

GB rail industry financial information 2012-13

April 2014



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Executive summary

Purpose

1. The rail industry receives substantial income from its customers and taxpayers and they have a right to know where their money goes and what it delivers. This third annual publication of GB rail industry financial information helps deepen our understanding of the rail industry's finances and strengthens accountability. It is one in a series of publications which we produce as part of our transparency programme.
2. We have increased the scope of this year's analysis and we will seek to continue to work with the industry to develop and refine our analysis over time to inform the debate about the industry's value for money. The structure and format of this report is largely the same as our 2011-12 publication¹. We have expanded our analysis to include a breakdown of fare income to better understand the contribution of regulated and unregulated fares. Our analysis also includes new information about industry costs including the breakdown of fuel costs, corporation tax and dividend payments.
3. The overlapping geographical boundaries of the components of the GB rail industry make analysis of industry financial information at a sub-GB level complex. Whilst we consider that the methods and data sources that we have employed provide as reasonable and accurate analysis as is currently practicable, we recognise that there are multiple approaches to answering this problem and that care is needed in interpreting our analysis. Our analysis uses financial information provided to us by the industry; however, we recognise that there are other sources which may provide different numbers. Where appropriate we seek to show and explain these differences. A detailed explanation of the methodology underpinning our analysis is set out in Chapter 5.
4. Our analysis is primarily focused on Network Rail and franchised passenger operators income and expenditure. However we recognise that whilst in financial terms freight and open access operators are smaller components of the industry than franchised passenger services, they are nonetheless an important component of the rail industry value chain and we provide a high-level analysis of their financial contribution in Chapter 5. Our analysis does not explicitly focus on components of the rail industry which are not directly involved in the provision of rail services, in particular engineering contractors, rolling stock operating companies and other financial institutions. Whilst the supply chain

¹ Our previous GB rail industry financial publications are available at <http://orr.gov.uk/publications/reports/gb-rail-industry-financial-information-2011-12>.

is important, it is not directly involved in the provision of railway services to customers. Our analysis also excludes the Crossrail construction project which is currently underway but does not yet form part of the operational railway².

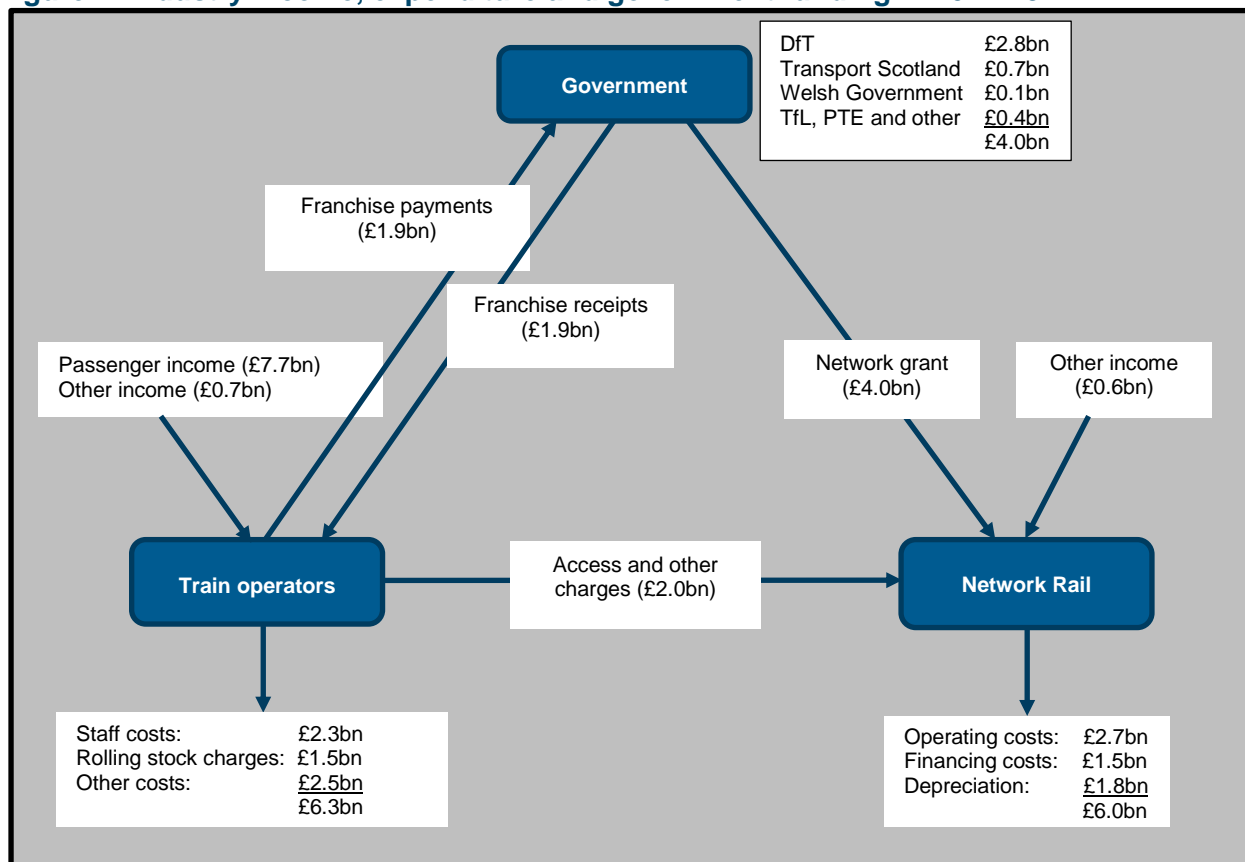
5. This report is the result of a collaborative effort by a number of organisations. We are particularly grateful to Network Rail, franchised train operating companies, the Rail Delivery Group (RDG), the Department for Transport (DfT), Transport Scotland, the Welsh Government, Transport for London and Merseytravel without whose support this work would not have been possible. We welcome feedback on the content of this report and in particular which parts of our analysis readers find most useful.

Summary of our findings

Overall observations

6. Key financial information and analysis about the Great Britain (GB) franchised rail industry, incorporating the national rail infrastructure manager, Network Rail, and 19 franchised train operating companies for the year 1 April 2012 to 31 March 2013 (2012-13) is summarised in Table 1 and Figures 1 to 10. More detailed analysis is presented in Chapters 2 to 4.

Figure 1: Industry income, expenditure and government funding in 2012-13



² Information about investment in the Crossrail construction project is available at <http://www.crossrail.co.uk/about-us/funding#>.

7. The cost of running Britain's railways was £12.3bn in 2012-13, a real terms³ increase of 2.1% compared to 2011-12 and a real terms increase of 0.1% compared to 2010-11. Half of these costs were incurred in train operations and half were incurred in managing the rail infrastructure. Our analysis suggests that the increase is mostly due to the industry's response to increased passenger numbers over this period. After adjusting for growth in passenger numbers, industry expenditure increased by 0.2% from 2011-12 and decreased by 6.2% from 2010-11.

8. Government funding was £4.0bn in 2012-13, a real terms decrease of 4.2% compared to 2011-12 and 9.1% from 2010-11. There are significant variations in the level of government funding between England, Scotland and Wales. For example, our analysis shows that total funding varied from £2.19 per passenger journey in England to £7.60 per journey in Scotland and £9.33 per journey in Wales.

9. Whilst the industry continues to receive substantial government support, our analysis shows that passengers have covered an increasing proportion of the rail industry's costs relative to taxpayers over the past three years; 62.6% of industry costs in 2012-13, compared to 61.7% in 2011-12 and 58.5% in 2010-11.

10. Total passenger income was £7.7bn in 2012-13. As shown in Figure 3, around two-thirds of this income was from unregulated fares and one-third from regulated fares⁴. We don't think it is well understood that a significant proportion of industry funding comes from unregulated fares.

11. Passenger income increased in real terms by 3.6% compared to 2011-12 and by 7.1% compared to 2010-11. The majority of this increase is likely to be due to increased passenger numbers with the number of journeys increasing by 2.9% from 2011-12 and 10.4% from 2010-11. Our analysis shows that in real terms, average income per passenger journey increased by 0.7% from 2011-12 and decreased by 3.0% from 2010-11.

³ Consistent with our determination the November RPI uplift is used throughout our analysis to adjust for the effect of inflation. The retail price index (RPI) increased by 3.0% from November 2011 to November 2012.

⁴ As explained in Chapter 5 (Methodology), there are limitations to our analysis due to the restricted number of ticket types that are captured in the industry's LENNON passenger income database. However, we consider that our analysis is likely to provide a reasonable attribution of income to the ticket types presented here.

Table 1: Industry income, expenditure and government funding

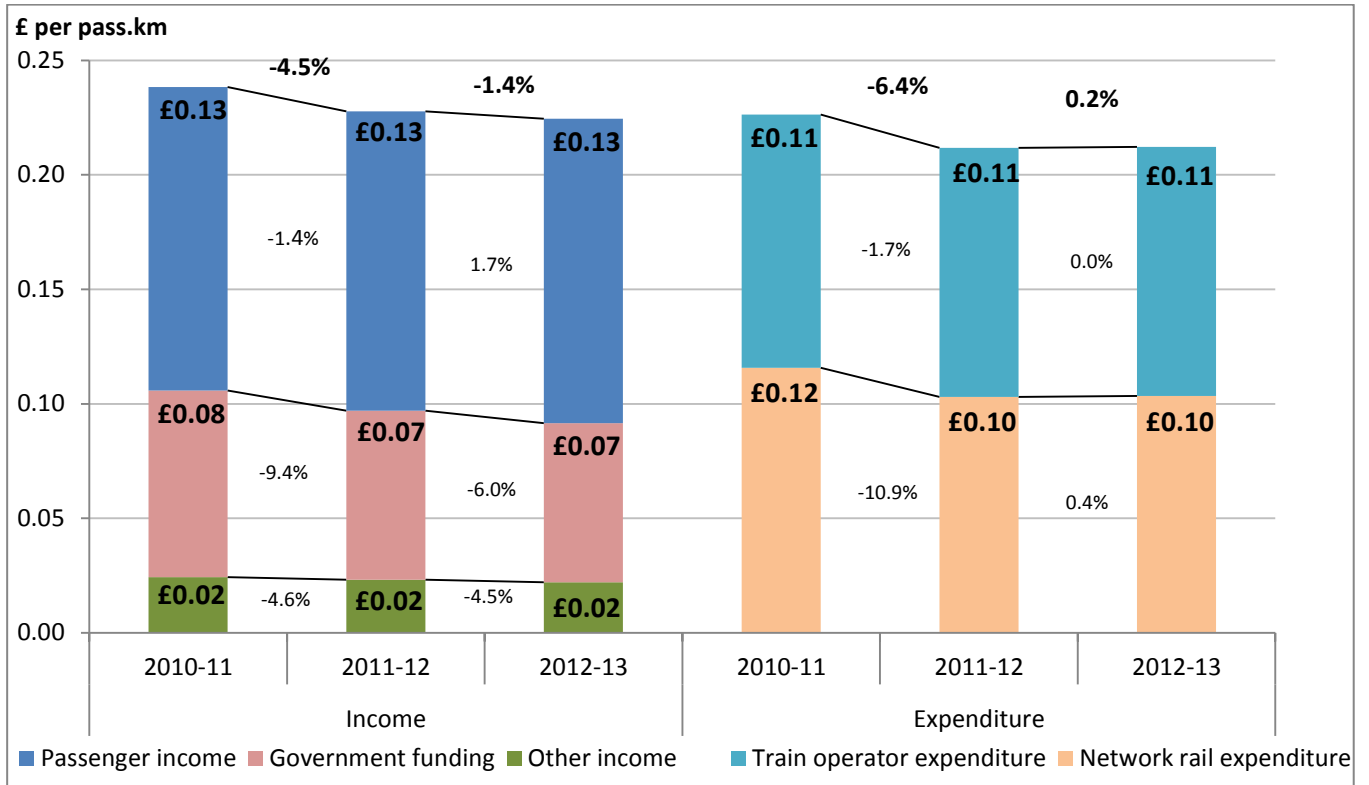
(£m except where stated)	2012-13	2011-12 variance ^a	2010-11 variance ^a
Industry income			
Passenger income	7,683	3.6%	7.1%
Other income (incl. intra-industry)	3,280	5.8%	3.4%
Less intra-industry income	-2,002	12.2%	7.8%
	8,960	2.7%	5.6%
Industry expenditure			
Train operating costs (incl. intra-industry)	8,288	4.2%	5.6%
Infrastructure costs	5,984	2.3%	-4.5%
Less intra-industry expenditure	-2,002	12.2%	7.8%
	12,269	2.1%	0.1%
Government funding	4,016	-4.2%	-9.1%
Surplus / (deficit) ^b	707	-21.5%	8.7%
Passenger income per journey	£5.12	0.7%	-3.0%
Passenger income per pass. km travelled	£0.13	1.7%	0.3%
Train operating costs per pass. km travelled	£0.11	0.0%	-1.7%
Infrastructure costs per track km	£0.19m	2.3%	-4.4%
Infrastructure costs per train km	£11.79	2.0%	-9.7%

^a Adjusted for RPI inflation. 2011-12 and 2010-11 financial information has also been restated from information published in previous versions of this publication as we now have better information.

