



UK rail industry financial information 2016-17

18 January 2018

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Executive Summary

Purpose of this document

1. Our annual UK rail industry financial information publications increase transparency and help strengthen the rail industry's accountability to its customers, passengers and funders. They provide an authoritative source of financial data to help inform debate about the rail industry's value for money.
2. Our analysis includes the industry's income from passenger fares, government¹ and other sources, and how the industry spends its money. We analyse trends over time and across the industry. Unless otherwise stated, comparisons to prior years have been adjusted for inflation. Some numbers may not sum due to rounding.
3. There are different ways of presenting rail industry financial data. Consistent with conventional financial reporting, we have used an accruals accounting approach rather than cash accounting. So for example, a depreciation charge is shown instead of the cash spend on renewals by Network Rail. There are also different ways of disaggregating costs by geographical areas such as by Network Rail's routes. Our methods are explained in section 3. We thank the rail industry and government for their support in producing this report.
4. This report is structured as follows: Section 1 presents our key findings and Section 2 the underlying data tables. Section 3 explains our methodology. Annex A reconciles this analysis to our rail statistical financial release, Annex B details the structure of the industry and Annex C provides a list of the companies included in this publication.

Summary of our findings

5. Figure 1 shows the rail industry's income and expenditure for the year 1 April 2016 to 31 March 2017 (2016-17). Our analysis shows that:
 - The cost of running the railways was £19.5bn, a 2.7% increase from 2015-16. Around 59% of these costs were incurred by train operators², 35% managing the network, and 6% by freight, High Speed 1 and other components of the industry.
 - Income from passenger fares was £9.7bn³, a 1.1% increase from 2015-16. This equates to an average fare⁴ of £5.48, or 14 pence per passenger kilometre (km) travelled.

¹ Government, as used in this publication, means the Department for Transport (DfT), Transport Scotland, the Welsh Government, Transport for London (TfL) and Passenger Transport Executives (PTEs).

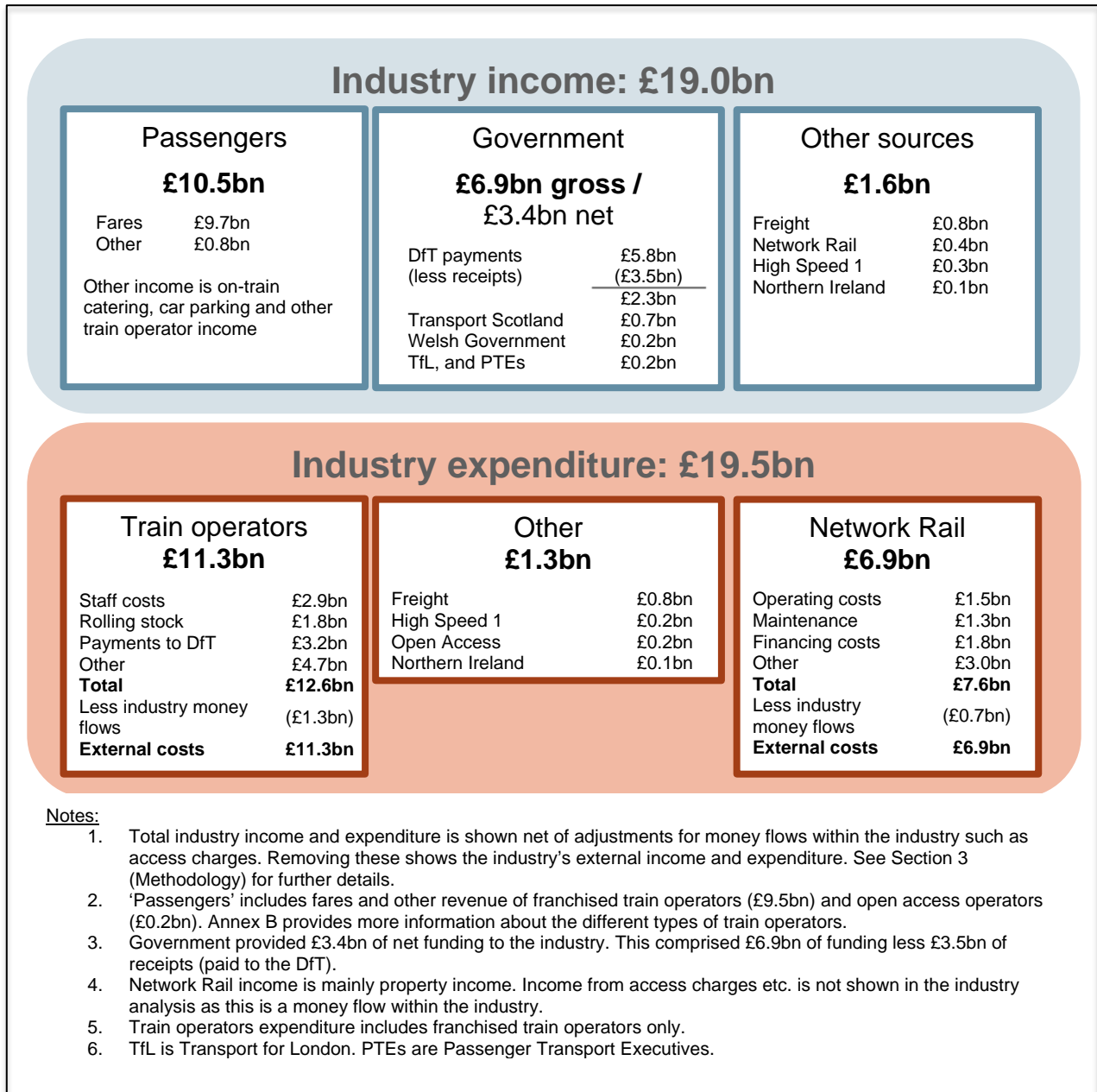
² Including payments to government as part of franchise agreements.

