10	0.20	0.14	0.11
Train operator share of total costs (%)	51.5%	54.9%	48.4%	51.5%	47.9%	54.7%	51.5%	52.2%	42.8%	50.0%	51.0%
Income / expenditure											
Pass. income / industry exp. (%)	80.2%	65.7%	59.8%	57.1%	75.5%	80.3%	90.9%	64.4%	36.3%	35.0%	63.6%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.47	-1.45	-4.04	-3.98	-1.57	-0.23	0.10	-3.21	-8.39	-7.47	-2.17
Income (excl. gov funding) less expenditure per pass. km (£)	-0.02	-0.06	-0.06	-0.08	-0.03	-0.01	0.00	-0.05	-0.18	-0.17	-0.06

^a Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore care is required in comparing Kent to other operating routes.

5. GB rail industry financial information disaggregated by passenger franchise

- 5.1 Our analysis of rail industry financial information for 2014-15 is presented separately in this chapter for each of the 19 passenger franchises³⁰.
- 5.2 Our analysis shows that there are significant variations in industry income, expenditure and government funding across the 19 passenger franchises. These variances are outlined in the Summary.
- 5.3 There will be many reasons for these variances including the nature of the franchise specifications, such as local geography and demographics, as well as other drivers of costs that are more controllable by train operators, such as staff salaries. There are also other costs that are only partially controllable by train operators, for example, rolling stock leasing costs where train operators have only limited choice about what trains they can operate.
- 5.4 We do not seek to investigate or explain the reasons for the differences in train operating costs across franchises. For the reasons stated above care is required in interpreting our analysis in this area and the information provided cannot be used to draw conclusions about financial performance of individual operators. However, this is clearly an important subject and by providing more transparent information about train operators' costs we hope to inform the public debate about the value for money of the rail industry as a whole.

Table 5.1	Summary of industry income, expenditure and government funding in 2014-15, by franchise
Table 5.2	Government premium / funding in 2014-15 by franchise
Table 5.3	High-level analysis of industry financial information in 2014-15 by franchise

³⁰ As discussed in further detail in Chapter 7 (Methodology), this is a change from 2013-14 which presented this information by individual operator. This is to improve comparability between operators and franchises as there have been a number of new franchises awarded during 2014-15.

Table 5.1: Summary of industry income, expenditure and government funding in 2014-15 by franchise

£m	Franchise																			Total	
	Source	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	Greater Anglia	Great Western	Northern	Southeastern ^a	Southern	South Western	Thameslink Great Northern	Trans Pennine Express	Wales and Borders	West Coast	West Midlands	London Overground	Merseyrail		ScotRail
Franchised Train operators																					
Passenger income	¹	149	167	460	685	346	671	882	247	719	727	968	607	213	119	970	287	159	51	342	8,770
Franchise receipts & PTE funding from government	¹	0	0	0	0	0	0	0	249	26	0	0	0	44	93	0	59	64	81	289	905
Other	¹	6	16	8	76	46	36	74	49	47	78	76	44	13	46	51	50	17	21	41	795
Franchised train operator income	³	155	183	468	762	392	707	956	545	792	805	1,044	651	270	258	1,021	397	239	153	672	10,470
Staff costs	¹	33	50	93	139	89	144	296	231	185	196	218	141	65	97	169	121	65	53	217	2,603
Fuel costs diesel (TOCs own usage)	¹	0	13	35	26	42	4	63	26	0	0	0	0	17	18	21	12	1	0	26	305
Fuel costs (traction electricity paid to NR)	²	6	0	0	20	0	31	0	4	32	28	36	26	2	0	38	12	4	5	12	257
Rolling stock charges ^b	¹	27	24	146	47	28	141	55	47	106	106	98	92	68	38	119	49	17	12	110	1,329
Franchise payments to government	¹	18	29	66	233	74	182	100	0	0	202	380	175	0	0	105	0	0	0	0	1,564
Corporation tax	¹	2	0	0	-1	3	5	6	4	7	3	6	1	5	5	11	1	1	5	4	67
Other (including Network Rail charges) ^b	¹	61	61	135	307	144	183	414	219	432	262	285	215	95	85	516	201	147	64	287	4,112
Franchised train operator expenditure	³	147	177	476	772	380	690	934	531	762	796	1,023	649	252	242	979	396	235	139	657	10,237
Franchised train operator inc less exp^c	³	8	7	-8	-10	12	18	22	14	31	9	20	2	18	16	42	0	4	14	15	233
Network Rail																					
Franchised train operator access charges	²	15	8	56	108	39	87	96	42	80	96	99	96	29	25	184	71	11	10	123	1,275
Net government grant	³	54	81	302	205	201	289	371	397	336	244	260	184	176	209	310	167	55	46	289	4,177
Other	³	12	27	45	41	42	53	104	81	76	71	99	51	29	41	71	49	14	16	85	1,006
Network Rail income	³	81	117	403	354	282	429	571	519	492	411	458	331	234	275	564	288	80	72	498	6,458
Network Rail expenditure	³	85	123	425	369	297	450	598	548	517	429	477	344	247	290	587	300	83	75	519	6,762
Network Rail income less expenditure^c	³	-4	-6	-22	-15	-15	-21	-27	-29	-25	-18	-19	-13	-13	-15	-23	-12	-3	-3	-21	-304
Total industry income^d	³	236	300	871	1,116	674	1,136	1,528	1,064	1,284	1,216	1,501	982	504	533	1,585	685	319	225	1,170	16,928
Total industry expenditure^d	³	232	299	901	1,141	677	1,139	1,532	1,079	1,278	1,225	1,500	994	499	533	1,566	696	318	215	1,175	16,999
Industry income less expenditure^c	³	4	1	-30	-25	-3	-4	-5	-14	6	-9	1	-12	5	0	19	-12	1	10	-6	-71
Net government funding ^e	³	-36	-52	-236	28	-127	-107	-271	-645	-363	-42	120	-10	-220	-302	-205	-226	-119	-127	-579	-3,519
Industry income less expenditure excl. government funding^c	³	-32	-51	-266	3	-130	-111	-276	-660	-357	-51	121	-21	-215	-302	-186	-238	-118	-116	-585	-3,590
Dividends paid by train operator^f	³	0	0	0	19	0	0	50	13	20	22	11	23	5	15	6	0	3	14	22	222