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

12. Figure 2 shows an analysis of the annual change in real terms income and expenditure on a passenger kilometre basis, since the first year of our publication in 2010-11. Table 1 indicates that the cost of the industry is broadly unchanged from 2010-11 in real terms. Figure 2 shows that after taking into account increasing use of the network, the industry cost for each kilometre travelled has reduced, particularly within Network Rail. Our analysis shows that taxpayers, rather than passengers, have benefited the most from a reduction in their contributions to the industry.

Figure 2: Income and expenditure per passenger kilometre since 2010-11

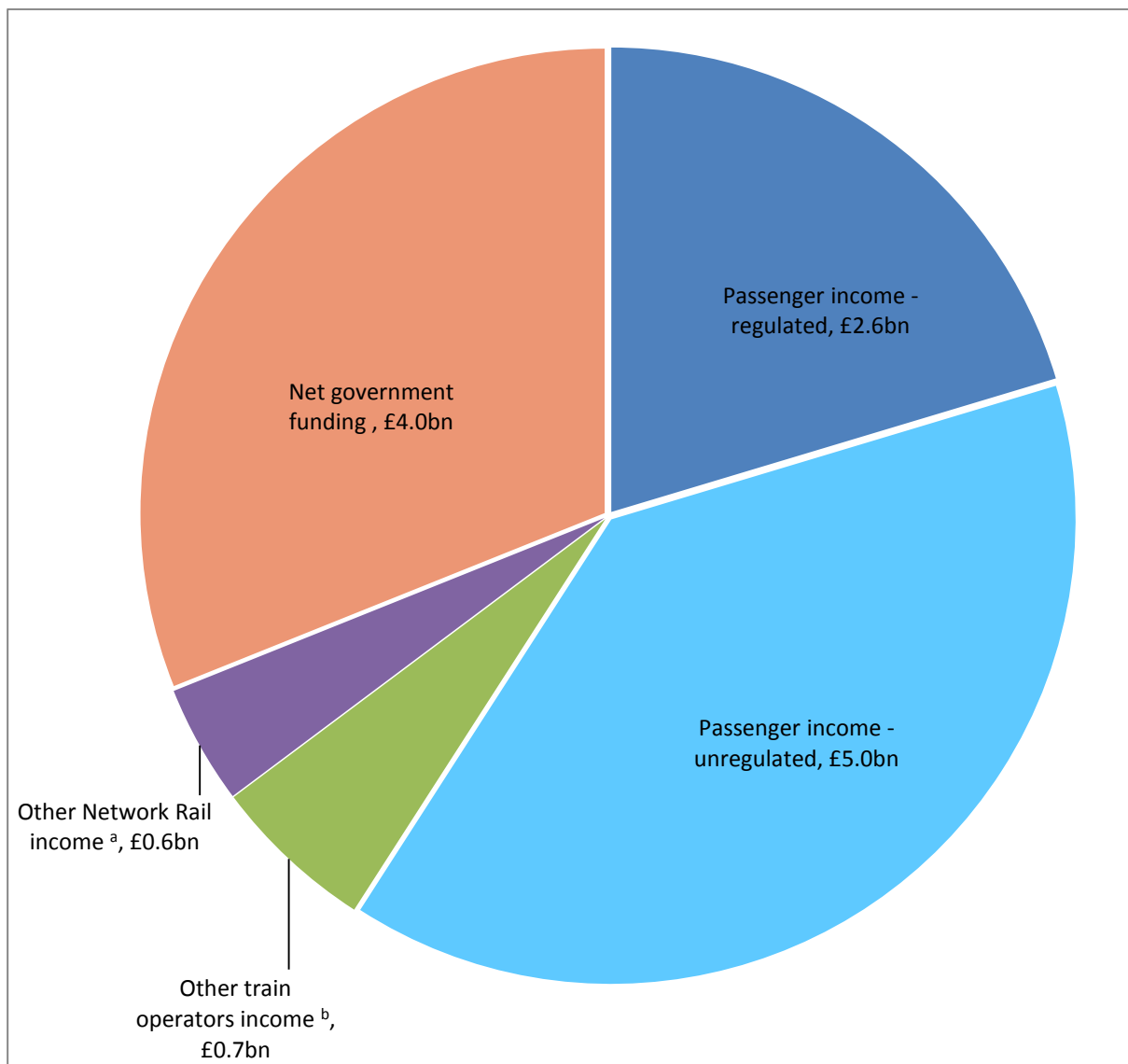


^a Excluding intra-industry income and expenditure.

Industry income and government funding

13. The rail industry received total income of £12.9bn in 2012-13 of which 31% was provided by government, 59% by passengers and 10% from other income including car parking and property rentals.

Figure 3: Sources of industry income including government funding



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

^b Income from car parking etc.

Government funding

14. Our analysis shows that total government funding was £4.0bn in 2012-13, representing 30.9% of the industry's total income⁵. Government contributed £4.0bn to Network Rail and in aggregate made a net contribution of £0.04bn to train operators, although there were significant regional variations. In

⁵ Our analysis uses financial information provided by Network Rail and train operators. There are differences between the amount of franchise receipts and payments reported by train operators and the amounts reported by government. These differences are shown in Table 4.2 and are primarily due to differences in the timing of recognition of grant income (as required by accounting standards) and how Passenger Transport Executive's funding has been reported.

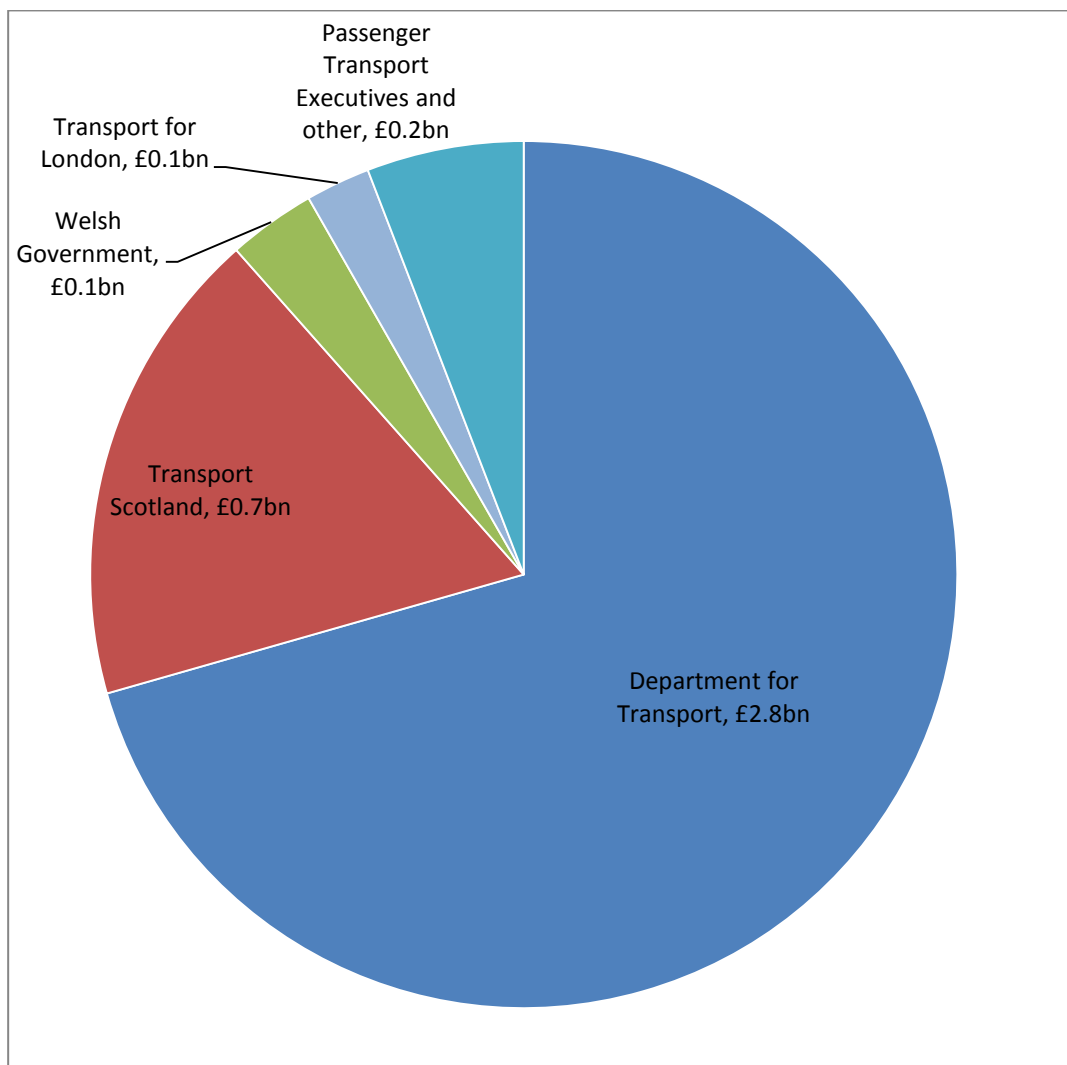
real terms, total government funding has reduced by 4.2% compared to 2011-12 and by 9.1% compared to 2010-11.

15. In real terms, government funding of Network Rail decreased by 2.5% from 2011-12 and by 0.2% from 2010-11. This funding was set out in ORR's 2008 Periodic Review of Network Rail's revenue requirement for the funding period 2009-2014 (PR08)⁶ and it has declined largely as a result of the efficiency savings that Network Rail have made over this period.

16. Government's net £0.04bn contribution to train operators included £1.98bn of payments to some train operators, which were nearly offset by £1.94bn of receipts from other train operators. Our analysis shows that this net funding of train operators reduced by £0.1bn from 2011-12 and by £0.4bn from 2010-11.

17. The sources of government funding of the rail industry are shown in Figure 4.

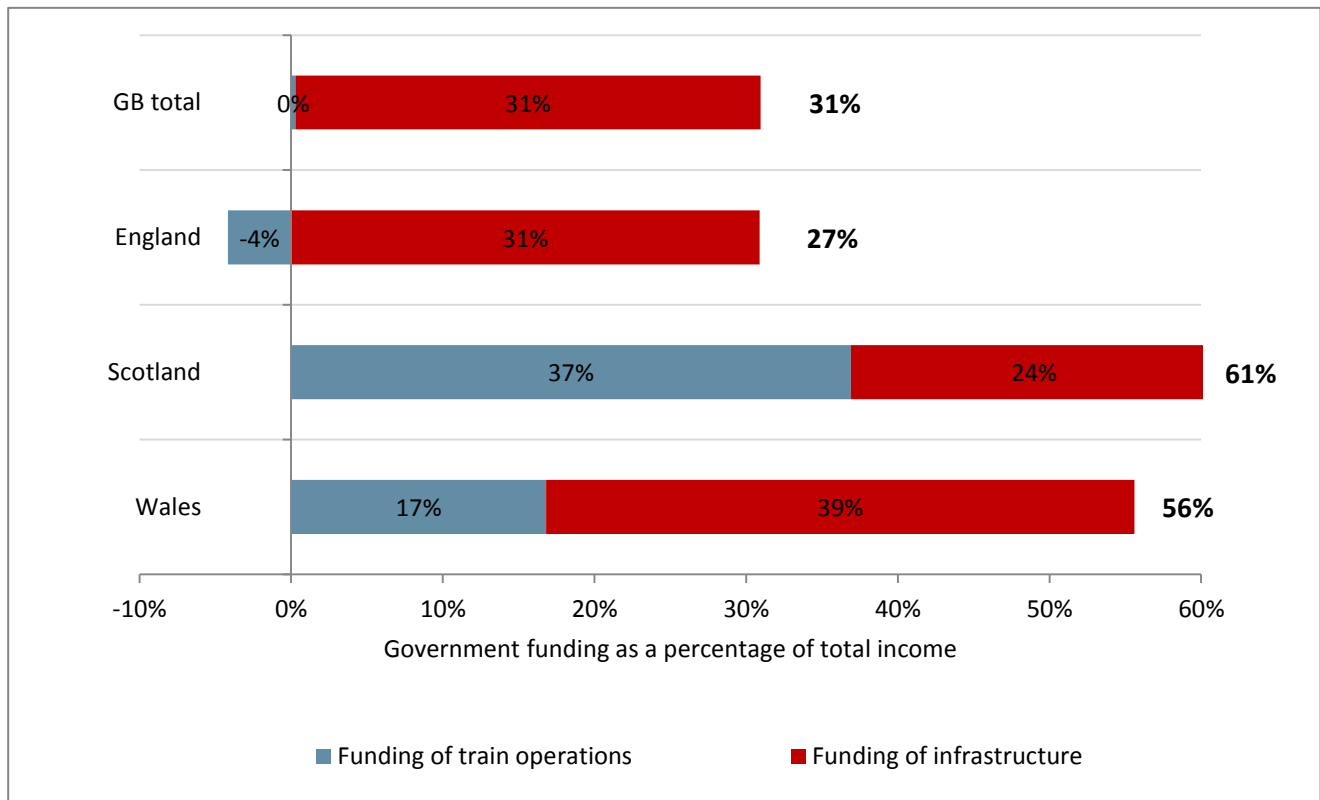
Figure 4: Sources of government funding



⁶ <http://orr.gov.uk/what-and-how-we-regulate/regulation-of-network-rail/how-we-regulate-network-rail/previous-control-period/periodic-review-2008>.