³ This includes passenger fares paid to franchised train operators and open access operators.

⁴ Average fare is income from passenger fares divided by passenger journeys.

- In total, government contributed £3.4bn, a 0.7% decrease from 2015-16. DfT also lent £6.1bn to Network Rail⁵.
- Network Rail spent £3.4bn on enhancements to the network including Great Western electrification (£0.6bn), the Thameslink programme (£0.4bn), the Northern Hub (£0.3bn) and the Edinburgh Glasgow Improvements Programme (£0.2bn).

Figure 1: Industry income and expenditure in 2016-17



⁵ This was largely used to pay for £3.4bn of enhancements (upgrades to the rail network) projects, £2.4bn for the repayment of some of Network Rail's private sector debt and other expenditure.

Industry income

6. The industry received £19.0bn of income, a 0.3% increase from 2015-16. Key points to note:
- £9.7bn of passenger fares income⁶. Passenger income has increased by 1.1% from 2015-16. This is due to a combination of more journeys and higher fares. The number of passenger journeys increased by 0.8% to £1.7bn with the biggest increases in the Northern (due to additional services transferred from the TransPennine franchise) and TfL Rail franchises. The average passenger fare increased by 0.4% to £5.48 compared to the average length of a journey, which increased by 1.2% to 37.8 kilometres.
 - Network Rail received £4.4bn of grant funding from the DfT and Transport Scotland. This was partially offset by £0.3bn that Network Rail paid to the DfT for the financial indemnity mechanism (FIM) guarantee for the company's debt. Net government funding increased by 1.0% from 2015-16.
 - Under their franchise agreements, Franchised train operators (TOCs) received a total of £2.5bn of funding from government and paid a total of £3.2bn to government. The net payment to government was £0.7bn. Some train operators both received and paid money from/to government. Net of receipts and payments, Northern Rail received the most government funding (£284m) and South West Trains paid the most to government (£366m)⁷.
 - Our analysis shows that on average, government contributed £1.53 per passenger journey in England, £6.08 in Scotland and £8.82 in Wales⁸.
7. Train operators received £0.8bn of income from on-board catering, car parking and other sources. This increased by 0.8% from 2015-16.
8. See Section 1 for further details.

Industry expenditure

9. The industry spent £19.5bn, a 2.7% increase from 2015-16. Key points to note:
- Network Rail's costs increased by 6.5% to £7.6bn. This increase was largely due to an increase in financing costs on the company's debt. Network Rail paid £1.8bn in financing costs, a 26% increase from 2015-16, mostly due to accretion on interest

⁶ This includes passenger income from both franchised train operators and open access operators.

⁷ In Figure 1, total net government funding is £3.4bn. This is the £4.4bn of Network Rail grant plus £2.5bn train operators funding less £0.3bn receipts from Network Rail and £3.2bn receipts from train operators.

⁸ This is Network Rail's Wales route, which does not exactly reflect the border between England and Wales.

linked debt⁹. Schedule 8 compensation to train operators for delays to services¹⁰ increased by 73% to £0.2bn. This largely reflected poor operational performance on some parts of the rail network, with the Sussex route¹¹ making the largest payments (£45m).

10. Franchised train operators' costs increased by 1.7% to £12.6bn. Payments to government increased by 4.1% to £3.2bn reflecting performance against their franchise contracts. Staff costs have increased by 2.6% to £2.9bn.

11. See Section 1 for further details.

One year and five year movements in income and expenditure

12. It is useful to compare the rail industry's income and expenditure over a longer five-year period. Table 1 shows movements for the main income and expenditure categories.