Source: (1) Train operators' management accounts; (2) Network Rail's regulatory accounts; and (3) ORR analysis. As explained previously there are many reasons for variances between costs and care is needed in interpreting our analysis.

^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.

^b Rolling Stock lease arrangements can vary significantly between operators for example some receive a maintenance service as part of the lease charge and other do not. This report does not seek to investigate or explain the reasons for the differences in train operating costs across franchises.

^c As explained in Chapter 7 (Methodology) this is not an accounting profit in a statutory reporting sense due to statutory financial reporting adjustments for the treatment of deferred tax, pension costs, interest costs, dividends etc.

^d Including government funding and intra-industry income and expenditure. ^e Calculated as the sum of the government funding of rail infrastructure and the franchise receipts and payments lines within this table. ^f Dividends paid will not necessarily be reflective of the profits earned in that year. Also, profitable operators may pay dividends during or following the end of their franchise periods.

Table 5.2: Government premium / funding in 2014-15 by franchise

£m	Franchise																			Total
	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	Greater Anglia	Great Western	Northern	Southeastern ^a	Southern	South Western	Thameslink Great Northern	Trans Pennine Express	Wales and Borders ^c	West Coast	West Midlands	London Overground	Merseyrail	ScotRail ^c	
Franchised train operators (source: train operators)^a																				
Franchise payments to government	-18	-28	-205	-232	-229	-190	-90	0	-24	-217	-542	-70	0	-66	-93	0	0	0	0	-2,003
Franchise receipts from government	0	0	0	-1	0	0	0	130	0	0	0	242	46	159	0	59	64	0	289	987
Franchise profit sharing and other revenue support	0	-1	139	0	155	8	-10	0	50	15	163	-346	-2	0	-13	0	0	0	0	158
Total excluding PTE funding	-18	-29	-66	-233	-74	-182	-100	130	26	-202	-380	-175	44	93	-105	59	64	0	289	-859
Passenger Transport Executive (PTE) funding	0	0	0	0	0	0	0	119	0	0	0	0	0	0	0	0	0	81	0	200
	-18	-29	-66	-233	-74	-182	-100	249	26	-202	-380	-175	44	93	-105	59	64	81	289	-659
Franchised train operators (source: government excluding PTEs)^a																				
Franchise payments to government	-18	-30	-47	-267	-83	-187	-62	0	0	-187	-374	-180	0	0	-94	0	0	0	0	-1,529
Franchise receipts from government	0	0	0	0	0	0	0	113	33	0	0	0	43	102	0	63	26	86	261	727
	-18	-30	-47	-267	-83	-187	-62	113	33	-187	-374	-180	43	102	-94	63	26	86	261	-802
Rail infrastructure																				
Government grant to Network Rail	54	81	302	205	201	289	371	397	336	244	260	184	176	209	310	167	42	46	289	4,164
Less: Network Rail rebates to government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TfL East London Line	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13	0	0	13
	54	81	302	205	201	289	371	397	336	244	260	184	176	209	310	167	55	46	289	4,177
Total government funding (source: train operators + NR accounts)^a	36	52	236	-28	127	107	271	645	363	42	-120	10	220	302	205	226	119	127	579	3,519
Total government funding (source: government + NR accounts)^a	36	51	255	-61	118	102	309	509	369	56	-114	4	220	311	216	230	82	132	551	3,375

As explained previously there are many reasons for variances between train operators' costs/income and care is needed in interpreting our analysis.

^a There are differences in the amount of Government funding recognised in train operators' and government financial statements. We understand that this is largely due to the income recognition criteria set out in accounting standards, which require train operators to match receipts from government in the period in which the relevant expenditure occurs in their income statements. Therefore, the timing of the recognition of this income in train operators' financial statements will not necessarily match the expenditure shown in governments' financial statements. The franchise payments/receipts to train operators per government are available on the [ORR data portal](#).

^b 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.

^c The franchise payment to government in the Wales and Borders franchise is paid to the Department for Transport, while the franchise receipt from government is from the Welsh Government. In the ScotRail franchise, the franchise receipt from government is from Transport Scotland.