18. As shown in Figure 5, there are significant variations in the level of government funding between England, Scotland and Wales. As a proportion of total income, England had the lowest level of government funding; 27% of total England industry income, compared to 56% for Wales and 61% for Scotland. Government funding varied from £2.19 per passenger journey in England to £7.60 per passenger journey in Scotland and £9.33 per passenger journey in Wales.

Figure 5: The contribution of government funding to total industry income by country



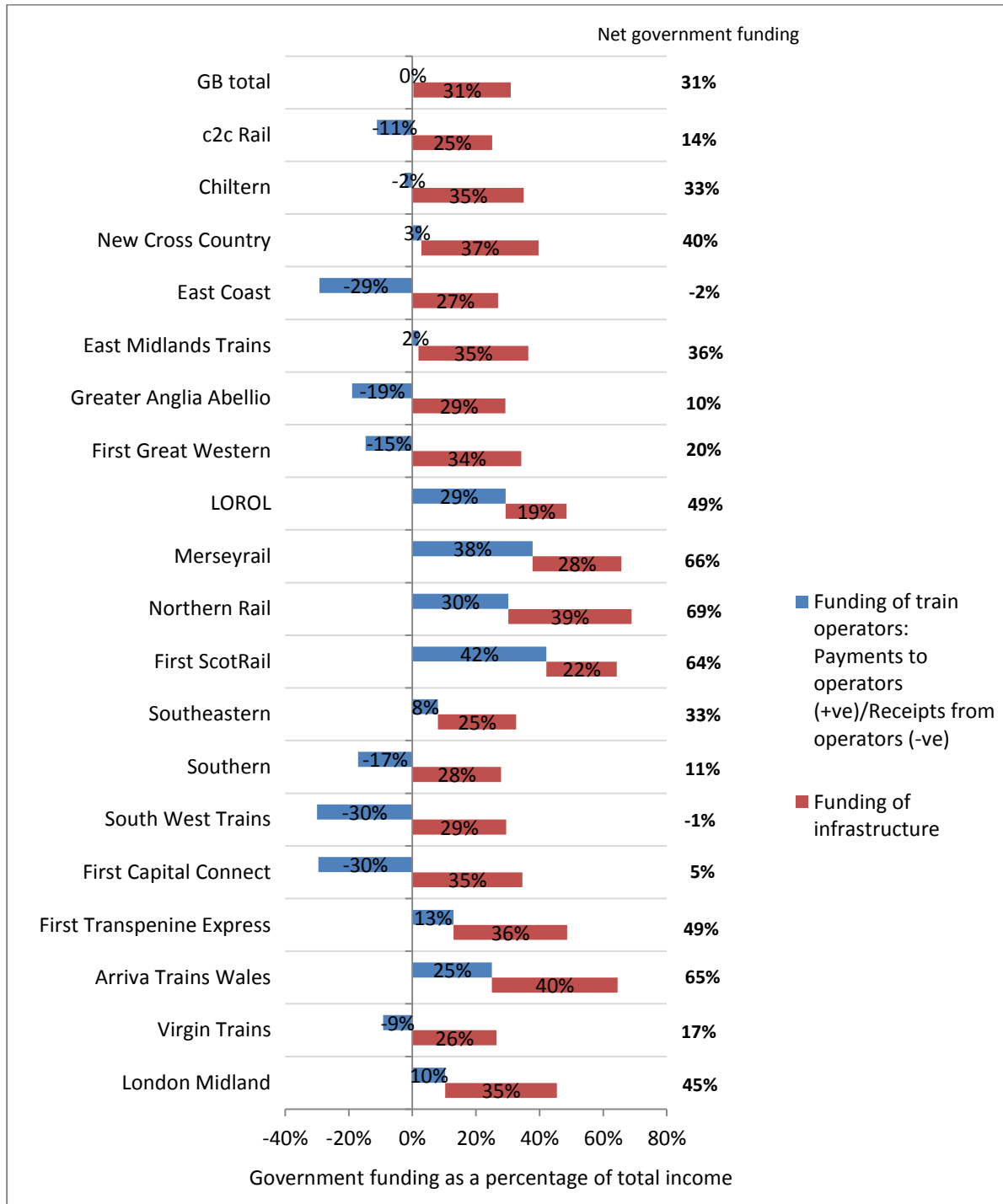
19. Figure 6 shows our analysis of total government funding (including the allocation of funding to Network Rail) as a percentage of total industry income across rail franchises. As shown in Figure 6, passengers on rural franchises were the greatest beneficiaries of government funding with passengers on intensively used London commuter and intercity franchises receiving substantially less support. Indeed our analysis suggests that passengers on two franchise operators (South West Trains and East Coast) did not receive any financial support from government⁷.

20. The regional differences in government funding largely reflect the fact that the rail network has a high fixed cost base, differences in passenger markets (e.g. competition from other modes of transport, lower and more dispersed demand on rural franchises) and government willingness to maintain services through financial support in areas where passenger and other industry generated income alone is insufficient to meet costs. The reasons for cost differences between train operators

⁷ We consider that our approach to allocate government funding of infrastructure costs to franchise areas is as reasonable and accurate an analysis as is currently practicable. However we recognise that there are multiple approaches to this and that care is needed in interpreting our analysis. The methodology underpinning our analysis is explained in Chapter 5.

and the level of control train operators have over particular cost categories are explored further in paragraph 31. For these reasons the level of government funding received cannot be used as an indicator of the financial effectiveness of any individual train operator.

Figure 6: The contribution of government funding to total industry income by train operator



Passenger income

21. Passenger income represents ticket income from passenger journeys as opposed to non-ticket industry income such as car parking and retail income at stations⁸. Passenger income was £7.7bn in 2012-13 which was £0.5bn (6.7%) higher than in 2011-12. Adjusted for inflation, passenger income was £0.3bn (3.6%) higher than in 2011-12.

22. As summarised in Table 1, the increase in passenger income compared to 2011-12 needs to be considered in the light of the passenger growth in 2012-13 with the number of passenger journeys increasing by 2.9% and total distance travelled by passengers increasing by 1.9%. The average passenger fare in 2012-13 was £5.12⁹, an increase of 3.7%¹⁰ compared to 2011-12 and the average fare per passenger kilometre travelled was £0.13, an increase of 4.8% compared to 2011-12. Adjusted for inflation, the average passenger fare in 2012-13 increased by 0.7% and the average fare per passenger kilometre travelled increased by 1.7%.

23. The regional variations in passenger income in 2012-13 are significantly lower than the regional variations in the level of government funding discussed above. Per passenger journey, passenger income was highest in Wales (£5.85) followed by England (£5.16) and Scotland (£4.17). Per passenger kilometre travelled, passenger income was highest in England (£0.14) followed by Wales (£0.12) and Scotland (£0.09).

24. On a passenger km basis, there was a low variability of passenger income between train operators, which is perhaps surprising considering the different nature of the 19 franchises, covering both longer distance intercity operators, short distance commuter and rural operators¹¹. London Overground received the highest passenger income per passenger kilometre travelled (£0.16 per passenger kilometre) and Merseyrail the lowest (£0.07 per passenger kilometre travelled). These differences will largely reflect the different services provided to passengers and government's willingness to maintain services through subsidy in areas where passenger and other income alone is insufficient to meet industry costs.

25. Our analysis of the contribution of regulated and unregulated fares to passenger income is shown in Figures 7 and 8. Our analysis suggests that the majority (two-thirds) of passenger income was

⁸ Within the industry, passenger income is commonly known as farebox income.

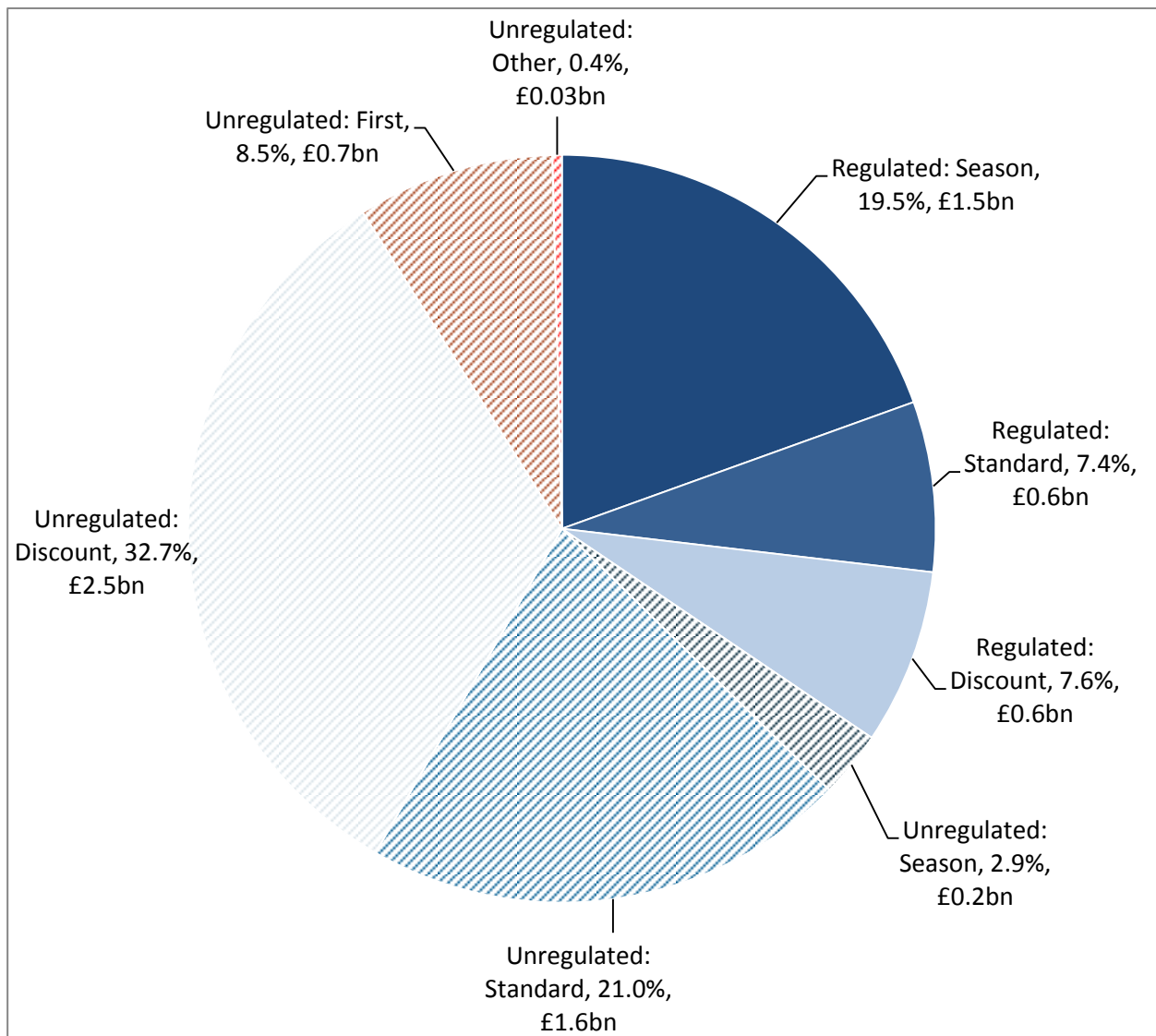
⁹ Calculated by dividing total passenger income by the total number of passenger journeys.

¹⁰ Regulated fares increased by 5.9% in January 2012 and 4.2% in January 2013. Further details are available on ATOC's website www.atoc.org. ORR publishes an index of the average price of rail fares. The index increased by 4.3% from January 2012 to January 2013 which is higher than suggested by our analysis. The variation may be due to the way the index is calculated as it does not easily capture changes in types of tickets available, e.g. one-off rates. A review of the methodology underpinning the rail fares index is currently underway.

¹¹ The coefficient of variation of passenger income per passenger kilometre travelled was 15.8% across train operators.

generated from unregulated fares¹². There are significant variances between the contributions from different ticket types to train operators' revenues, which reflect the different markets in which they operate. For example, regulated standard season tickets typically contribute around 30% of the revenues of London and South East operators, whereas for long distance operators they account for less than 10% of revenues. Likewise, unregulated discounted tickets make a much greater contribution to long distance operators' income than regulated fares compared to London and South East operators.