Table 1: One year and five movements in income and expenditure

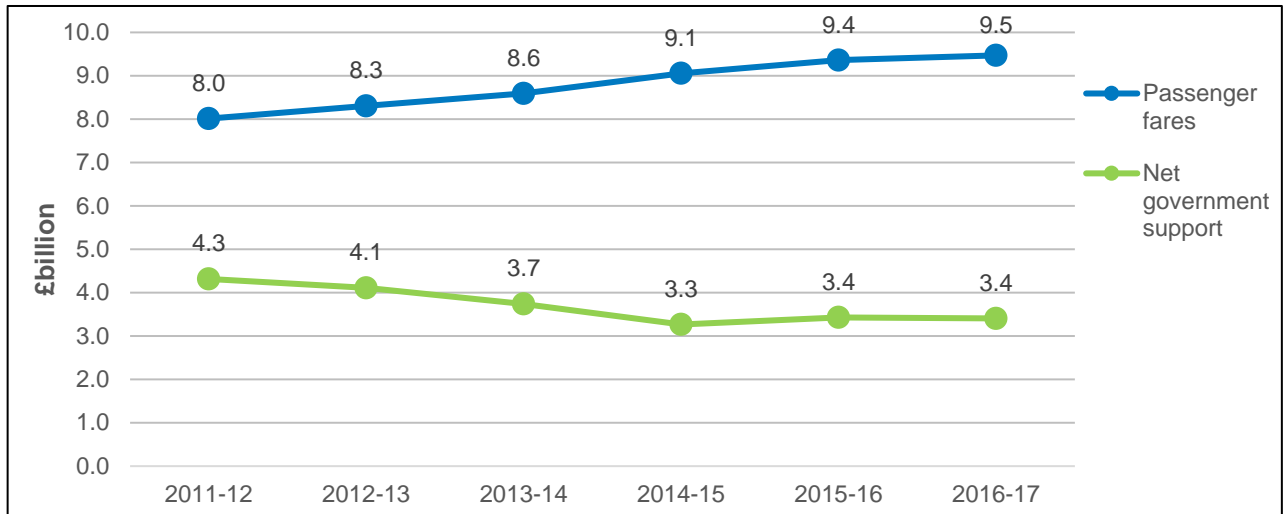
	2016-17	Movement	
		One year	Five years
Fares income (franchised train operators only)	£9.5bn	1.2%	18.2%
Net government funding (excluding borrowing)	£3.4bn	-0.7%	-21.1%
Franchised train operators expenditure	£12.6bn	1.7%	20.2%
Network Rail expenditure	£7.6bn	6.5%	20.0%

⁹ It also borrowed £6.1bn from government. This was largely used to pay for £3.4bn of enhancements projects, £2.4bn for the repayment of some of Network Rail's private sector debt and other expenditure.

¹⁰ Schedules 4 & 8 are the performance regimes in place between Network Rail and franchised train operators.

¹¹ In this publication financial data is split geographically by 10 Network Rail routes as based upon the route structure at the beginning of CP5 (Control Period 5, starting in 2014-15). Network Rail subsequently merged the Sussex and Kent routes to form the 'South East' route and the London North Eastern and East Midlands routes to form the 'London North Eastern and East Midlands' route.

Figure 2: Fares income and net government funding over the past five years¹²



13. Our analysis shows that over the past five years:

- Fares income has increased by 18.2%¹³. Passenger journeys increased by 18.4%. Average fares have decreased by 1 pence to £5.48.
- Net government funding has decreased by 21.1%¹⁴, which is largely due to franchised train operators paying more to government. Overall, government received £0.8bn more from train operators than in 2011-12 when net support to train operators was £0.1bn¹⁵.
- Franchised train operators' expenditure increased by 20.2%, largely due to the increase in franchise payments to government. Staff costs increased by 20.9% and rolling stock leasing costs by 9.4%.
- Network Rail's expenditure increased by 20.0%. Significant increases include depreciation (£0.7bn), maintenance (£0.2bn) and financing costs (£0.2bn). These increases were partly offset by a £0.1bn reduction in support costs.

14. The rail industry has experienced significant passenger growth over the past five years. The number of passenger journeys has increased by 18.4% and the total distance travelled by passengers has increased by 15.2%. Figure 3 shows that adjusted for the growth in passenger distance travelled, average industry income per km has decreased by 8.2%¹⁶ whilst average industry costs per km have increased by 0.7%.

¹² Passenger fares income includes franchised train operators only.