Table 5.3: High-level analysis of industry financial information in 2014-15 by franchise

£m	Franchise																			Total
	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	Greater Anglia	Great Western	Northern	Southeastern ^a	Southern	South Western	Thameslink Great Northern	Trans Pennine Express	Wales and Borders	West Coast	West Midlands	London Overground	Merseyrail	ScotRail	
Government funding																				
Share of government funding	1.0%	1.5%	6.7%	-0.8%	3.6%	3.0%	7.7%	18.3%	10.3%	1.2%	-3.4%	0.3%	6.3%	8.6%	5.8%	6.4%	3.4%	3.6%	16.5%	100.0%
Funding / total income	17.9%	21.0%	31.7%	-3.7%	23.2%	12.5%	21.2%	64.6%	31.1%	4.7%	-12.3%	1.4%	46.8%	60.9%	16.1%	38.1%	39.2%	61.3%	56.8%	25.7%
Funding per pass. journey (£)	0.87	2.22	6.66	-1.35	4.96	0.75	2.61	6.70	1.95	0.22	-0.52	0.08	7.71	9.83	5.93	3.47	0.85	2.86	6.25	2.13
Funding per pass. km (£)	0.03	0.04	0.07	-0.01	0.05	0.02	0.05	0.28	0.08	0.01	-0.02	0.00	0.12	0.25	0.03	0.10	0.14	0.18	0.19	0.06
Passenger income																				
Per pass. journey (£)	3.66	7.09	12.97	33.13	13.58	4.68	8.51	2.56	3.87	3.86	4.21	4.91	7.44	3.87	28.07	4.40	1.13	1.14	3.69	5.30
Per passenger km (£)	0.14	0.14	0.14	0.13	0.15	0.15	0.15	0.11	0.16	0.15	0.16	0.15	0.11	0.10	0.14	0.12	0.18	0.07	0.11	0.14
Industry expenditure																				
Industry exp. per train km (£)	29.00	24.12	23.66	35.89	24.22	25.14	30.00	22.00	36.60	25.96	24.21	26.97	23.86	21.12	35.19	24.67	38.81	29.73	21.67	26.79
Industry exp. per pass. km (£)	0.18	0.20	0.23	0.15	0.23	0.19	0.22	0.44	0.26	0.19	0.16	0.18	0.25	0.41	0.18	0.26	0.35	0.28	0.34	0.22
Train operator exp. per pass. km (£)	0.10	0.10	0.10	0.08	0.11	0.09	0.12	0.20	0.14	0.10	0.08	0.09	0.12	0.17	0.10	0.13	0.26	0.17	0.17	0.11
Network Rail exp. per pass. km (£)	0.08	0.10	0.13	0.07	0.13	0.10	0.10	0.24	0.11	0.09	0.08	0.09	0.13	0.24	0.09	0.13	0.10	0.11	0.17	0.11
Train operator share of total costs (%)	56.4%	50.4%	45.1%	53.0%	46.0%	47.7%	53.4%	45.9%	55.5%	52.3%	51.0%	51.1%	46.9%	41.4%	53.1%	50.4%	72.5%	61.7%	49.4%	51.0%
Income / expenditure																				
Pass. income / industry exp. (%)	76.4%	67.5%	59.4%	87.2%	63.0%	78.1%	68.7%	24.4%	61.9%	80.9%	99.6%	86.2%	45.7%	24.0%	77.5%	47.5%	52.4%	25.8%	33.3%	63.6%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.78	-2.18	-7.50	0.13	-5.09	-0.77	-2.66	-6.85	-1.92	-0.27	0.53	-0.17	-7.53	-9.82	-5.37	-3.64	-0.84	-2.63	-6.31	-2.17
Income (excl. gov funding) less expenditure per pass. km (£)	-0.03	-0.04	-0.08	0.00	-0.06	-0.02	-0.05	-0.29	-0.08	-0.01	0.02	-0.01	-0.12	-0.25	-0.03	-0.10	-0.14	-0.17	-0.19	-0.06

As explained previously there are many reasons for variances between train operator's costs and income and care is needed in interpreting our analysis.

^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.

6. Freight, open access and HS1

- 6.1 Our analysis of the industry does not include freight, open access and HS1 income and expenditure because of the difficulties involved in including this information directly in our analysis. However, although they are not direct recipients of government support, they may benefit from indirect support (such as government grants to Network Rail) and it is important to improve transparency about the finances of the whole rail industry. Therefore, we have presented some information below on these companies. This is a limited analysis based on their most recent published statutory financial statements.
- 6.2 Our analysis includes, but cannot separately identify, Network Rail's costs incurred on freight and open access operations³¹. This expenditure is therefore included in the costs of the franchised passenger train operating companies. In order to match this with related income, our analysis includes Network Rail's income from freight (£74 million) and open access operations (£27 million) in 2014-15³². This income and expenditure is allocated to franchised passenger train operating companies on the basis of train kilometres.

Freight and open access operators

- 6.3 Although these are not included in our analysis, we have presented some financial information on freight and open access operators below, in order to give a more complete view of the whole rail industry. This is a limited analysis based on their most recent published statutory financial statements.

³¹ As part of our 2013 periodic review we estimated that freight avoidable costs were around £300 million to £400 million per annum. This represents the element of Network Rail's fixed costs, which we estimated is attributable to freight services.

³² These items are included within the Network Rail 'other income' category.

Table 6.1: Non-franchised train operators' income and expenditure

£m	Turnover	Operating costs	Other costs / income	Profit after tax
Freight operators¹				
GB Rail Freight ^a (part of the Eurotunnel Group)	121	102	4	14
Colas Rail ^a (part of the Colas Group)	242	214	20	8
DB Schenker ^a (part of Deutsche Bahn AG)	448	445	-173 ³	176
Mendip ^a	29	27	2	-1
Direct Rail Services ^b (part of the Nuclear Decommissioning Authority)	65	62	0	2
Freightliner ^b (part of the Freightliner Group)	197	162	31	4
	1,102	1,012	-116	203
Open access operators²				
Grand Central ^a (part of Deutsche Bahn)	38	31	4	3
Heathrow Express ^a (part of Heathrow Airport Holdings)	71	64	1	5
Hull Trains ^b (part of First Group)	29	24	1	4
	138	119	6	12
Open access operators (international)				
Eurostar ^a (owned by SNCF & LCR & NMBS/SNCB ^c)	891	873	4	14

^a Year ended 31 December 2014.