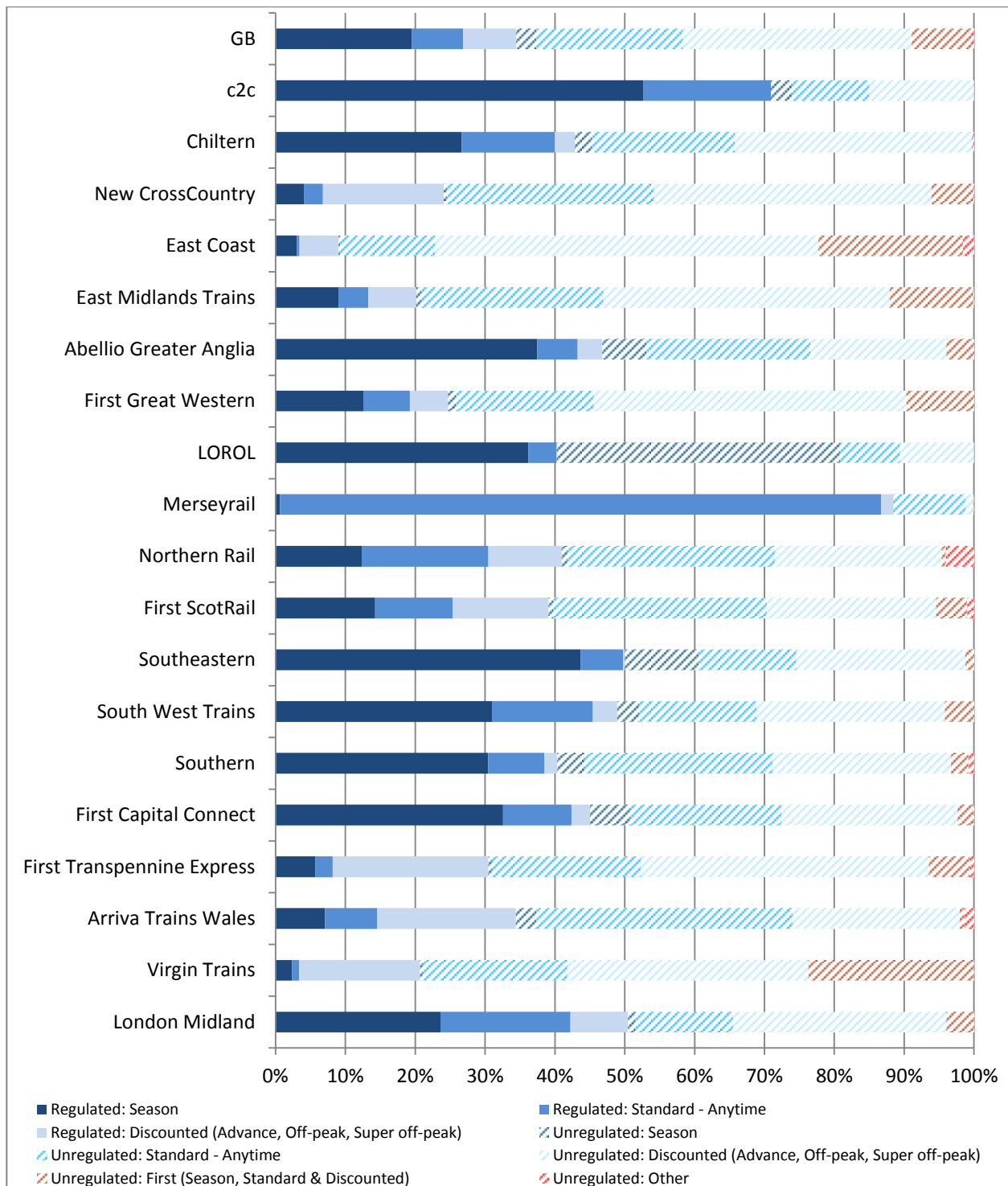
Figure 7: Contribution of regulated and unregulated fares to passenger income¹³



¹² Our analysis also showed that 49% of all journeys were covered by unregulated fares. In practice the price of some unregulated fares are effectively capped by the price of regulated fares. The greater contribution of unregulated fares to total passenger income is mostly due to the greater use of unregulated fares on (more expensive) long-distance journeys.

¹³ We used the LENNON passenger income database to calculate the relative contribution of different fare types and applied this to train operators' 2012-13 total passenger income to produce this analysis. As explained in Chapter 5 (Methodology), this data was for the calendar year 2012 and excludes some fare-types. However we consider that our approach provides a reasonable estimate of the contribution of different fare types to overall passenger income.

Figure 8: Contribution of regulated and unregulated fares to passenger income by train operator



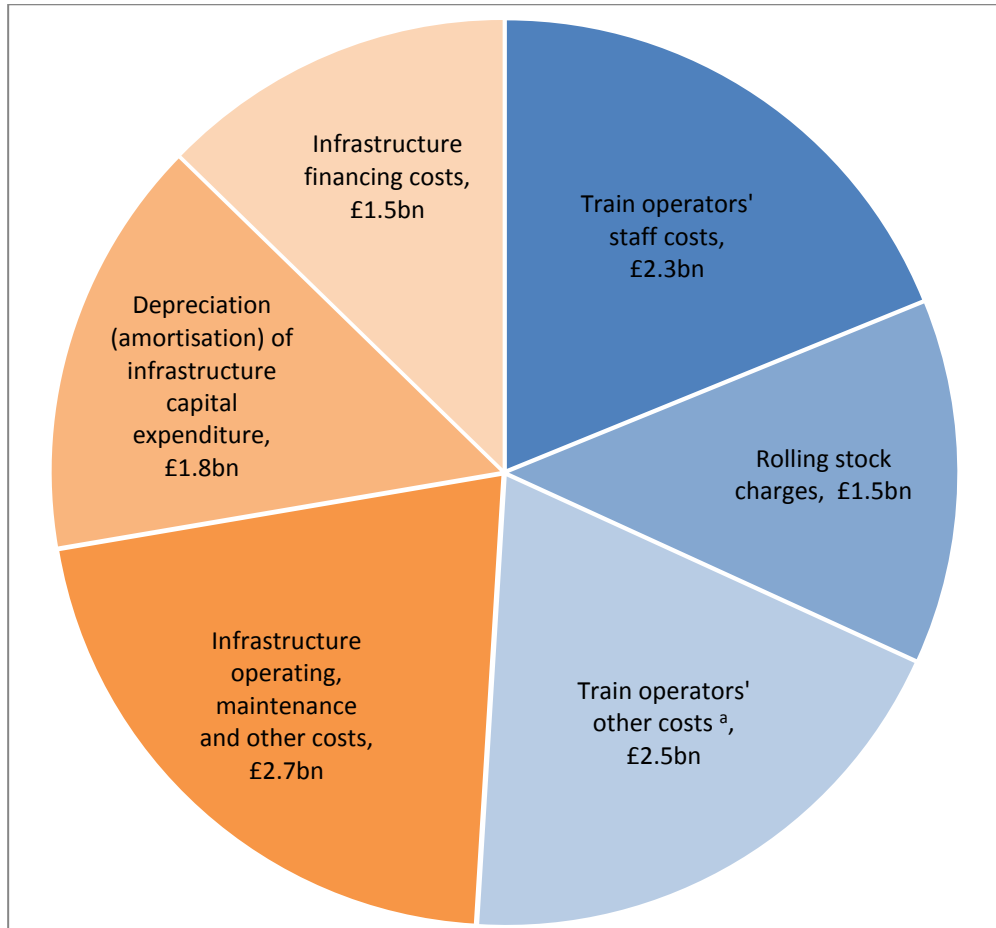
Other income

26. The rail industry received £1.3bn of income in 2012-13 from sources other than passenger income, a decrease of 2.7% in real terms. Train operators received £0.7bn from car parking, property rental, catering and other sales. Network Rail received £0.6bn from its stations and property portfolio, and charges to freight and open access train operators.

Industry expenditure

27. Total industry expenditure in 2012-13 was £12.3bn of which £6.3bn (51%) was incurred in train operations and £6.0bn (49%) was incurred in operating the rail infrastructure.

Figure 9: Breakdown of industry expenditure



^a Fuel, train maintenance costs etc.

Train operators' expenditure

28. As shown in Table 1 and Figure 9, train operators' expenditure excluding Network Rail charges was £6.3bn in 2012-13, a real terms increase of 1.9% compared to 2011-12. Taking account of inflation and passenger growth (i.e. the total distance travelled by passengers), train operators' costs were unchanged compared to 2011-12.

29. 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 (£0.11 per passenger kilometre). These variances are likely to reflect different levels of passenger usage (i.e. the average number of passengers on a train). Average train densities were 121 passengers per train in England, compared to 75 in Scotland and 67 in Wales.

30. Average train operator expenditure was £12.38 per train kilometre travelled. Using this measure England had the highest average train operator costs (£12.77 per train kilometre), followed by Scotland (£10.44 per train kilometre) and Wales (£9.74 per train kilometre). These variances will likely reflect the different lengths of trains (trains in England have, on average, more vehicles 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).

31. 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, 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, for example, rolling stock leasing costs where train operators have only limited choice about what trains they can operate¹⁴. 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 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.

32. Train operators paid £2.0bn in track access and other charges to Network Rail, an increase of 12.2% compared to 2011-12. This increase is mostly due to increased fixed track access charges as set out in PR08.

Infrastructure expenditure (Network Rail)

33. As shown in Table 1, Network Rail's expenditure¹⁵ was £6.0bn in 2012-13, a real terms increase of 2.3% compared to 2011-12 and decrease of 4.5% compared to 2010-11. The increase from 2011-12 is largely due to increased traction electricity costs and increased compensation payments to train operators for unplanned engineering work. The decrease compared to 2010-11 is mostly due to lower maintenance and financing costs.

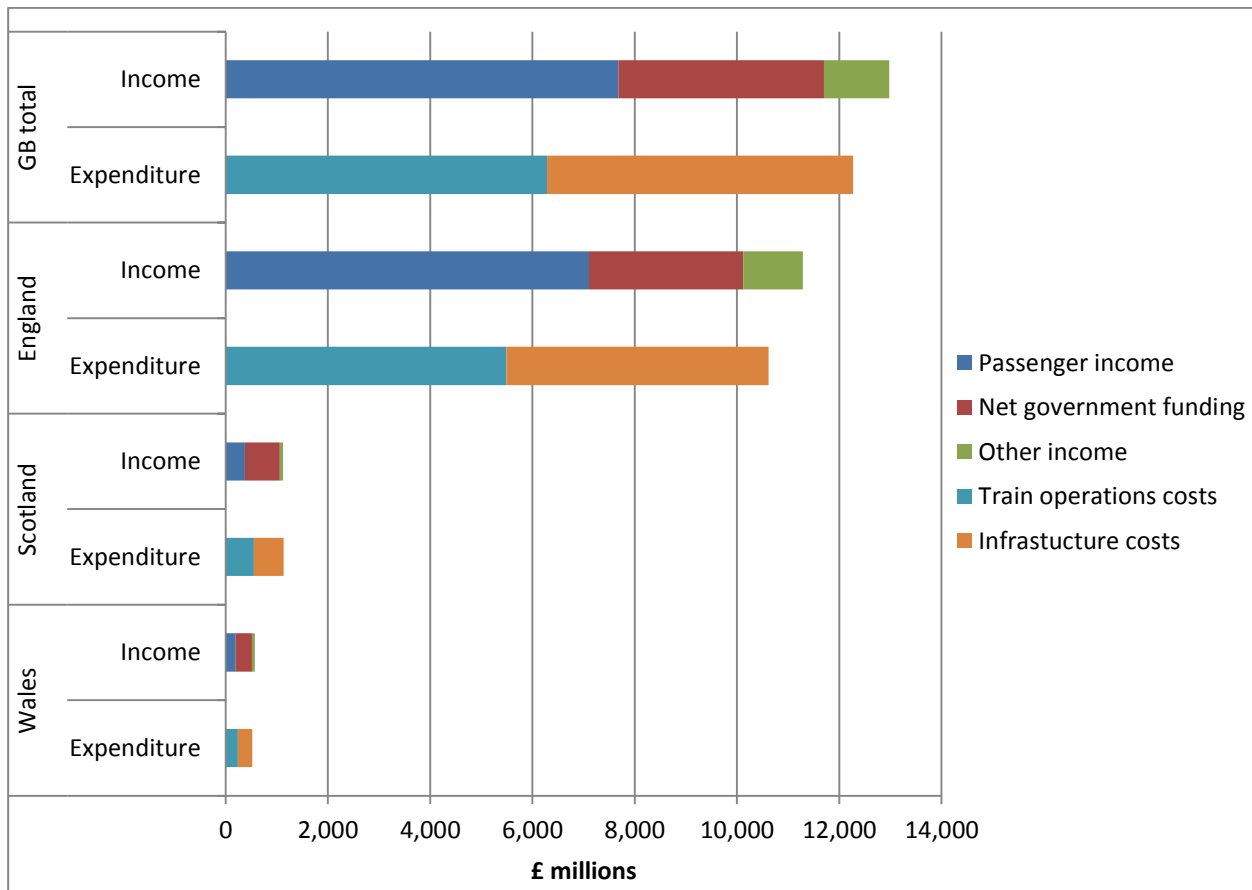
34. Average Network Rail expenditure was £0.19m per track kilometre. Using this measure, Network Rail's expenditure was highest in England (£0.21m per track kilometre) followed by Scotland (£0.14m per track kilometre) and Wales (£0.11m per track kilometre).

¹⁴ For example, rolling stock charges paid by Virgin Trains were £302m and those paid by East Coast were £53m. A key driver for this variance is likely to be the age and type of rolling stock used by these operators. The average age of Virgin rolling stock is 9 years and this fleet mostly comprises Class 390 Pendolinos. The average age of East Coast's fleet is 27 years and this fleet mostly comprises InterCity 225s (source: ORR Data Portal).

¹⁵ Our analysis also includes £14m of infrastructure expenditure by TfL on the core East London Line. For convenience, we generally only refer to Network Rail in this analysis.

35. Network Rail spent £4.8bn on capital projects (renewals and enhancements to the network) in 2012-13. This expenditure was £3.0bn greater than the £1.8bn of amortisation of capital expenditure that ORR included in its PR08 determination and has been included as capex amortisation / depreciation in our industry costs analysis¹⁶. This difference represents additional investment and was funded by Network Rail borrowing.