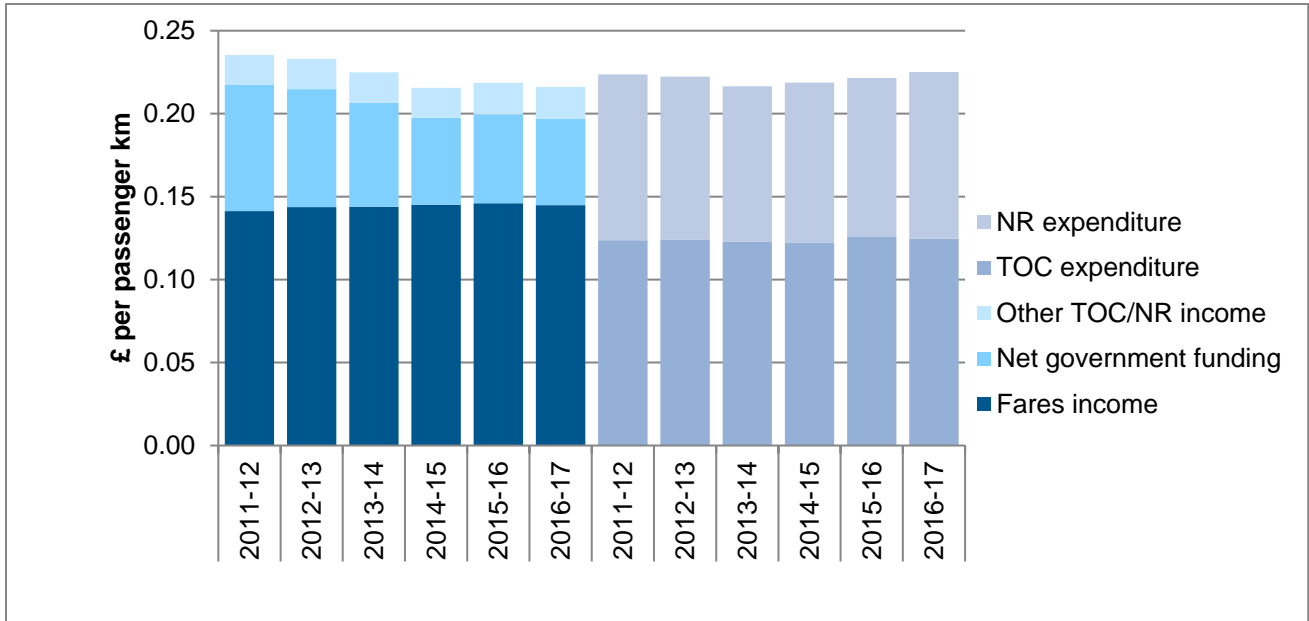
¹³ For franchised train operators only.

¹⁴ This does not include debt funding of Network Rail.

¹⁵ This means that in 2011-12 government paid more to trains operators than it received back.

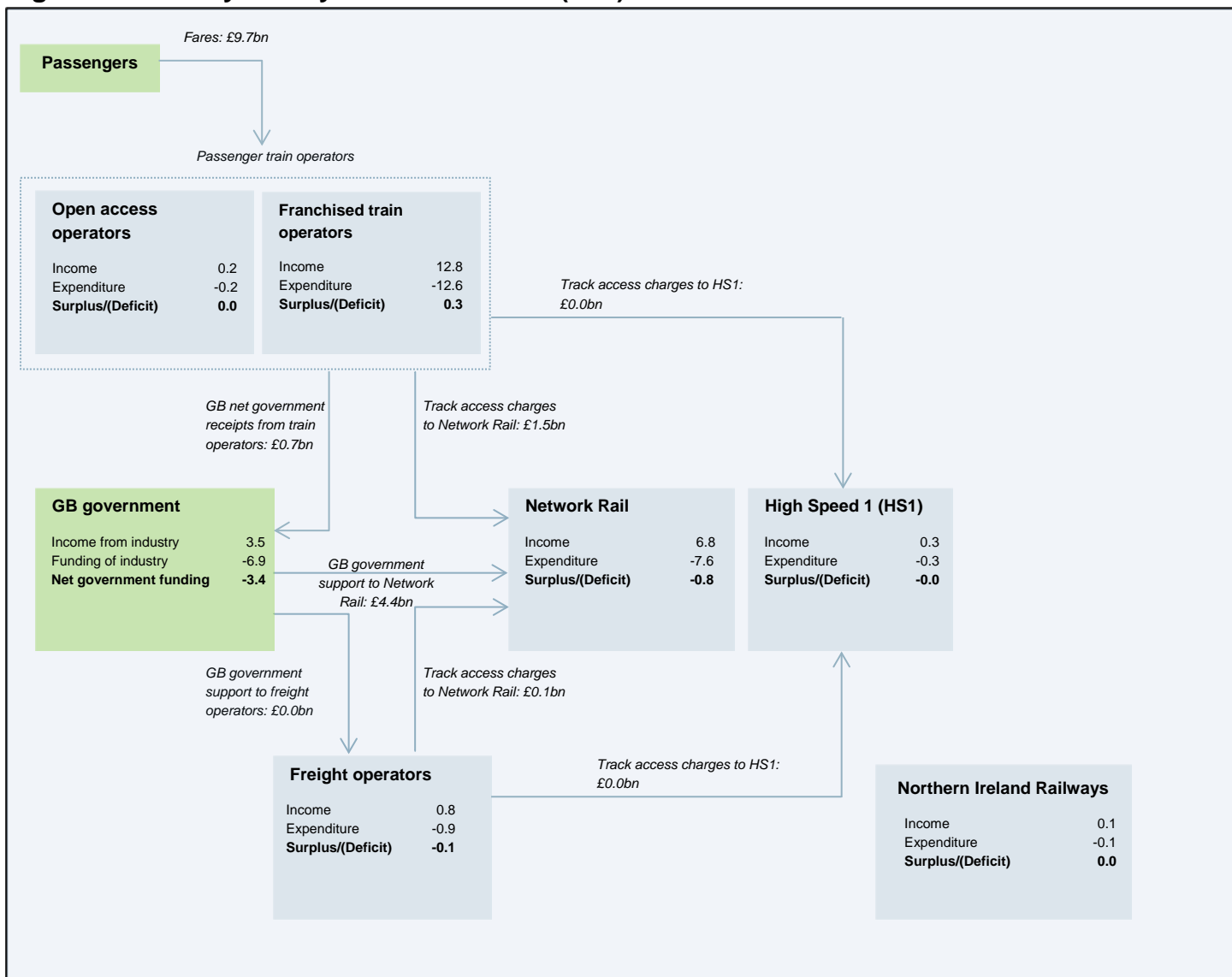
¹⁶ This has been largely driven by reduced government funding.