^b Year ended 31 March 2015.

^c Société Nationale des Chemins de fer français (55%), Nationale Maatschappij der Belgische Spoorwegen / Société nationale des chemins de fer belges (5%). The 40% UK Government stake was transferred from London & Continental Railways to HM Treasury in June 2014. The UK Government stake was sold in March 2015 to the Patina Rail LLP consortium, resulting in a 30% holding by Caisse de dépôt et placement du Québec and 10% by Hermes Infrastructure.

¹ Freight operators paid £74 million of access charges to Network Rail in 2014-15 (source: Network Rail).

² Open access operators paid £27 million of access charges to Network Rail in 2014-15 (source: Network Rail).

³ The £173 million includes £17 million of additional income arising from exceptional items, and £160 million profit realised on sale of fixed assets.

High Speed 1

6.4 High Speed 1 Ltd (HS1) is the rail infrastructure concession that manages the rail infrastructure from St. Pancras International to the Channel Tunnel. Its ultimate owning consortium is Borealis Infrastructure (part of Ontario Municipal Employees' Retirement System) and the Ontario Teachers' Pension Plan. HS1 Ltd has a 30 year concession from the Secretary of State to operate and manage the HS1 network. ORR is the health and safety regulator for HS1 Ltd, and has economic regulation responsibilities³³. While HS1 Ltd is responsible for the overall management and operation of the HS1

³³ ORR's economic regulation functions are set out in the HS1 Concession Agreement and the Railways Infrastructure (Access and Management) Regulations 2005.

network, the responsibility for the infrastructure itself is subcontracted to Network Rail (High Speed) Ltd.

6.5 The analysis in the rest of this report does not explicitly include HS1 because of difficulties in separating HS1's costs between franchised passenger train operations (Southeastern), open access operations (Eurostar) and freight³⁴. Our analysis does include franchised train operators' income and expenditure from operations on HS1 (Southeastern) because there is sufficiently good data to understand what has been spent by the company for operating over HS1.

6.6 HS1's latest statutory financial statements are for the 12 months ended 31 March 2015 and are summarised in Table 6.2. We provide further commentary in a separate report³⁵.

Table 6.2: Summary of HS1's income and expenditure in 2014-15

	£m
Turnover	302
Operating expenditure	-241
Net interest payable	-156
Corporation Tax	-4
Profit / Loss after tax	-95

³⁴ 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.

³⁵ ORR, [Annual report on HS1 2014-15](#), Chapter 4 (Finance and efficiency)

7. Methodology

Source data

Rail infrastructure financial data

- 7.1 Network Rail prepares statutory and regulatory financial statements for each financial year running 1 April to 31 March³⁶. The format of the regulatory financial statements is prescribed by ORR and includes comprehensive information about the company's income and expenditure³⁷. The regulatory financial statements have been disaggregated between England & Wales and Scotland since 2006-07 and since 2011-12 include information on income and expenditure for each operating route. In 2014-15 we issued new guidance to Network Rail, which has greatly improved the depth of financial information available at operating route level.
- 7.2 In comparison to its statutory accounts, regulatory financial statements:
- a. have arguably more meaningful and detailed categorisations of income and expenditure for our purposes; and
 - b. include route-level disaggregated information.

Accordingly we have used financial information from Network Rail's regulatory financial statements rather than its statutory financial statements within our analysis.

- 7.3 Our analysis also includes a small component of expenditure by Transport for London on the East London Line section of the London Overground. This information was provided in a submission to us by TfL. The rest of the London Overground network is maintained by Network Rail.

Franchised train operators' financial data

- 7.4 There are currently 19 train operators that provide 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.

³⁶ Network Rail prepares statutory financial statements under International Financial Reporting Standards, as adopted by the European Union. It also prepares statements for consolidation into the Department for Transport's consolidated accounts, based on the Government Financial Reporting Manual, which adapts International Financial Reporting Standards for the UK public sector.

³⁷ ORR, [regulatory accounting guidelines for CP5](#)

- 7.5 Statutory financial statements are available from Companies House for all train operators. However, due to some of the flexibility of Companies Act financial reporting requirements there are some differences between the information presented within different train operators' individual statutory financial statements, which 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 different financial year-ends, complicating comparisons across consistent time frames;
 - 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); and
 - c. differences in accounting policies may result in inconsistent reporting of income and expenditure. This may be somewhat mitigated by the similar nature of train operators' businesses and our understanding that similar accounting policies are applied within the industry.
- 7.6 Franchised train operators are also required to provide four-weekly management accounts to the franchising authorities as part of their franchise agreements. Using these management accounts avoids some of the problems noted above for the purposes of our analysis. In particular:
- a. four-weekly management accounts can be collated over the same twelve month timeframe, thereby avoiding the problem of different year-ends; and
 - b. the formats of management accounts provided to franchising authorities are largely standardised and include detailed information about income and expenditure, which should make discrepancies more visible during quality assurance checks.
- 7.7 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

- 7.8 There are various ways in which GB rail industry financial information can be analysed. These include:
- a. at **national level** for Great Britain in total and separately for England, Scotland and Wales;
 - b. at a **route level**, for example, separately for each of Network Rail's operating routes;

- c. at the **passenger service level**, for example, separately for each operator franchise, 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.

7.9 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, route-level disaggregated information is arguably more useful for understanding regional variances in investment, whereas disaggregation by service type is arguably more useful for understanding variances in passenger incomes. Using both is useful for understanding some items such as government funding.