Figure 10: Comparison of income and expenditure for GB, England, Scotland and Wales



Structure of the report

36. Our objectives for this work are explained in Chapter 1. Financial information and analysis for the GB rail industry as a whole, and separately for England, Scotland and Wales is presented in Chapter 2. This information is then presented for each of Network Rail's ten regional operating routes in Chapter 3 and for each of the 19 franchised train operators in Chapter 4. The methodology underpinning our analysis is explained in Chapter 5. Supporting information is included as an annex to the report. Our analysis is also available in Excel format at

http://orr.gov.uk/_data/assets/excel_doc/0003/5673/industry-financials-2012-13.xls.

¹⁶ See Chapter 5 (Methodology) for an explanation of these differences. This variance is partly due to Network Rail re-phasing a significant amount of renewals and enhancements work from earlier to later years in CP4. Further information is available in our annual efficiency and finance assessment of Network Rail 2012-13: <http://orr.gov.uk/publications/reports/efficiency-and-finance-assessment>.

1. Introduction

Purpose of this report

1.1 We consider that there is a need for greater transparency about the rail industry's finances to strengthen accountability and to improve informed debate about the value for money of the industry for its funders, both passengers and governments. In its Rail 2020¹⁷ report, the Transport Select Committee fully endorsed this need for more transparency about the rail industry's finances. The UK Government is also seeking greater transparency in public services more generally and the Scottish Government is of the view that providing better information on public services will help to increase the usefulness of those services.

1.2 The complex structure of the British rail industry makes it difficult for stakeholders to understand the income, expenditure and government funding of the industry as a whole and we consider that transparency has a vital role to play in driving the behavioural changes necessary for rail industry reform. This third annual publication of Great Britain (GB) rail industry financial information¹⁸ aims to help address this need and to inform the debate about the industry's value for money for its funders, i.e. passengers and taxpayers.

1.3 The information presented within this report will help:

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

¹⁷ This is available at <http://www.parliament.uk/business/committees/committees-a-z/commons-select/transport-committee/inquiries/parliament-2010/rail-2020/>.

¹⁸ Our 2011-12 publication is available at <http://orr.gov.uk/publications/reports/gb-rail-industry-financial-information-2011-12>.

1.4 Our work provides a more comprehensive understanding of industry income and expenditure than has recently been available. It is the result of a collaborative effort by a number of organisations. We are particularly grateful to Network Rail, franchised train operating companies, the Rail Delivery Group (RDG), the Department for Transport (DfT), Transport Scotland, the Welsh Government, Transport for London (TfL) and Merseytravel¹⁹, without whose support this work would not have been possible.

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 operating companies, engineering companies and other suppliers). The primary focus of our analysis is Network Rail and franchise train operators.

1.6 Network Rail manages the rail infrastructure through regional operating routes whose geographies are shown in Figure 1.1. The operating routes are Anglia, East Midland, Kent, London North East (LNE), London North West (LNW), Scotland, Sussex, Wessex, Western and Wales. Network Rail is a not-for-dividend company which uses its profits to reinvest in the industry or pay down debt.

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



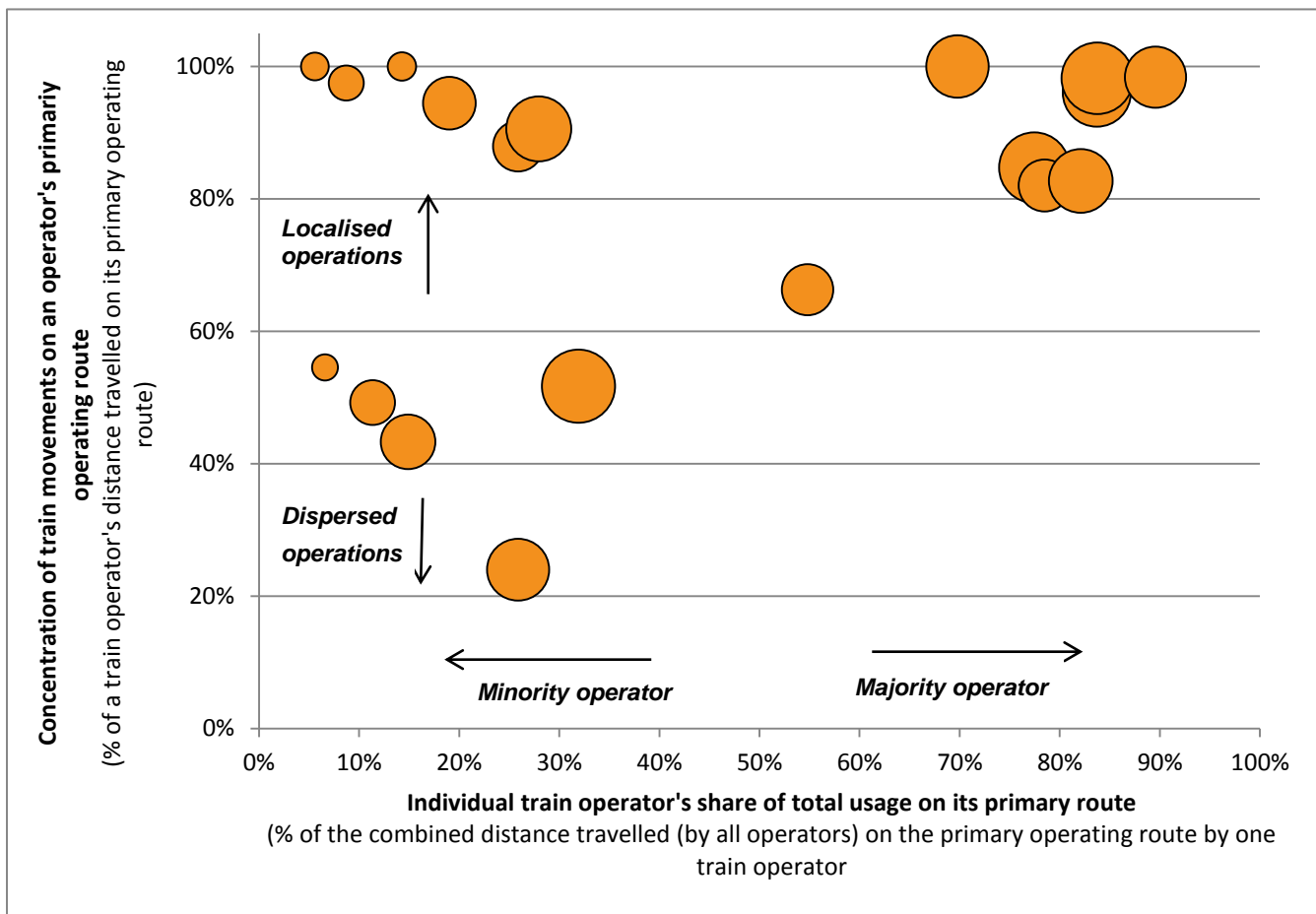
Source: Network Rail.

¹⁹ Merseytravel is the Merseyside passenger transport executive.

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

1.8 As shown in Figure 1.2, there are significant overlaps between the geographies of rail franchises, and between the geographies of rail franchises and regional operating routes. For example, five franchises make use of the central spine of the west coast mainline (West Coast, West Midlands, London Overground, ScotRail and Southern)²⁰. Taken together with the different sources of government funding, this structure significantly complicates understanding of the rail industry’s financial performance at a sub-GB level. Further details are available in Annex A.

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



Source: ORR analysis.

1.9 For these reasons there is 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 regional variances in infrastructure costs, whereas disaggregation by train operators is

²⁰ As another example, of the five train operators which travelled in excess of 2.5 million train kilometres on the London North East operating route (New Cross Country, East Coast Mainline, Northern Rail and First Capital Connect) only one (East Coast Mainline) did not travel at least this distance on at least one other operating route.

arguably more useful for understanding variances in industry income. Using a mixture of both is perhaps most useful for understanding some items such as government funding.

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

1.11 Our analysis is primarily focused on Network Rail and franchised passenger operators income and expenditure. However we recognise that whilst in financial terms freight and open access operators are smaller components of the industry than franchised passenger services, they are nonetheless an important component of the rail industry value chain and we provide a high-level analysis of their financial contribution in Chapter 5. Our analysis does not explicitly focus on components of the rail industry which are not directly involved in the provision of rail services, in particular engineering contractors, rolling stock operating companies and other financial institutions. Whilst the supply chain is important it is not directly involved in the provision of railway services to customers. Our analysis also excludes the Crossrail construction project which is currently underway but does not yet form part of the operational railway²¹.

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

Structure of the report

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

1.14 The methodology underpinning our analysis is explained in Chapter 5 (Methodology). Our analysis is also available in Excel format at http://www.orr.gov.uk/data/assets/excel_doc/0003/11946/gb-rail-industry-financials-2012-13.xls.

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

Care required in understanding and interpreting our analysis

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

²¹ Information about investment in the Crossrail construction project is available at <http://www.crossrail.co.uk/about-us/funding#>.

answer to this problem. The methods and data sources underpinning our analysis are explained in Chapter 5 (Methodology).

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

Feedback

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

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2. GB rail industry financial information disaggregated by country

2.1 GB rail industry financial information for 2012-13 is presented in this chapter, together with analysis for England, Scotland and Wales.

2.2 Our analysis shows that the cost of running the railway in 2012-13 was £12.3bn of which the majority (£10.6bn) was incurred in England, followed by £1.1bn in Scotland and £0.5bn in Wales. Government provided £4.0bn of funding. Passenger income was £7.7bn and other income (car parking, stations and property income etc.) was £1.3bn.

Table 2.1	Summary of industry income, expenditure and government funding in 2012-13
Table 2.2	Industry income in 2012-13
Table 2.3	Industry expenditure in 2012-13
Table 2.4	Government funding of the rail industry in 2012-13
Table 2.4a	Sources of government funding
Table 2.5	Industry income, expenditure and government funding in 2012-13 using a cash-based approach for Network Rail's capital expenditure ²²
Table 2.6	High level analysis of industry financial information in 2012-13

Table 2.1: Summary of industry income, expenditure and government funding in 2012-13

£m	GB total	England	Scotland	Wales
Industry income^a				
Passenger income	7,683	7,108	376	199
Other income	3,280	2,733	415	132
Less intra-industry income	-2,002	-1,570	-355	-78
	8,960	8,271	436	253
Industry expenditure^a				
Franchised train operators expenditure	8,288	7,061	909	317
Rail infrastructure expenditure	5,984	5,126	578	280
Less intra-industry expenditure	-2,002	-1,570	-355	-78
	12,269	10,617	1,133	519
Income less expenditure	-3,309	-2,346	-696	-266
Government funding^a	4,016	3,014	685	317
Surplus / (deficit)^b	707	668	-12	50

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

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

²² The approach adopted in Table 2.5 shows the amount of money that Network Rail spent on renewals and enhancements projects during the year rather than the depreciated expense (accruals based) approach shown in Table 2.1.

Table 2.2: Industry income in 2012-13

£m	GB total	England	Scotland	Wales
Franchised train operators				
Passenger income	7,683	7,108	376	199
Other	739	654	40	45
	8,422	7,762	416	243
Network Rail income				
Fixed charges	1,109	784	273	52
Variable charges	583	534	38	11
Other	849	761	64	24
	2,541	2,079	375	87
Less income from train operators	-2,002	-1,570	-355	-78
Total industry income	8,960	8,271	436	253

Table 2.3: Industry expenditure in 2012-13

£m	GB total	England	Scotland	Wales
Franchised train operators				
Staff costs	2,302	1,988	213	101
Fuel costs – diesel	387	322	39	25
Fuel costs – traction electricity (paid to NR)	233	215	17	1
Rolling stock charges	1,460	1,264	147	49
Network Rail charges	1,769	1,355	337	77
Other operating expenditure	2,063	1,854	148	60
Interest & exceptional expenditure/income	17	17	1	0
Corporation tax	57	46	6	4
	8,288	7,061	909	317
Infrastructure				
Controllable opex	939	804	84	51
Non-controllable opex	497	438	47	12
Maintenance ^a	1,013	872	89	52
Amortisation of capital expenditure	1,781	1,483	213	85
Financing costs	1,496	1,282	140	74
Corporation tax	0	0	0	0
Other	258	247	5	6
	5,984	5,126	578	280
Less: Network Rail income from franchised train operators (per NR)	-2,002	-1,570	-355	-78
Total industry expenditure	12,269	10,617	1,133	519

^a This includes £14m that TfL spent on maintaining the East London Line (ELL).

Table 2.4: Government funding of the rail industry in 2012-13

£m	GB total	England	Scotland	Wales
Franchised train operators (source: train operators) ^a				
Franchise payments to government	-1,939	-1,840	-37	-62
Franchise receipts from government	1,231	655	443	133
Profit sharing/other revenue support	746	714	7	24
	38	-471	414	96
Franchised train operators (source: government) ^a				
Franchise payments to government	-1,330	-1,287	-29	-15
Franchise receipts from government	920	512	290	118
	-410	-775	261	103
Infrastructure (Network Rail)				
Government grants	3,999	3,475	303	221
Rebates to government	-35	-3	-32	0
TfL (East London Line)	14	14	0	0
	3,978	3,486	271	221
Net government funding (source: train operators + Network Rail accounts) ^a				
	4,016	3,014	685	317
Net government funding (source: government + Network Rail accounts) ^a				
	3,567	2,711	532	324

Table 2.4a: Sources of government funding

Sources of government funding £m	Total	Train operators	Network Rail
Department for Transport ^b	2,834	-859	3,693
Transport Scotland	718	447	271
Welsh Government	131	131	0
Transport for London	97	83	14
PTEs and other ^b	235	235	0
	4,016	38	3,978

^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 government's financial statements.