Figure 3: Income and expenditure per passenger km over the past five years



15. Figure 4 shows each of the rail industry’s sectors and provides a high level view of the relative financial performance of each sector and the money flows between them.
16. In Figure 1 there is a difference of £0.5bn between industry income and expenditure, which is a sum of each of the sectors’ performance in 2016-17 (whether a surplus or a deficit). As shown in Figure 4 the difference of £0.5bn is largely because of a £0.8bn deficit at Network Rail offset by a £0.3bn surplus for franchised train operators as well as other variances across the industry. The financial performance of each sector, according to our analysis, has not changed significantly since 2015-16.
17. Figure 4 represents our view of industry finances in 2016-17. It is based upon management accounting information from over 30 companies and may not reflect the reporting in companies’ statutory financial statements.

Figure 4: Industry money flows in 2016-17 (£bn)



Notes:

1. Data in this figure reflects the finances of each sector of the rail industry. This is a different way of presenting information than shown in Figure 1, which largely shows the consolidated picture.
2. Franchised train operators income of £12.8bn was £10.3bn of passenger income plus £2.5bn of funding from government.
3. Network Rail's income (£6.8bn) includes £4.4bn of government funding, £1.5bn of track access income and £0.9bn of other income (of which £0.4bn is external to the industry).
4. Open access train operators income of £0.2bn is contained within the £10.5bn of passenger income shown in Figure 1.
5. Freight expenditure in Figure 1 is £0.8bn, this is the £0.9bn in Figure 4 less industry level adjustments for track charges (£0.1bn).
6. High Speed 1 expenditure (£0.3bn) does not match Figure 1 because of rounding within the underlying data.

18. We welcome comments on the content of this document. General enquiries should be sent to:

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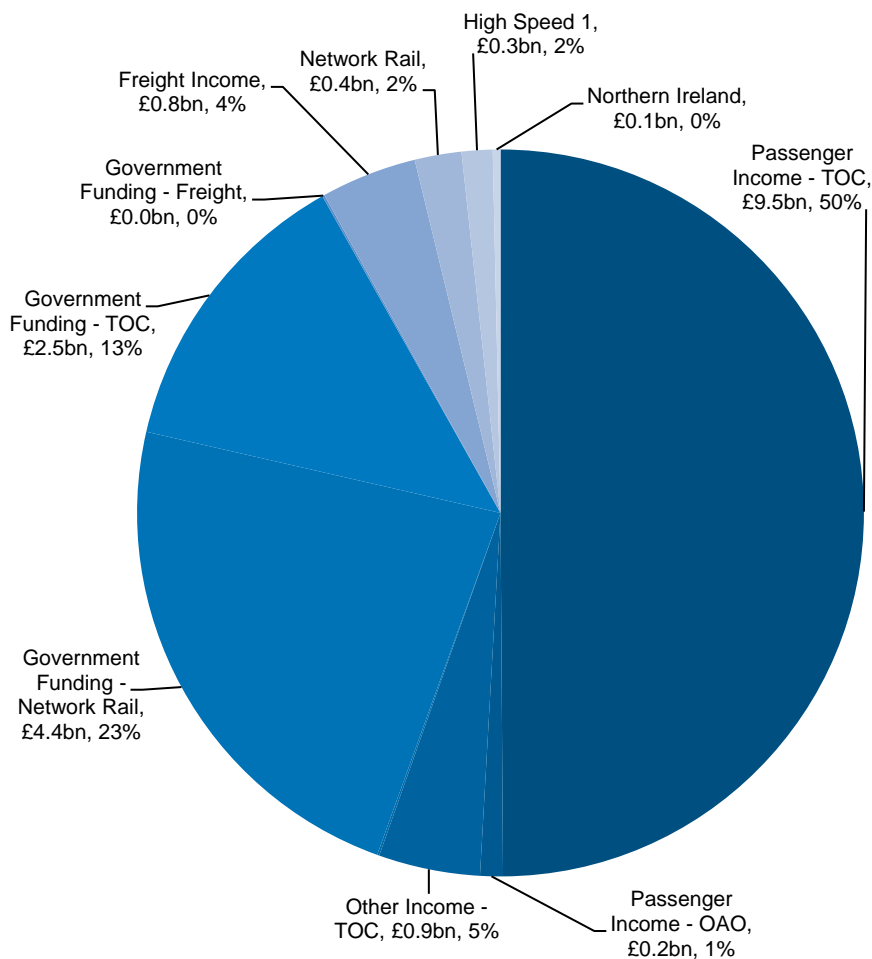
1. Key findings