7.10 We have chosen to present financial information separately at a national, operating route and franchise level within this report as this allows us to best meet the objectives set out in paragraph 1.3³⁸.

7.11 We have not attempted to analyse industry income and expenditure at a greater level of granularity, for example for individual train journeys. Whilst this could provide additional useful information, it 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 currently be accurately attributed at a more detailed level.

National and route analysis

7.12 The methodology underpinning the national and operating route analyses presented in Chapters 3 and 4 is explained below.

Network Rail financial information

7.13 Network Rail has increasingly devolved operational responsibility to its operating routes in England and Wales over recent years, and the majority of Network Rail's financial information is now disaggregated at a route level in Network Rail's 2014-15 regulatory financial statements. To prepare this information, Network Rail classifies income and expenditure into four categories depending on the level of route control:

- a. *directly attributed – route managed*. Income and expenditure in this category is currently managed at route level. As there is alignment between

³⁸ Publishing information in this way is similar to the approach of International Financial Reporting Standard (IFRS) 8 Operating Segments. IFRS 8 requires companies to segmentally report the statement of financial performance (profit & loss) and statement of financial position (balance sheet) items by geographical area and by business activity.

management responsibility and route, such items can be directly attributed to an individual operating route, e.g. signallers and maintenance;

- b. *centrally managed – directly influenced*. For these items, income and expenditure is the responsibility of the centre but decisions and actions taken by individual routes can affect the company wide costs, e.g. renewals;
- c. *centrally managed – route identifiable*. For these items, income and expenditure is the responsibility of the centre, and individual routes have little direct influence over costs. However, the geographic location of business activity allows activity to be allocated to specific routes, e.g. enhancements; and
- d. *centrally managed – allocated by cost driver*. Income and expenditure in this category is incurred for the whole network, e.g. central HR costs. Network Rail has allocated network-wide income and expenditure to operating routes based on an appropriate cost driver. For example, for HR it is based on headcount in a particular route.

7.14 Network Rail's 2014-15 regulatory financial statements provided all the financial information relevant to Network Rail that we needed for this report. This is a change compared to previous publications, where our analysis included some items of expenditure (depreciation/amortisation, financing costs, corporation tax and rebates) that Network Rail did not report at the operating route level. We had to allocate these items to the routes. We have not restated prior years, where these costs were allocated based on train kilometres travelled in each route.

Network Rail's capital expenditure

7.15 For statutory reporting purposes, Network Rail's renewals and enhancements expenditure is capitalised and then depreciated over the useful economic life of the assets. In our PR13 determination and its regulatory accounts, Network Rail's amortisation (depreciation) charge is based on the long-run annual average renewals investment expenditure that is required to maintain the network in a steady state, as adjusted for financial sustainability³⁹. Enhancement expenditure is not separately amortised but the future renewals of that enhancement are included in the long-run renewals calculation⁴⁰.

³⁹ In PR13, ORR determined that Network Rail's total amortisation in CP5 would be the sum of the long run renewals required to maintain the network in a steady state, as adjusted for financial sustainability (£400m) (as explained in Chapter 12 of our PR13 determination).

⁴⁰ See Chapter 12 of Office of Rail and Road, [Final determination of Network Rail's outputs and funding for 2014-19](#), October 2013, for further details of the changes to Network Rail's financial framework as a result of PR13. Other key changes included the funding approach for Network Rail's cost of capital, and the balance between network grant and fixed-track access charges.

7.16 Network Rail's expenditure presented in Tables 3.1, 3.1a, 3.3, 4.1, 4.3 and 5.1 includes the annual amortisation charge for capital expenditure taken from Network Rail's regulatory financial statements. Capital expenditure tends to be "lumpy" and smoothing it in this way is analogous to a modified form of depreciation, with the accruals-based accounting approach to recognise the cost of an asset over its useful life, as the benefit of that asset is consumed. ORR's approach substitutes the cash spending on renewals and enhancements for a projection of long-term spend on asset renewals needed to maintain the network in a safe and sustainable condition, for a minimum whole-life cost (smoothed over a 35-year period). It also includes ORR's CP5 annual financial sustainability adjustment increase of £400m. This has been included to be consistent with the PR13 determination⁴¹.

7.17 However, it is also informative to understand the actual cashflows of the rail industry as well as income and expenditure as reported on an accruals basis. We have therefore presented industry income and expenditure, including Network Rail's capital expenditure on a cash basis in Tables 3.5 and 4.5.

Franchised train operators' financial information

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

7.19 Additionally, in 2014-15, there have been a number of new franchises awarded. To ensure different operators who have only operated a franchise for a part of the year are comparable with other operators, we have decided therefore to present franchised train operators' financial information by franchise, rather than by operator⁴².

7.20 Where different operators have each held the same franchise for a portion of the financial year, financial information for each operator's part-year operations is summed to give a full-year total⁴³.

⁴¹ Office of Rail and Road, [Final determination of Network Rail's outputs and funding for 2014-19](#), October 2013, Chapter 12

⁴² This means, for example, that we are presenting the financial information for the Essex Thameside franchise, as opposed to the C2C operator.

⁴³ By convention, the railway has 13 reporting periods of 4 weeks. For example, in 2014-15 Directly Operated Railways operated the East Coast Franchise for the first twelve 4-week periods. Virgin Trains East Coast operated the East Coast franchise for the remaining period of the financial year. The information shown in this report under the franchise 'East Coast' is therefore the sum of both operators' financial information.