^b This comprises Passenger Transport Executive (PTE) funding of Merseyrail (£75m) and Northern (£160m) which we are showing for the first time to increase transparency. Note that in previous publications we included PTE funding of Northern within the DfT line of this table.

Table 2.5: Industry income, expenditure and government funding in 2012-13 using a cash-based approach for Network Rail's capital expenditure²³

£m	GB total	England	Scotland	Wales
Industry income				
Passenger income	7,683	7,108	376	199
Other income	3,280	2,733	415	132
Less intra-industry income	-2,002	-1,570	-355	-78
	8,960	8,271	436	253
Industry expenditure				
Train operators	8,288	7,061	909	317
Network Rail non-capex expenditure	4,203	3,643	365	195
Network Rail capex - renewals	2,760	2,283	295	182
Network Rail capex – enhancements	2,046	1,931	105	10
Less intra-industry expenditure	-2,002	-1,570	-355	-78
	15,294	13,348	1,320	626
Income less expenditure (cash basis)	-6,334	-5,077	-883	-373
Government funding	4,016	3,014	685	317
Income less expenditure including net government funding (cash basis)	-2,318	-2,063	-199	-57

²³ This approach shows the actual amount of money that Network Rail spent during the year. Table 2.1 presents the information consistent with the accruals-based accounting approach recognising the cost of an asset over its useful life.

Table 2.6: High level analysis of industry financial information in 2012-13

	GB total	England	Scotland	Wales
Government funding				
Share of government funding (%)	n/a	75.1%	17.0%	7.9%
Government funding / total income (%)	30.9%	26.7%	61.1%	55.6%
Government funding per passenger journey (£)	2.67	2.19	7.60	9.33
Government funding per passenger km travelled (£)	0.07	0.06	0.17	0.19
Passenger income				
Passenger income / total income (%)	59.2%	63.0%	33.5%	34.9%
Passenger income per passenger journey (£)	5.12	5.16	4.17	5.85
Passenger income per passenger km travelled (£)	0.13	0.14	0.09	0.12
Industry expenditure				
Industry expenditure per train km travelled (£)	24.17	24.70	21.32	21.11
Industry expenditure per passenger km travelled (£)	0.21	0.20	0.28	0.32
Train operator expenditure per passenger km travelled (£)	0.11	0.11	0.14	0.15
Network Rail expenditure per train km travelled (£)	11.79	11.92	10.88	11.38
Network Rail expenditure per passenger km travelled (£)	0.10	0.10	0.14	0.17
Train operator share of total costs (%)	51.2%	51.7%	49.0%	46.1%
Income / expenditure				
Passenger income / industry expenditure (%)	62.6%	67.0%	33.2%	38.2%
Income (excl. gov funding) less expenditure per passenger journey (£)	-2.20	-1.70	-7.73	-7.85
Income (excl. gov funding) less expenditure per passenger km (£)	-0.06	-0.04	-0.17	-0.16

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

3.1 Our analysis of rail industry financial information for 2012-13 is presented separately for each of Network Rail's ten regional operating routes in this chapter.

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

Table 3.1	Summary of industry income, expenditure and government funding in 2012-13 by regional operating route
Table 3.2	Industry income in 2012-13 by regional operating route
Table 3.3	Industry expenditure in 2012-13 by regional operating route
Table 3.4	Government funding of the rail industry in 2012-13 by regional operating route
Table 3.5	Industry income, expenditure and government funding in 2012-13 using a cash-based approach for Network Rail's capital expenditure by regional operating route ²⁴
Table 3.6	High level analysis of industry financial information in 2012-13

²⁴ This approach shows the actual amount of money that Network Rail spent 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.

Table 3.1: Summary of industry income, expenditure and government funding in 2012-13 by regional operating route

£m	Operating route										Total
	Anglia	Kent ^c	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	
Industry income ^a											
Passenger income	919	712	1,085	1,618	466	649	917	743	199	376	7,683
Other income	296	266	467	702	174	238	285	304	132	415	3,280
Less intra-industry income	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
	1,063	809	1,290	1,889	542	761	1,023	894	253	436	8,960
Industry expenditure ^a											
Train operators	768	816	1,151	1,909	404	582	715	717	317	909	8,288
Infrastructure	601	438	911	1,417	303	414	536	505	280	578	5,984
Less intra-industry expenditure	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
	1,216	1,085	1,801	2,895	608	871	1,072	1,069	519	1,133	12,269
Income less expenditure	-154	-277	-511	-1,007	-65	-109	-49	-175	-266	-696	-3,309
Government funding ^a	190	360	598	1,246	211	98	24	287	317	685	4,016
Surplus ^b	37	84	87	239	146	-11	-25	112	50	-12	707

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

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

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

Table 3.2: Industry income in 2012-13 by regional 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	919	712	1,085	1,618	466	649	917	743	199	376	7,683
Other	56	59	126	159	50	67	69	67	45	40	739
	975	771	1,210	1,777	517	716	986	810	243	416	8,422
Infrastructure (Network Rail)											
Fixed charges	69	65	147	233	57	48	72	93	52	273	1,109
Variable charges	64	53	77	144	41	52	55	48	11	38	583
Other	107	89	117	166	26	71	89	96	24	64	849
	240	207	341	543	124	171	216	237	87	375	2,541
Less income from train operators	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
Total industry income	1,063	809	1,290	1,889	542	761	1,023	894	253	436	8,960

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

Table 3.3: Industry expenditure in 2012-13 by regional operating route

£m	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators											
Staff costs	211	190	334	512	104	187	228	222	101	213	2,302
Fuel costs – diesel	47	0	71	87	32	1	16	68	25	39	387
Fuel costs – traction electricity (paid to NR)	36	32	31	53	7	28	28	1	1	17	233
Rolling stock charges	178	111	165	450	55	82	126	96	49	147	1,460
Network Rail charges	116	137	231	378	91	98	151	151	77	337	1,769
Other operating expenditure	177	339	304	416	107	181	159	171	60	148	2,063
Interest and exceptional expenditure / (income)	0	4	2	-2	4	0	0	10	0	1	17
Corporation tax	3	3	13	16	3	5	6	-2	4	6	57
	768	816	1,151	1,909	404	582	715	717	317	909	8,288
Infrastructure (Network Rail)											
Controllable opex	93	68	158	228	45	66	73	73	51	84	939
Non controllable opex	64	50	69	113	20	44	57	21	12	47	497
Maintenance ^b	116	74	153	262	52	51	77	87	52	89	1,013
Amortisation of capital expenditure	167	123	254	403	94	123	162	156	85	213	1,781
Financing costs	144	106	220	349	81	106	140	135	74	140	1,496
Corporation tax	0	0	0	0	0	0	0	0	0	0	0
Other	17	17	57	62	10	24	27	33	6	5	258
	601	438	911	1,417	303	414	536	505	280	578	5,984
Less: Network Rail income from franchised train operators (per NR)	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
Total industry expenditure	1,216	1,085	1,801	2,895	608	871	1,072	1,069	519	1,133	12,269

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

^b This includes £14m that TfL spent on maintaining the East London Line (ELL).

Table 3.4: Government funding of the rail industry in 2012-13 by regional operating route

£m	Operating route										Total
	Anglia	Kent ^b	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	
Franchised train operators (source: train operators) ^a											
Franchise payments to government	-200	-20	-318	-157	-151	-159	-452	-383	-62	-37	-1,939
Franchise receipts from government	44	24	199	360	3	20	0	4	133	443	1,231
Profit sharing / other revenue support	31	64	52	47	109	12	152	247	24	7	746
	-125	69	-67	250	-40	-127	-300	-133	96	414	38
Franchised train operators (source: government) ^a											
Franchise payments to government	-170	-24	-252	-92	-54	-210	-339	-145	-15	-29	-1,330
Franchise receipts from government	28	83	104	269	6	13	1	8	118	290	920
	-143	59	-148	177	-49	-197	-337	137	103	261	-410
Network Rail											
Government grant to NR	302	291	665	996	251	225	325	420	221	303	3,999
Less Network Rail rebates to Government	0	0	0	-1	0	0	0	0	0	-32	-35
TfL East London Line	14	0	0	0	0	0	0	0	0	0	14
	315	291	665	995	251	225	325	420	221	271	3,978
Net government funding (source: train operators + NR accounts) ^a	190	360	598	1,246	211	98	24	287	317	685	4,016
Net government funding (source: government + NR accounts) ^a	173	350	516	1,172	202	28	-13	283	324	532	3,567

^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 government's financial statements.

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

Table 3.5: Industry income and expenditure in 2012-13 using a cash-based approach for Network Rail's capital expenditure by regional operating route

£m	Operating route										Total
	Anglia	Kent ^a	London North East	London North West	East Midland	Sussex	Wessex	Western	Wales	Scotland	
Industry income											
Passenger income	919	712	1,085	1,618	466	649	917	743	199	376	7,683
Other income	296	266	467	702	174	238	285	304	132	415	3,280
Less intra-industry income	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
	1,063	809	1,290	1,889	542	761	1,023	894	253	436	8,960
Industry expenditure											
Train operators expenditure	768	816	1,151	1,909	404	582	715	717	317	909	8,288
Network Rail non-capex expenditure	434	315	657	1,014	208	291	374	349	195	365	4,203
Network Rail capex - renewals	218	160	445	603	216	156	198	287	182	295	2,760
Network Rail capex - enhancements	51	419	291	343	121	106	112	488	10	105	2,046
Less intra-industry expenditure	-152	-169	-262	-431	-99	-126	-179	-152	-78	-355	-2,002
	1,318	1,541	2,282	3,438	851	1,010	1,220	1,688	626	1,320	15,294
Income less expenditure (cash basis)	-256	-733	-992	-1,549	-308	-248	-197	-794	-373	-883	-6,334
Government funding	190	360	598	1,246	211	98	24	287	317	685	4,016
Surplus / (deficit) (cash basis)	-65	-373	-394	-304	-97	-150	-172	-507	-57	-199	-2,318

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

Table 3.6: High level analysis of industry financial information in 2012-13

	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 (%)	4.7%	9.0%	14.9%	31.0%	5.3%	2.4%	0.6%	7.1%	7.9%	17.0%	100.0%
Gov. funding / total income (%)	15.2%	30.8%	31.7%	39.7%	28.0%	11.4%	2.3%	24.3%	55.6%	61.1%	30.9%
Gov. funding per pass. journey (£)	0.79	1.91	4.46	5.08	4.04	0.51	0.11	3.01	9.33	7.60	2.67
Gov. funding per pass. km (£)	0.03	0.08	0.07	0.10	0.07	0.02	0.00	0.05	0.19	0.17	0.07
Passenger income											
Pass. income per pass. journey (£)	3.83	3.78	8.08	6.60	8.92	3.37	3.99	7.79	5.85	4.17	5.12
Pass. income per passenger km (£)	0.15	0.15	0.12	0.13	0.15	0.14	0.14	0.13	0.12	0.09	0.13
Industry expenditure											
Industry exp. per train km (£)	24.46	30.58	24.51	24.84	22.35	24.51	22.89	23.71	21.11	21.32	24.17
Industry exp. per pass. km (£)	0.20	0.23	0.20	0.23	0.20	0.19	0.16	0.18	0.32	0.28	0.21
Train operator exp. per pass. km (£)	0.10	0.14	0.10	0.12	0.10	0.10	0.08	0.10	0.15	0.14	0.11
Network Rail exp. per train km (£)	12.08	12.35	12.40	12.16	11.13	11.67	11.45	11.20	11.38	10.88	11.79
Network Rail exp. per pass. km (£)	0.10	0.09	0.10	0.11	0.10	0.09	0.08	0.09	0.17	0.14	0.10
Train operator share of total costs (%)	50.6%	59.6%	49.4%	51.0%	50.2%	52.4%	50.0%	52.8%	46.1%	49.0%	51.2%
Income / expenditure											
Pass. income / industry exp. (%)	75.6%	65.6%	60.2%	55.9%	76.7%	74.6%	85.5%	69.4%	38.2%	33.2%	62.6%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.64	-1.47	-3.81	-4.11	-1.25	-0.57	-0.21	-1.83	-7.85	-7.73	-2.20
Income (excl. gov funding) less expenditure per pass. km (£)	-0.03	-0.06	-0.06	-0.08	-0.02	-0.02	-0.01	-0.03	-0.16	-0.17	-0.06

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

4. GB rail industry financial information disaggregated by train operator

4.1 Our analysis of rail industry financial information for 2012-13 is presented separately for each of the 19 train operators in this chapter.

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

4.3 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 which are more controllable by train operators such as staff salaries. There are also other costs which 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 operate²⁵. 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 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 4.1	Industry income, expenditure and government funding
Table 4.2	High level analysis of industry financial information in 2012-13
Table 4.3	High level analysis of industry financial information in 2012-13 by train operator

²⁵ For example rolling stock charges paid by Virgin Trains were £302m and those paid by East Coast were £53m. A key driver for this variance is likely to be the age and type of rolling stock used by these operators. The average age of Virgin rolling stock is 9 years and this fleet mostly comprises Class 390 Pendolinos. The average age of East Coast's fleet is 27 years and this fleet mostly comprises InterCity 225s (source: ORR Data Portal).