1.1 Figures 1.1 and 1.8 in this section show consolidated income and expenditure, which means that money flows within the industry are removed, such as Network Rail access charges. These adjustments have not been made in the other figures in this section.

Industry income

1.2 The rail industry received £19.0bn of income in 2016-17. The majority of this income was from passenger fares (£9.7bn, 51%), which has increased by 1.1% since 2015-16. This was mostly due to increased journeys and average journey length.

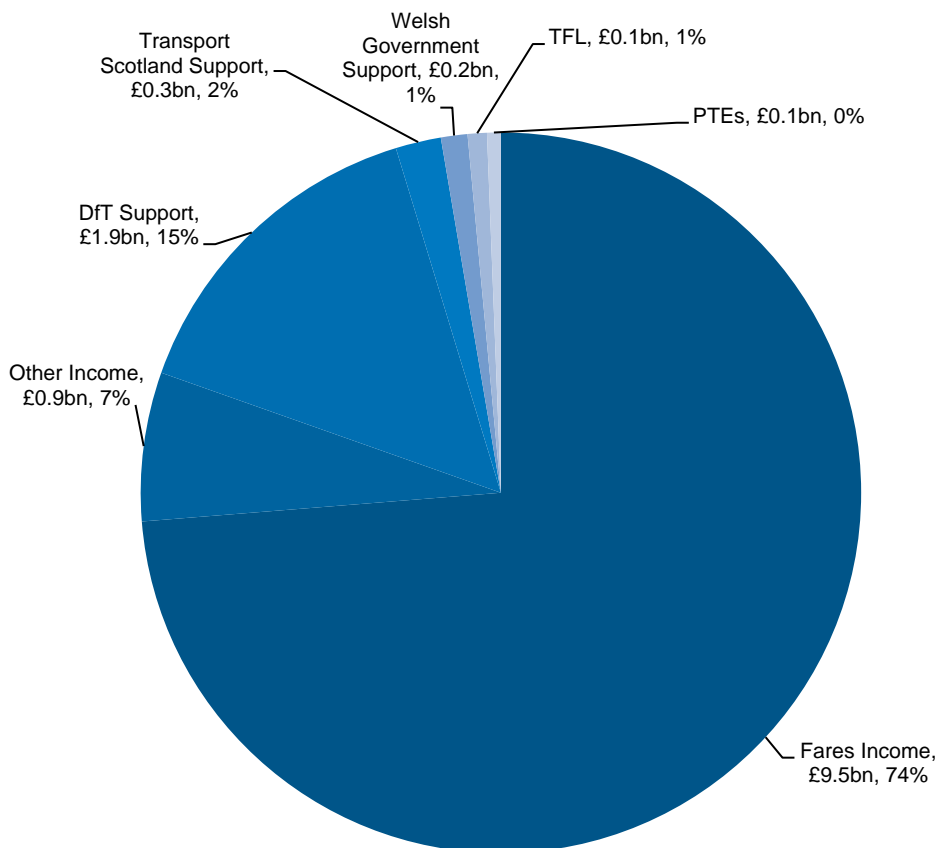
Figure 1.1: UK consolidated rail industry income in 2016-17



GB Franchised train operator income

1.3 Franchised train operators' income was £12.8bn in 2016-17. Fares income was £9.5bn (74%), an increase of 1.2% since 2015-16. Government support was £2.5bn, an increase of 2.8% since 2015-16. Income from car parking, catering and other sources was £0.9bn.