- 7.21 We have allocated train operators' income between operating routes and England, Scotland and Wales using revenue information from the rail industry's central ticketing system, LENNON⁴⁴. LENNON allocates income from each journey to each route and operator⁴⁵. As explained in previous publications, we consider that this provides a better allocation of income than using train distance travelled because passenger loading can vary considerably between a train journey's origin and destination.
- 7.22 Train operators' expenditure has been allocated between operating routes, and between England, Scotland and Wales in proportion to train distance travelled in each operating route in 2014-15⁴⁶. 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.

Analysis of regulated and unregulated passenger income

- 7.23 The analysis of regulated and unregulated passenger income presented in Figures 2.2 and 2.3 was sourced from the LENNON database. The LENNON income data was mapped to regulated and unregulated ticket types to produce a Fares Index Dataset, which enables an analysis of the contribution of regulated and unregulated ticket types for each train operator's total passenger income.
- 7.24 Whilst we consider that the approach that we have used is sufficiently robust to provide a high-level summary of the relative contribution of different ticket types to train operators' income, we recognise that there are limitations. Firstly, the Fares Index Dataset was only available for the calendar year January to December 2014 whereas the rest of our analysis is for the period April 2014 to March 2015⁴⁷. Also, there are limitations to the number of ticket types that are captured in the Fares Index Dataset so some revenues may be excluded (for example, where a short-

⁴⁴ 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. The LENNON database is the source of the passenger income figures published as part of the [ORR's Rail Usage Statistics](#). However for the reasons explained in this chapter, we use train operators' management accounts as the source of passenger income.

⁴⁵ As an example, if the LENNON database indicates that 23.2% of Cross Country's passenger income was generated from the part of journeys in the London North East operating route, then 23.2% of the Cross Country passenger income per the train operators' accounts has been allocated to that operating route.

⁴⁶ The train distance travelled 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.

⁴⁷ Our analysis of regulated and unregulated passenger income data was done on a calendar year basis as per the source data.

term promotional fare is introduced or where a ticket covers more than one mode of transport). For the latter, we think that this is more likely to affect the data for Merseyrail and London Overground due to the greater use of flexible travelcards by passengers on these operators.

Franchise level analysis

7.25 The methodology underpinning the franchise level analysis presented in Chapter 5 is explained below.

Franchised train operators' financial information

7.26 As explained earlier in this chapter, the train operator financial information included within our analysis has been taken from train operators' management accounting submissions to government for the period 1 April 2014 to 31 March 2015.

7.27 As shown in Tables 3.4, 4.4 and 5.2, there are differences in the amounts of government funding recognised in train operators' and governments' financial statements. Although governments and operators have comparable accounting policies for the recognition of government funding, there may be adjustments and timing differences in relation to when grant expenditure and franchise receipts are recognised by governments and grant income is recognised by operators. These differences can be quite large in any one year for some train operators.

7.28 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 (LOROL) to run the London Overground 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. As the majority of ticket income is with RfL, the revenue and cost split between the London Overground and RfL is very different to that between other train operators and government. To support our analysis, LOROL and TfL worked together to provide consolidated information for London Overground that is consistent with the financial information for other train operators.

Network Rail financial information

7.29 Given the amount of detailed work that Network Rail has undertaken over the past five years to identify and attribute its costs at a route level we consider that Network Rail's expenditure presented at route level (as described in paragraphs 7.13 – 7.14) provides the best starting point for analysing its income and expenditure by franchise. Network Rail's charges and other income and expenditure are allocated in proportion to train operators' activities in each operating route. Put simply, if a franchise does not operate in a particular operating route, none of Network Rail's

expenditure in that route will be allocated to that franchise. Network Rail's grant income is allocated to train operators at a GB level.

7.30 Whilst recognising there is no definitive way to allocate Network Rail's income and expenditure between franchises the approach we have used is as follows:

- a. *maintenance costs* in each operating route have been allocated to franchises in proportion to the total variable usage charge (VUC) paid by each franchisee in that route. The variable usage charge rate (£ per train kilometre) is calculated based on a train's engineering characteristics and the wear and tear that a train causes to the track and is therefore an appropriate cost driver. The VUC rate is presently based on a GB-level figure for each operator and does not take account of the mix of rolling stock that an operator may have on different routes;
- b. *depreciation/amortisation* and financing costs have been allocated in proportion to train distance travelled by each franchise in each operating route. We have adopted this simple approach because physical presence on the network is arguably a more meaningful way to allocate largely fixed costs, which mostly relate to long-life assets than measures which relate to short-term (variable) wear and tear. So for example, our approach aims to allocate the cost of replacing a signal box to franchises in proportion to the number of trains that make use of that signal box;
- c. *other income and expenditure* in each route has been allocated in proportion to train distance travelled by each franchise in that operating route. This is essentially the same approach that we have used for allocating franchises' income and expenditure to operating routes. This is a simplifying approach which we consider appropriate for these comparatively smaller categories of income and expenditure;
- d. *network grant* has been allocated at GB level in proportion to the residual Network Rail income less expenditure that we have calculated for each franchise. No adjustments have been made to reflect grant funding of particular operators in lieu of fixed track access charges (in Wales and Scotland); and
- e. if Network Rail at GB level has a *surplus or deficit*, individual routes may still have a surplus or deficit after allocation of grant funding.

Inflation and consolidation adjustments

7.31 The November RPI uplift is used throughout our analysis to adjust for the effect of inflation (the retail price index (RPI) increased by 2.0% from November 2013 to November 2014).

7.32 Fare increases, which happen in January, are based on the preceding July's year-on-year inflation, also based on the RPI. However, for consistency with the regulatory financial statements, we use the November RPI to uplift operator income.

7.33 The review of consumer price statistics recommended that regulators switch to using CPIH as the preferred measure of inflation. We will keep our inflation methodology under review⁴⁸.