Table 4.1: Summary of industry income, expenditure and government funding in 2012-13 by train operator

£m	Source	Train operator																			Total
		c2c Rail	Chiltern	New Cross Country	East Coast	East Midlands	Abellio Greater Anglia	First Great Western	Northern Rail	South-eastern ^a	Southern	South West Trains	First Capital Connect	First Pennine Express	Trans Wales	Arriva Trains	Virgin Trains	London Midland	LOROL	Merseyrail	
Franchised Train operators																					
Passenger income	1	134	145	415	612	305	584	782	219	635	633	843	513	178	116	851	252	125	46	297	7,683
Franchise receipts from government	1	0	0	21	0	11	0	0	312	86	0	0	0	52	131	0	59	83	75	447	1,279
Other ^b	1	4	15	7	75	42	33	78	54	50	67	64	46	13	46	45	38	13	16	34	739
Franchised train operator income	3	138	159	443	687	358	617	860	586	771	700	906	558	243	293	896	348	221	136	779	9,701
Staff costs	1	30	44	84	129	84	131	232	208	172	178	196	119	52	92	150	109	63	50	181	2,302
Fuel costs (diesel) ^b	1	7	12	35	30	40	36	71	36	0	0	9	0	20	22	26	10	1	0	31	387
Fuel costs (traction electricity paid to NR)	2	6	0	0	20	0	27	0	4	29	28	26	25	0	0	37	13	3	4	12	233
Rolling stock charges	1	24	20	147	53	28	134	68	55	104	81	109	55	62	40	302	43	17	12	105	1,460
Franchise payments to government	1	19	6	0	203	0	138	165	0	0	141	283	182	0	0	104	0	0	0	0	1,241
Corporation tax	1	2	0	0	7	4	0	-3	6	2	5	6	2	4	5	6	0	2	4	5	57
Other (including Network Rail charges)	1	44	82	164	247	193	153	335	242	456	255	261	167	91	120	251	174	130	54	430	3,849
Franchised train operator expenditure	3	131	163	429	689	348	618	869	552	764	687	890	550	229	279	877	349	216	124	764	9,529
Franchised train operator inc less exp^c	3	7	-3	14	-2	10	-1	-9	34	7	13	16	8	14	14	19	-1	5	12	15	172
Network Rail																					
Franchised train operator access charges	2	19	34	95	96	70	100	125	104	110	98	109	73	36	60	165	66	9	13	297	1,679
Net government grant	3	42	89	278	187	201	213	385	401	262	231	278	213	145	208	298	202	55	56	234	3,978
Other	3	13	16	38	37	40	41	66	70	82	65	90	46	24	36	54	48	11	10	76	862
Network Rail income	3	75	138	411	319	311	354	576	576	454	394	477	333	205	304	517	317	74	78	607	6,519
Network Rail expenditure	3	82	126	381	265	258	414	478	559	395	411	457	301	206	269	434	286	87	79	495	5,984
Network Rail income less expenditure^c	3	-7	12	30	54	52	-60	98	17	58	-18	20	32	-2	35	83	31	-13	-1	112	535
Total industry income^d	3	213	297	854	1,006	669	971	1,437	1,162	1,225	1,094	1,383	891	447	598	1,413	665	295	215	1,386	16,219
Total industry expenditure^d	3	213	289	810	954	606	1,031	1,347	1,111	1,159	1,099	1,347	852	435	548	1,311	635	303	203	1,259	15,513
Industry income less expenditure^c	3	0	9	44	52	63	-61	89	51	66	-5	36	40	12	49	102	30	-8	11	127	707
Less net government funding ^e	3	-24	-83	-300	16	-212	-75	-219	-713	-348	-90	5	-31	-197	-340	-194	-262	-138	-131	-682	-4,016
Industry income less expenditure excl. government funding^c	3	-24	-74	-255	68	-150	-136	-130	-663	-282	-95	41	9	-185	-290	-92	-232	-145	-119	-555	-3,309
Dividends paid by train operator	3	8	0	0	0	0	0	0	36	9	12	18	10	21	16	40	0	9	15	12	204

Source: (1) train operators' mgt accounts; (2) Network Rail's regulatory financial statements; and (3) ORR analysis. As explained in para 4.3 there are many reasons for variances between costs/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.

^b Some train operators have indicated that the fuel costs (diesel) and Other (income) may in some cases include the additional cost/revenue from fuel sold to other operators.

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

^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.

Table 4.2: Government Premium / Funding in 2012-13 by train operator

£m	Train operator																			Total
	c2c Rail	Chiltern	New Cross Country	East Coast	East Midlands	Abellio Greater Anglia	First Great Western	Northern Rail	South-eastern ^b	Southern	South West Trains	First Capital Connect	Trans Pennine Express	Arriva Trains Wales	Virgin Trains	London Midland	LOROL	Merseyrail	First Scotrail	
Franchised train operators (source: train operators)^a																				
Franchise payments to government	-19	-6	-66	-203	-114	-156	-435	0	0	-141	-412	-228	0	-28	-131	0	0	0	0	-1,939
Franchise receipts from government	0	0	0	0	0	0	0	329	22	0	0	0	57	159	0	59	83	74	447	1,231
Franchise profit sharing and other revenue support	0	0	87	0	125	18	270	-17	64	0	129	46	-5	0	28	0	0	1	0	746
	-19	-6	21	-203	11	-138	-165	312	86	-141	-283	-182	52	131	-104	59	83	75	447	38
Franchised train operators (source: government)^a																				
Franchise payments to government	-18	0	0	-191	0	-139	-169	0	0	-215	-315	-187	0	0	-97	0	0	0	0	-1,330
Franchise receipts from government	0	7	21	0	2	0	0	152	82	0	0	0	41	140	0	57	51	76	291	920
	-18	7	21	-191	2	-139	-169	152	82	-215	-315	-187	41	140	-97	57	51	76	291	-410
Rail infrastructure																				
Government grant to Network Rail	42	89	280	188	202	213	385	401	262	231	278	213	146	208	300	202	41	56	261	3,999
Less Network Rail rebates to government	0	0	-1	-2	0	0	0	0	0	0	0	0	-1	0	-2	0	0	0	-27	-35
TfL East London Line	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14	0	0	14
	42	89	278	187	201	213	385	401	262	231	278	213	145	208	298	202	55	56	234	3,978
Total government funding (source: train operators + NR accounts)^a	24	83	300	-16	212	75	219	713	348	90	-5	31	197	340	194	262	138	131	682	4,016
Total government funding (source: government + NR accounts)^a	25	95	299	-4	204	74	215	553	344	15	-36	26	186	349	201	260	106	131	525	3,567

As explained in paragraph 4.3 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 government's financial statements.

^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.

Table 4.3: High level analysis of industry financial information in 2012-13 by train operator

£m	Train operator																			Total
	c2c Rail	Chiltern	New Cross Country	East Coast	East Midlands	Abellio Greater Anglia	First Great Western	Northern Rail	South-eastern ^a	Southern	South West Trains	First Capital Connect	Trans Pennine Express	Arriva Trains Wales	Virgin Trains	London Midland	LOROL	Merseyrail	First Scotrail	
Government funding																				
Share of government funding	0.6%	2.1%	7.5%	-0.4%	5.3%	1.9%	5.4%	17.7%	8.7%	2.2%	-0.1%	0.8%	4.9%	8.5%	4.8%	6.5%	3.4%	3.3%	17.0%	100%
Funding / total income	14.0%	32.6%	39.6%	-2.3%	36.4%	10.3%	19.5%	68.9%	32.6%	10.8%	-0.5%	5.0%	48.6%	64.5%	17.2%	45.4%	48.5%	65.8%	64.2%	30.9%
Funding per pass. journey (£)	0.63	3.86	8.98	-0.85	8.82	0.59	2.25	7.94	2.05	0.52	-0.02	0.29	7.92	11.72	6.39	4.32	1.10	3.13	8.19	2.67
Funding per pass. km (£)	0.02	0.07	0.09	0.00	0.09	0.02	0.04	0.34	0.08	0.02	0.00	0.01	0.12	0.29	0.03	0.12	0.18	0.21	0.25	0.07
Passenger income																				
Per pass. journey (£)	3.58	6.77	12.43	32.11	12.67	4.62	8.03	2.44	3.75	3.69	4.00	4.82	7.13	3.99	28.02	4.16	1.00	1.09	3.57	5.12
Per passenger km (£)	0.13	0.13	0.13	0.12	0.14	0.14	0.13	0.10	0.15	0.14	0.15	0.14	0.11	0.10	0.14	0.11	0.16	0.07	0.11	0.13
Industry expenditure																				
Industry exp. per train km (£)	24.95	23.57	21.88	29.62	23.24	23.24	24.37	21.63	31.25	23.69	22.74	22.78	23.23	20.41	28.47	23.14	38.15	28.77	20.58	24.17
Industry exp. per pass. km (£)	0.17	0.22	0.22	0.13	0.23	0.19	0.18	0.46	0.24	0.19	0.16	0.16	0.25	0.41	0.17	0.24	0.37	0.31	0.34	0.21
Train operator exp. per pass. km (£)	0.09	0.10	0.10	0.08	0.12	0.09	0.10	0.20	0.14	0.10	0.08	0.08	0.12	0.18	0.10	0.12	0.26	0.18	0.16	0.11
Network Rail exp. per pass. km (£)	0.08	0.11	0.12	0.05	0.11	0.10	0.08	0.26	0.09	0.09	0.08	0.08	0.13	0.23	0.07	0.13	0.11	0.13	0.18	0.10
Train operator share of total costs (%)	51.2%	48.5%	46.5%	58.7%	50.4%	47.6%	53.9%	43.2%	60.5%	50.6%	49.7%	47.8%	47.5%	43.6%	57.7%	47.7%	70.1%	57.7%	47.0%	51.2%
Income / expenditure																				
Pass. income / industry exp. (%)	79.4%	59.2%	58.2%	95.4%	58.6%	74.0%	75.5%	22.3%	63.4%	76.1%	92.8%	88.9%	45.2%	24.3%	82.9%	46.1%	43.2%	24.3%	31.8%	62.6%
Income (excl. gov funding) less expenditure per pass. journey (£)	-0.63	-3.45	-7.66	3.58	-6.22	-1.07	-1.34	-7.38	-1.67	-0.55	0.19	0.08	-7.42	-10.01	-3.03	-3.83	-1.16	-2.86	-6.67	-2.20
Income (excl. gov funding) less expenditure per pass. km (£)	-0.02	-0.07	-0.08	0.01	-0.07	-0.03	-0.02	-0.31	-0.07	-0.02	0.01	0.00	-0.12	-0.25	-0.02	-0.10	-0.19	-0.20	-0.20	-0.06

As explained in paragraph 4.3 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.

5. Methodology

Source data

Rail infrastructure financial data

5.1 Network Rail publishes both statutory and regulatory financial statements for each financial year running 1 April to 31 March. The format of the regulatory financial statements is prescribed by ORR and includes comprehensive information about the company's income and expenditure²⁶. The regulatory financial statements have been disaggregated between England & Wales and Scotland since 2006-07 and since 2011-12 include statements on income and expenditure for each regional operating route.

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

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

Franchised train operators financial data

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

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

- (a) train operators statutory financial statements have various financial year-ends complicating comparisons across consistent time periods²⁷;

²⁶ Our regulatory accounting guidelines for Network Rail are available at: <http://orr.gov.uk/publications/guidance/regulatory-accounts>.

²⁷ Of a randomly selected sample of eleven train operator financial statements downloaded from the Companies House website, two had year-ends in December, one in January, six in March and two in May.

(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)²⁸; and

(c) differences in accounting policies may result in differences to reported income and expenditure. This is not expected to have a significant impact due to the similar nature of train operators' businesses and our understanding of the similar accounting policies that are applied within the industry²⁹.

5.6 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 the problems noted above for the purposes of our analysis. In particular:

(a) four-weekly management accounts can be collated over consistent twelve month periods, thereby avoiding the problem of different year-ends; and

(b) the formats of management accounts provided to franchising authorities are largely standardised and include detailed information about income and expenditure.

5.7 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

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

(a) at the **national level** for Great Britain in total and separately for England, Scotland and Wales;

(b) at a **regional level**, for example, separately for each of Network Rail's regional operating routes;

(c) at the **passenger service level**, for example, separately for each franchise train operator, or in aggregate for similar types of passenger services (such as for long distance or regional operators); and

(d) at a greater level of granularity, for example for individual train journeys.

5.9 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, regionally 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 revenues. Using both is useful for understanding some items such as government funding.

5.10 In order to best achieve our objectives for this work³⁰ we have chosen to present financial information separately at a national, regional operating route and franchise level within this report³¹.

²⁸ For example, of the sample of eleven train operator financial statements, three did not disclose information about franchise payments to or from government. Within expenditure, non-staff operating costs were presented in five separate formats with different levels of detail.

²⁹ For example, of the sample of eleven train operator financial statements, all reported under UK Generally Accepted Accounting Principles ('UK GAAP'), used the same operating lease approach for train financing and had similar depreciation policies and asset lives for similar asset types.

³⁰ These objectives are set out in Chapter 1 (Introduction).