Figure 1.2: GB Franchised train operator income 2016-17



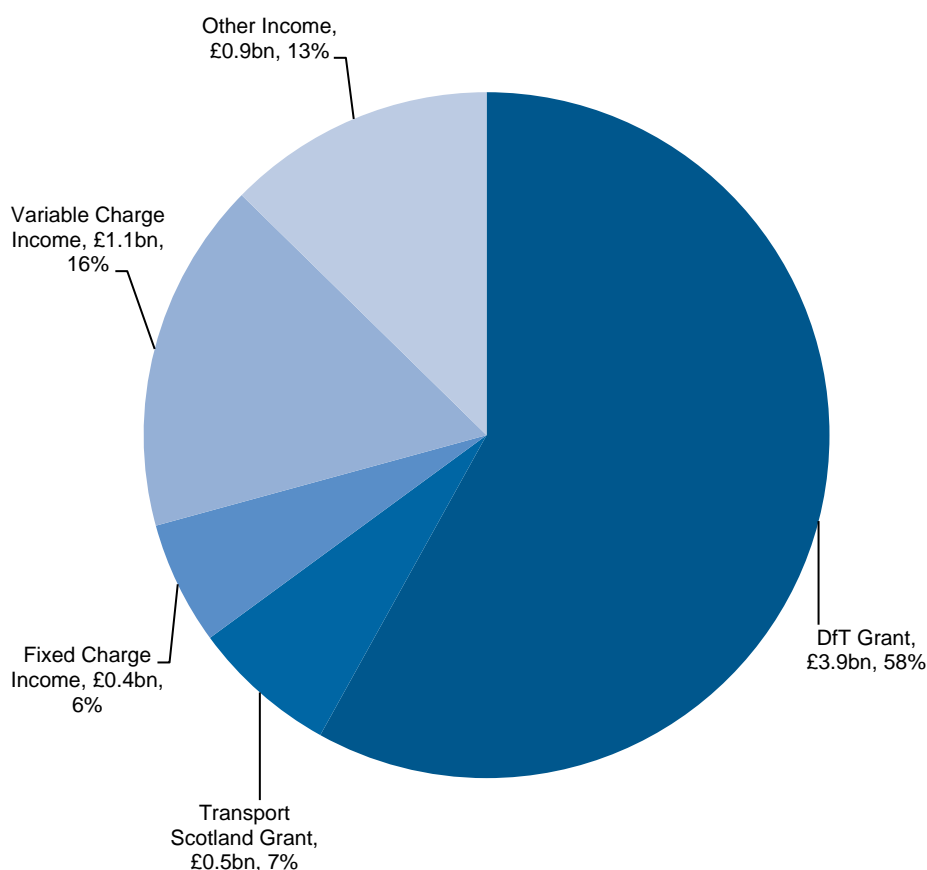
GB Network Rail income

1.4 Network Rail's income was £6.8bn in 2016-17, an increase of 0.5% from 2015-16.

Government grants were £4.4bn, 65% of total income. Access charges¹⁷ paid by train operators were £1.5bn. Other income was £0.9bn¹⁸.

1.5 Some of Network Rail's income, such as from access charges, is removed to present industry income in figure 1.1.

Figure 1.3: GB Network Rail income 2016-17



¹⁷ These are charges paid by operators to access the rail network and consist of fixed and variable charges. See <https://www.networkrail.co.uk/industry-commercial-partners/information-operating-companies/cp5-access-charges/> for further details about Network Rail's charging structure.

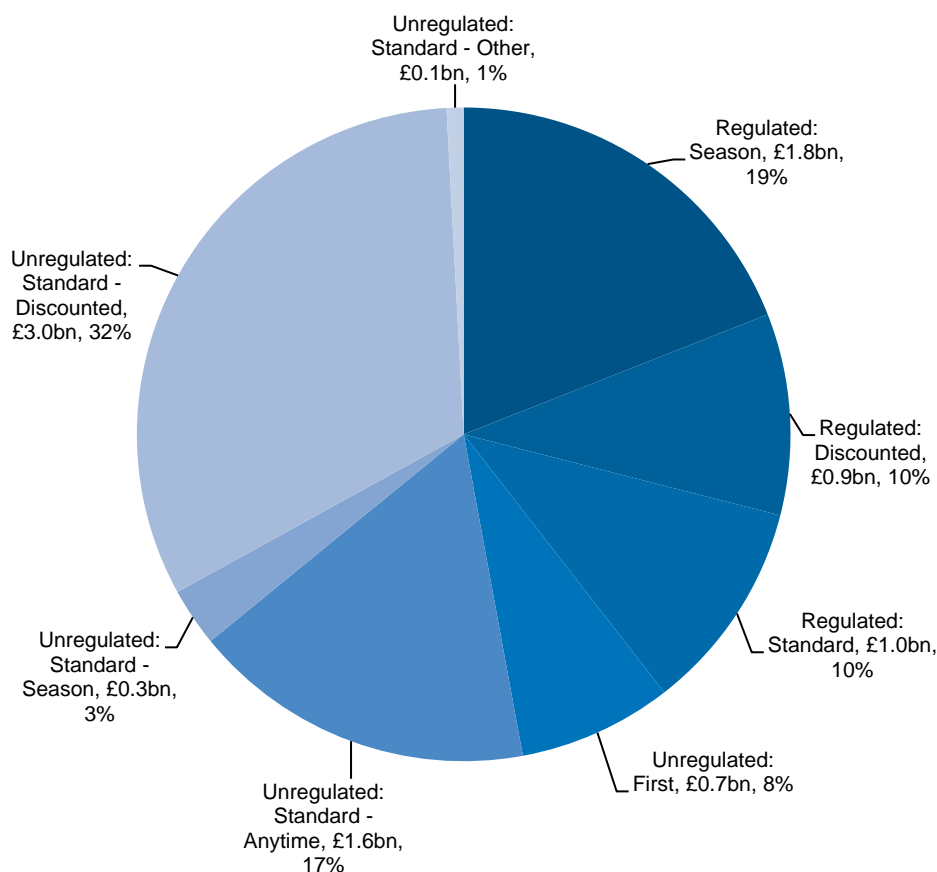
¹⁸ In Figure 1, this is £0.4bn. The number in Figure 1 is Network Rail's income from outside the industry (e.g. from its property portfolio), the rest of Network Rail's income is from within the industry (charges) or grant funding from government.