7.34 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 financial transactions that are internal to the industry.

7.35 Network Rail's income from 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 operator. Train operators include these payments to Network Rail in their accounts, albeit with some timing differences to the Network Rail numbers. This information has been used to determine the appropriate consolidation adjustments to Network Rail's income and train operators' expenditure to avoid double counting industry income and expenditure. For example, charges income for Network Rail is exactly matched by the charges expenditure by operators and these therefore cancel out. For transparency we have shown the flows but have not double counted when looking at total industry expenditure⁴⁹.

7.36 As a result of changes to the European System of Accounts, Network Rail was reclassified from the private sector to the central government sector in the UK national accounts with effect from 1 September 2014⁵⁰. Following this change, Network Rail stopped issuing new debt on the capital markets and instead borrows from the Department for Transport. We have separated out finance costs in Figure 1 but the net DfT funding to Network Rail has not been reduced by the finance income it has received, for consistency with prior years.

7.37 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 and

⁴⁸ UK Statistics Authority, [UK Consumer Price Statistics: A Review](#), 8 January 2015.

⁴⁹ A related example of this issue is that in table 3.2 Network Rail's other income is £977m, but in table 5.1 it is shown as £1,006m. Likewise, the total of fixed and variable charges in table 3.2 is £1,305m, but in table 5.1 it is £1,275m. These variances offset one another. This issue arises as there are differences in the income shown in Network Rail's regulatory financial statements when disaggregated by operating route, and train operator.

⁵⁰ Office for National Statistics, [Reclassification of Network Rail under European System of Accounts 2010](#), 17 December 2013

expenditure for this year, as it would be difficult to calculate and is not material to the overall analysis. However, where operators have informed us of intra-industry diesel sales, we have made adjustments in our analysis.

7.38 In its 2014-15 regulatory financial statements, Network Rail recategorised the cost of reactive maintenance (responding to asset failures), from renewals to maintenance. This resulted in a c£200 million movement of renewals costs to maintenance.

Industry surplus or deficit

7.39 Table 1, and similar disaggregated tables included within our report, show the net difference between industry income and expenditure (either a surplus or deficit) based on companies' management and regulatory accounting information. This amount will be different to aggregate profits or losses in Network Rail and train operators' published statutory accounts due to the different way they have been prepared and statutory financial reporting requirements for the treatment of management costs, interest costs, deferred tax, pension costs, dividends etc. **Given that there are numerous assumptions underpinning our analysis, numbers should be treated with care.**

Non-financial information

7.40 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 the ORR data portal, ORR's official database of railway statistics⁵¹.

⁵¹ Data covering a range of rail statistics is available at <http://orr.gov.uk/statistics/data-portal>.

Annex A - Geographical overlap of rail franchises and operating routes

Table A1: Distance travelled by train operators in each operating route in 2014-15

Franchise	Franchise operator	Note	Franchising authority	Operating route										Total train km (million)	
				Anglia	Kent	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland		
Essex Thameside	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	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3
Cross Country	Cross Country		DfT	1.3	0.0	6.4	8.1	4.3	0.0	1.6	8.1	0.9	2.0	32.7	
East Coast	East Coast	To 28 Feb 15	DfT	0.0	0.0	19.5	0.0	0.0	0.0	0.0	0.0	0.0	2.4	21.9	
	Virgin Trains East Coast	From 01 Mar 15	DfT												
East Midlands	East Midlands		DfT	1.2	0.0	4.5	1.5	15.4	0.0	0.0	0.0	0.0	0.0	22.7	
Greater Anglia	Abellio Greater Anglia		DfT	34.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.2	
Great Western	First Great Western		DfT	0.0	0.0	0.0	0.1	0.0	0.6	3.3	35.5	3.3	0.0	42.8	
Northern	Northern Rail		DfT	0.0	0.0	24.0	21.6	0.5	0.0	0.0	0.0	0.0	0.0	46.1	
South Eastern	Southeastern		DfT	0.0	31.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	31.7	
South Central	Southern		DfT	0.0	2.2	0.0	0.7	0.0	29.0	2.7	0.0	0.0	0.0	34.6	
South Western	South West Trains		DfT	0.0	0.0	0.0	0.0	0.0	0.1	39.5	0.6	0.0	0.0	40.2	
Thameslink Great Northern	First Capital Connect	To 13 Sep 14	DfT	1.9	1.2	11.6	0.0	7.3	4.1	0.0	0.0	0.0	0.0	26.1	
	Govia Thameslink	From 14 Sep 14	DfT												
Trans Pennine Express	First Trans Pennine Express		DfT	0.0	0.0	9.5	8.5	0.0	0.0	0.0	0.0	0.0	1.4	19.5	
Wales & Borders	Arriva Trains Wales		DfT	0.0	0.0	0.0	3.8	0.0	0.0	0.0	0.2	19.5	0.0	23.5	
West Coast	Virgin Trains		DfT	0.0	0.0	0.0	31.8	0.0	0.0	0.0	0.0	0.6	3.1	35.5	
West Midlands	London Midland		DfT	0.0	0.0	0.0	23.2	0.0	0.0	0.0	1.1	0.2	0.0	24.5	
London Overground	LOROL		TfL	4.7	0.4	0.0	1.2	0.0	1.5	0.1	0.0	0.0	0.0	7.8	
Merseyrail	Merseyrail		Merseytravel	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	To 1 April 15	Transport Scotland	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	46.5	47.3	
	ScotRail	From 1 April 15													
	Serco Caledonian Sleeper	From 31 Mar 15													
Total train distance travelled (million km)				50.0	35.2	75.6	118.1	27.5	35.7	47.1	45.5	24.6	55.5	514.8	

Annex B - Government funding contribution to Network Rail & operators

Due to the overlapping geographies of franchises and operating routes there are many different approaches to the allocation of infrastructure costs which give different outcomes for the allocation of government funding to operators and operating routes. It is important to recognise there is no definitive view on how this should be done and therefore care is required in understanding and interpreting our analysis. This is discussed further in Chapter 1. The methodology underpinning our analysis is explained in Chapter 7.