³¹ Publishing information in this way is similar to the requirements of International Financial Reporting Standard (IFRS) 8 *Operating Segments*. IFRS 8 requires companies to segmentally report certain profit and loss and balance sheet items by geographical area and by business activity.

5.11 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 regional analysis – basis of disaggregation

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

Network Rail financial information

5.13 The majority of Network Rail's regionally disaggregated financial information included within our analysis has been taken from Network Rail's 2012-13 regulatory financial statements. To prepare this information, Network Rail classified income and expenditure into three categories dependent on how the items are managed:

(a) directly attributed - route managed. Income and expenditure in this category is currently managed at route level, e.g. signallers. As there is alignment between management responsibility and route, such items can be directly attributed to an individual operating route;

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

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

5.14 Our analysis includes some items of expenditure (depreciation/amortisation, financing costs, corporation tax and rebates) that Network Rail has reported separately for England & Wales, and Scotland but not separately between England & Wales operating routes. Within our analysis these items have been allocated between England & Wales operating routes in proportion to train kilometres travelled within each operating route. This is considered the most appropriate approach for allocating these items based on currently available information. It is consistent with Network Rail's approach for allocating network wide costs, our approach for allocating train operators' expenditure³² and our approach in previous years³².

Franchised train operators' financial information

5.15 As explained in Chapter 1 (Introduction) there are significant overlaps between the geographies of rail franchises, between the geographies of rail franchises and regional operating routes, and between the

³² We have previously investigated the accuracy of using train kilometres for allocating financing costs for the Scotland operating route. We have found that using train kilometres travelled for allocating financing costs resulted in an allocation which was £3m (2%) lower than Network Rail's actual attribution for Scotland. This is considered sufficiently accurate for the purpose of our analysis.

geographies of rail franchises and countries. These overlaps significantly complicate any analysis of franchised train operators' income and expenditure between regional operating routes and between countries. Our methodology for allocating train operators' income and expenditure is explained below.

5.16 Train operators' expenditure has been allocated between regional operating routes, and between countries in proportion to train distance travelled in each operating route in 2012-13³³. This is considered a reasonable approach for allocating expenditure across operating routes as the majority of train operators' expenditure (staff, rolling stock, fuel and maintenance costs) is expected to vary closely with train distance travelled. It also seems a reasonable approach for allocating centrally incurred train operator overheads and franchise payments to and from government.

5.17 We have allocated train operators' income between operating routes / countries using revenue information from the rail industry's central ticketing system, LENNON³⁴. As explained in previous publications, we consider that this provides a better allocation of income than using train distance travelled.

Analysis of regulated and unregulated passenger income

5.18 The analysis of regulated and unregulated passenger income presented in Figures 6 and 7 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.

5.19 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 with the approach that we have used. Firstly, the underlying LENNON income data was only available for the calendar year January to December 2012 whereas the rest of our analysis is for the period April 2012 to March 2013³⁵. Also, there are limitations to the number of ticket types that are captured in LENNON so some revenues may be excluded (for example, where a ticket covers more than one mode of transport). 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 – basis of disaggregation

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

³³ This information was provided to us by Network Rail and is considered the most appropriate currently available to the industry. Network Rail has identified some issues relating to route boundaries which it is currently improving. However, these are likely to have only a minor effect on our analysis.

³⁴ 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.

³⁵ Our analysis of regulated and unregulated passenger income data was done on a calendar year basis as per the source data.

Franchised train operators' financial information

5.21 As explained earlier in this chapter, the train operator financial information included within our analysis has been taken from train operator's cumulative management accounting submissions to government for the period 1 April 2012 to 31 March 2013.

5.22 As shown in Table 2.4, 3.4 and 4.2, there are differences in the amounts of government funding recognised in train operators' and government's 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 government's financial statements. These differences can be quite large in any one year for some train operators.

5.23 The operating model for London Overground is different to that used by other train operators. Instead of franchising the services out, Rail for London (RfL), a subsidiary of TfL, has entered into a concession agreement with London Overground Rail Operations Limited ('London Overground') to run services. This operating contract means that RfL retains risk on revenue, and reports the passenger income, whilst leaving the train operator to manage performance of the service. 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, London Overground 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

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

5.25 We have investigated using alternative approaches to allocate Network Rail's expenditure to franchises, for example, in proportion to fixed track access charges paid by franchise operators. As explained in our PR2008 determination³⁶, England & Wales franchised train operators pay fixed track access charges on the basis of timetabled vehicle miles by region. Network Rail assign forecast maintenance and renewals expenditure on the basis of timetabled vehicle miles. Common costs such as British Transport Police were allocated to franchise operators at a national level. However, a different approach was adopted for Scotland because only ScotRail pays fixed track access charges in relation to these costs in Scotland.

³⁶ This is available at http://orr.gov.uk/data/assets/pdf_file/0011/2180/383.pdf.

5.26 Given the amount of detailed work that Network Rail has undertaken over the past three years to attribute its costs at a regional level as part of its devolution to regional business units³⁷ we consider that allocating Network Rail's regional expenditure in proportion to train distance travelled by each franchise operator in each operating route provides the best allocation that is currently practicable for the purposes of this report.

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

5.27 The majority of Network Rail's renewals and enhancements expenditure is capitalised and amortised (or depreciated) over the life of the assets for regulatory and statutory financial reporting purposes. Network Rail's amortisation in our PR08 determination is based on the long-run annual average investment expenditure that is required in order to maintain the network in a steady state³⁸.

5.28 Network Rail's expenditure presented in Tables 1, 2.1, 2.3, 3.1, 3.3 and 4.1 includes the annual depreciation / amortisation charge for capital expenditure taken from Network Rail's regulatory financial statements³⁹, rather than the amount of cash spent on these renewals and enhancements projects. This is consistent with the accruals-based accounting approach to recognise the cost of an asset over its useful life. However, 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 2.5 and 3.5.

Adjustments to determine industry income and expenditure

5.29 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.

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

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

³⁷ See <http://www.networkrail.co.uk/devolution.aspx> for further details.

³⁸ See Chapter 15 of our PR08 determination for further details.

³⁹ Our regulatory approach for calculating the amortisation of capital expenditure is explained in Chapter 15 of the PR08 determination.

Industry surplus / (deficit)

5.32 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 statutory profits due to statutory financial reporting adjustments for the treatment of deferred tax, pension schemes, derivative fair values, dividends etc. There are also timing differences between Network Rail's revenue and expenditure due to its ability to phase the timing of its expenditure differently within a control period compared to the assumption in our periodic review.

Freight and open access operations

5.33 To improve transparency about the finances of the whole rail industry, we have also undertaken a limited analysis using the most recently available statutory financial statements, to estimate the income and expenditure of freight and open access train operators.

Table 5.1: 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)	90	85	-2	3
Colas Rail ^a (part of the Colas Group)	151	147	-1	3
DB Schenker ^a (part of Deutsche Bahn AG)	429	429	10	10
Mendip ^a	21	21	0	0
Direct Rail Services ^b (part of the Nuclear Decommissioning Authority)	60	56	-2	2
Freightliner ^b (part of the Freightliner Group)	181	173	-2	6
	932	911	3	24
Open access operators²				
Grand Central ^a (part of Deutsche Bahn)	27	27	0	0
Heathrow Express ^a (part of Heathrow Airport Holdings)	65	60	-1	5
First Hull Trains ^b (part of First Group)	23	22	1	0
	115	109	0	5
Open access operators (international)				
Eurostar ^a (owned by SNCF & LCR & NMBS/SNCB ^c)	829	777	38	91

^a Year ended 31 December 2012.

^b Year ended 31 March 2013.

^c Société Nationale des Chemins de fer Français & London and Continental Railways & Nationale Maatschappij der Belgische Spoorwegen / Société nationale des chemins de fer belges.

¹ Freight operators paid £54m of access charges to Network Rail in 2012-13 (source: Network Rail).

² Open access operators paid £23m of access charges to Network Rail in 2012-13 (source: Network Rail).

5.34 Care is required in using this analysis due to some freight operator financial statements including non-GB freight specific business activities. For example, Colas Rail's business includes the provision of rail maintenance machinery (so called yellow plant), so Table 5.1 overstates Colas Rail's income and costs from freight by the same amount. Similarly, we understand that GB Rail Freight's income and costs include

the company's Eurotunnel activities and that some of DB Schenker's freight activities are managed and reported under different legal entities. Table 5.1 has also not been adjusted for the different accounting periods covered in these companies' financial statements.

5.35 As explained in Chapter 1 (Introduction), our analysis for the industry (in Chapters 2 to 4) does not include freight and open access train operators' income and expenditure as, financially, these are smaller components of the industry than franchised train operators, information is less readily available for freight and open access train operators and there is a lower need for public accountability as they are not direct recipients of government support.

5.36 Our analysis includes Network Rail's income from freight (£54m) and open access operations (£23m) in 2012-13⁴⁰. Our analysis also includes, but does not separately identify, Network Rail's costs incurred from freight and open access operations so as not to overly complicate our analysis⁴¹.

High Speed 1

5.37 To improve transparency about the finances of the whole rail industry, we have included below some high level analysis of HS1, the rail infrastructure concession that connects London to the Channel Tunnel.

5.38 The focus of our analysis is the GB franchised rail industry and our analysis does not explicitly include High Speed 1 Ltd ('HS1'), due to the difficulty of reliably separating HS1's costs arising from national and international train operations⁴². However, our analysis does include franchised train operators' income and expenditure from operations on HS1 (specifically the Southeastern train operator).

5.39 HS1's latest statutory financial statements are for the 12 months ended 31 March 2013 and are summarised in Table 5.2.

Table 5.2: Summary of HS1's income and expenditure for the 12 months ended 31 March 2013

	£m
Turnover	292
Operating expenditure	-216
Net interest payable	-156
Reversal of impairment of fixed assets	653
Profit before tax	573
Increase in cash	159

5.40 Excluding the one-off impairment reversal, HS1 made an approximate £80m loss on its day-to-day operations, and its cash reserves increased by approximately £159m during the 12 month period covered

⁴⁰ These items are included within the Network Rail other income category.

⁴¹ As part of our 2013 periodic review we estimated that freight avoidable costs are around £300 to £400m per annum. This represents the element of Network Rail's fixed costs which we estimated is attributable to freight services.

⁴² 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.

in our analysis. Extending our analysis to including HS1 would therefore not have a significant effect on our analysis.

Non-financial information

5.41 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 statistics⁴³.

⁴³ Information about National Rail Trends is available at <http://orr.gov.uk/statistics/data-portal>.

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

Table A1: Distance travelled by train operators in each regional operating route in 2012-13

Franchise	Franchise operator	Franchising authority	Operating route										Total train km travelled (millions)	
			Anglia	Kent	LNE	LNW	Midland	Sussex	Wessex	Western	Wales	Scotland		
Essex Thameside	c2c Rail	DfT	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8
Chiltern	Chiltern	DfT	0.0	0.0	0.0	10.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	10.4
Cross Country	New Cross Country	DfT	1.2	0.0	6.4	8.1	4.3	0.0	1.6	7.9	1.0	2.0		32.6
East Coast	East Coast	DfT	0.0	0.0	19.3	0.0	0.0	0.0	0.0	0.0	0.0	2.4		21.7
East Midlands	East Midlands Trains	DfT	1.2	0.0	4.7	1.5	15.1	0.0	0.0	0.0	0.0	0.0		22.4
Greater Anglia	Abellio Greater Anglia	DfT	33.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		33.9
Greater Western	First Great Western	DfT	0.0	0.0	0.0	0.1	0.0	0.6	3.3	35.2	3.3	0.0		42.5
Northern	Northern Rail	DfT	0.0	0.0	23.6	21.5	0.4	0.0	0.0	0.0	0.0	0.0		45.5
South Eastern	Southeastern	DfT	0.0	31.6	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0		32.0
South central	Southern	DfT	0.0	2.7	0.0	0.7	0.0	29.0	2.7	0.0	0.0	0.0		35.1
South Western	South West Trains	DfT	0.0	0.0	0.0	0.0	0.0	0.1	39.2	0.7	0.0	0.0		39.9
Thameslink Great Northern	First Capital Connect	DfT	1.9	1.0	11.1	0.0	7.3	4.0	0.0	0.0	0.0	0.0		25.3
Trans Pennine Express	First Transpennine Express	DfT	0.0	0.0	8.3	7.5	0.0	0.0	0.0	0.0	0.0	1.1		17.0
Wales & Borders	Arriva Trains Wales	DfT	0.0	0.0	0.0	3.8	0.0	0.0	0.0	0.1	19.4	0.0		23.4
West Coast	Virgin Trains	DfT	0.0	0.0	0.0	32.4	0.0	0.0	0.0	0.0	0.6	3.0		36.0
West Midlands	London Midland	DfT	0.0	0.0	0.0	22.3	0.0	0.0	0.0	1.0	0.3	0.0		23.6
London Overground	LOROL	TfL	4.7	0.2	0.0	1.2	0.0	1.5	0.0	0.0	0.0	0.0		7.6
Merseyrail Electrics	Merseyrail	Merseyside PTE	0.0	0.0	0.0	6.6	0.0	0.0	0.0	0.0	0.0	0.0		6.5
ScotRail	First ScotRail	TS	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	44.6		45.4
Total train distance travelled (km millions)			49.7	35.5	73.5	116.5	27.2	35.5	46.8	45.1	24.6	53.1		507.6

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