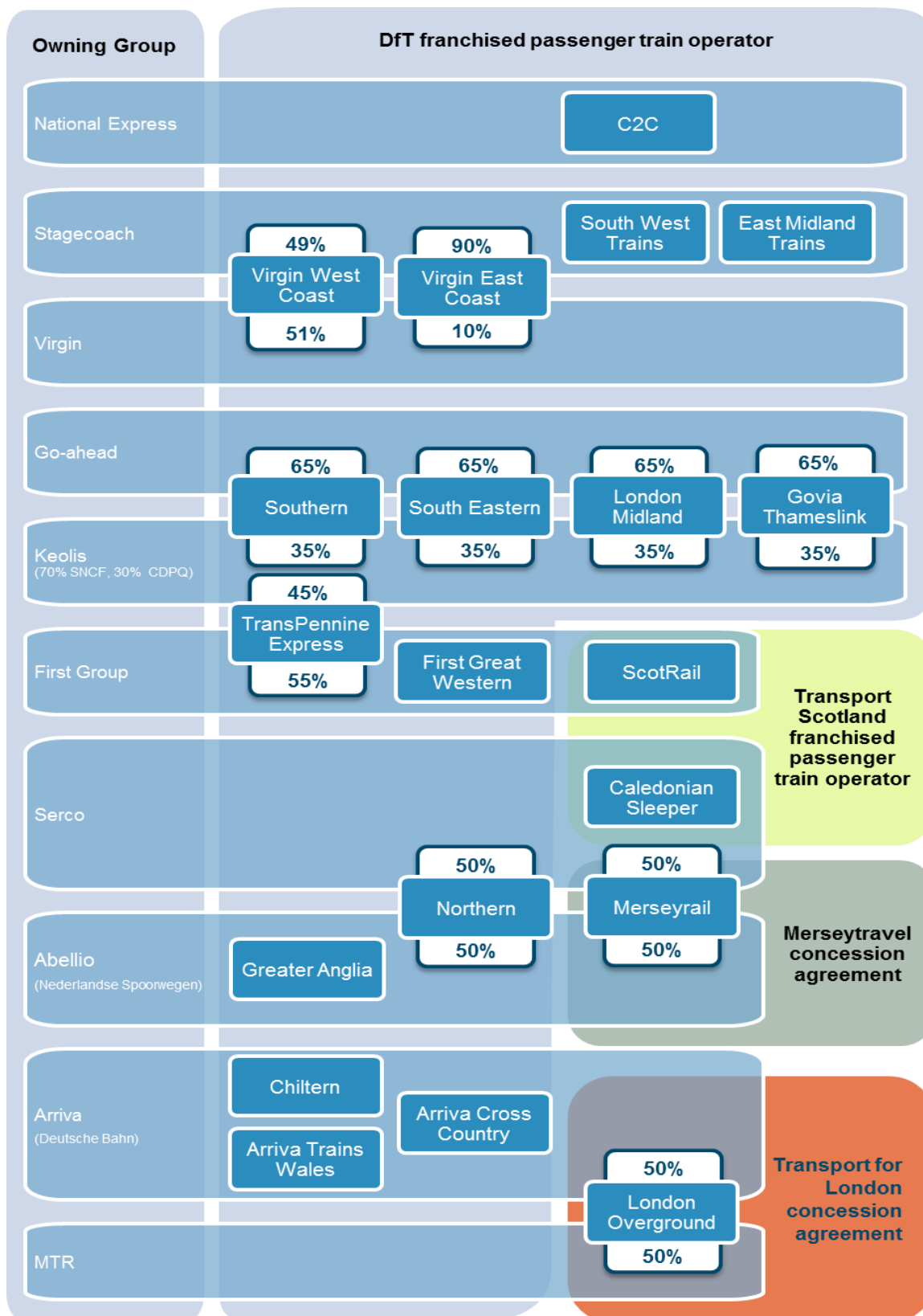
Figure B1: The contribution of government funding to Network Rail and Train Operators as a proportion of industry income analysed by operator



Note: Some franchises operate services across more than one sector.

Annex C – Franchises and owning groups

This diagram is correct as at 31 March 2015. In-year changes are shown in Annex A. Subsequent changes in franchise ownership will be reflected in our 2015-16 publication.



Annex D - Official Statistics

The Office of Rail and Road is a producer of Official Statistics and follows the [Code of Practice for Official Statistics](#) produced by the UK Statistics Authority.

The *GB rail industry financial information 2014-15* report has been produced and published in line with the Code of Practice for Official Statistics. The principles and protocols of the Code are intended to ensure: official statistics meets the needs of users; that the statistics are produced, managed and disseminated to high standards; and that the statistics are well explained.

The pre-release access list for this report is published on the ORR [website](#) in accordance with The Pre-release Access to Official Statistics Order 2008.

ORR publishes a wide range of other rail statistics. These can be found at: <http://orr.gov.uk/statistics>.

For more details on Official Statistics please contact ORR's Head of Profession for Statistics, Lyndsey Melbourne, at rail.stats@orr.gsi.gov.uk.

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