Passenger fare income

1.6 Average passenger income per journey was £5.48 in 2016-17. The average passenger income per journey was £6.27 in Wales, £5.53 in England and £4.36 in Scotland¹⁹.

1.7 In England, Scotland and Wales, rail fares are either regulated (by DfT, Transport Scotland and the Welsh Government) or unregulated. In 2016-17, regulated fares income was 39% of the total and unregulated fares income was 61%²⁰.

Figure 1.4: Contribution of ticket types to income from passenger fares (Great Britain only)



¹⁹ Northern Ireland is not included in this analysis of passenger fare income.

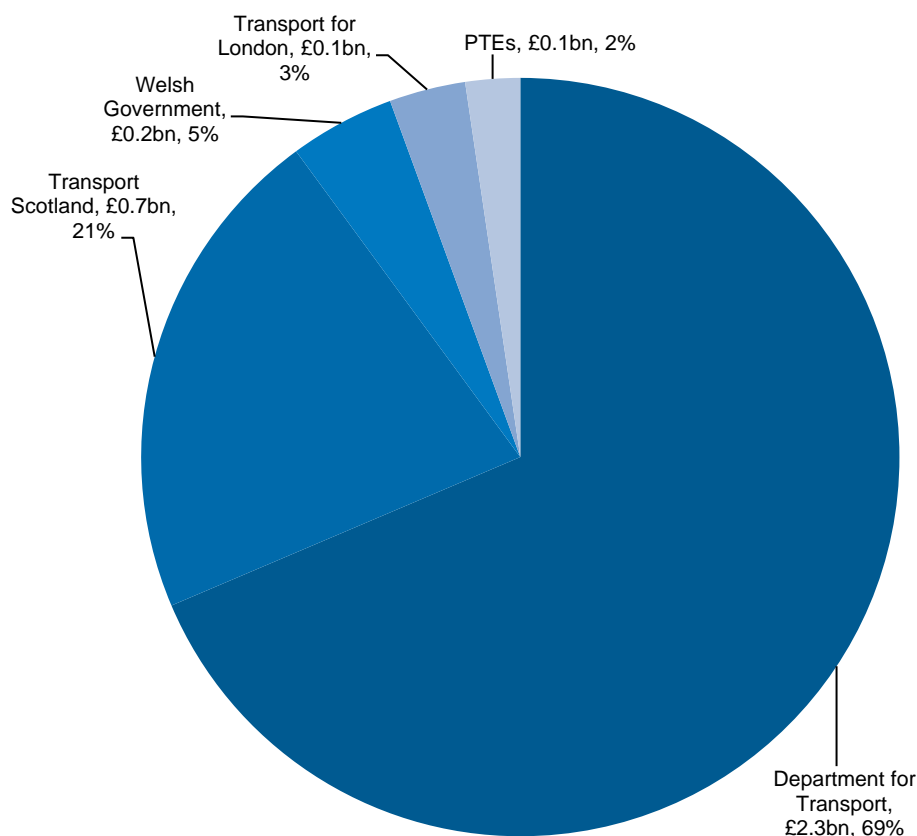
²⁰ For 2015-16, we reported that the split was 36% regulated fares and 64% unregulated fares. The process for calculating these numbers has improved. This change reflects the improved analysis and not an underlying change between regulated and unregulated fares.

Net government funding

1.8 Overall, the industry received 21% of its total income from government.

1.9 Net government funding was £3.4bn in 2016-17 (£6.9bn of payments less £3.5bn of receipts)²¹. This has decreased by 0.7% since 2015-16. This funding was a mixture of grants for Network Rail and net franchise support. Government also provided direct funding of the rail freight industry of around £19m. Open access operators (OAOs) receive no direct government funding.

Figure 1.5: Net government funding of the GB rail industry in 2016-17²²

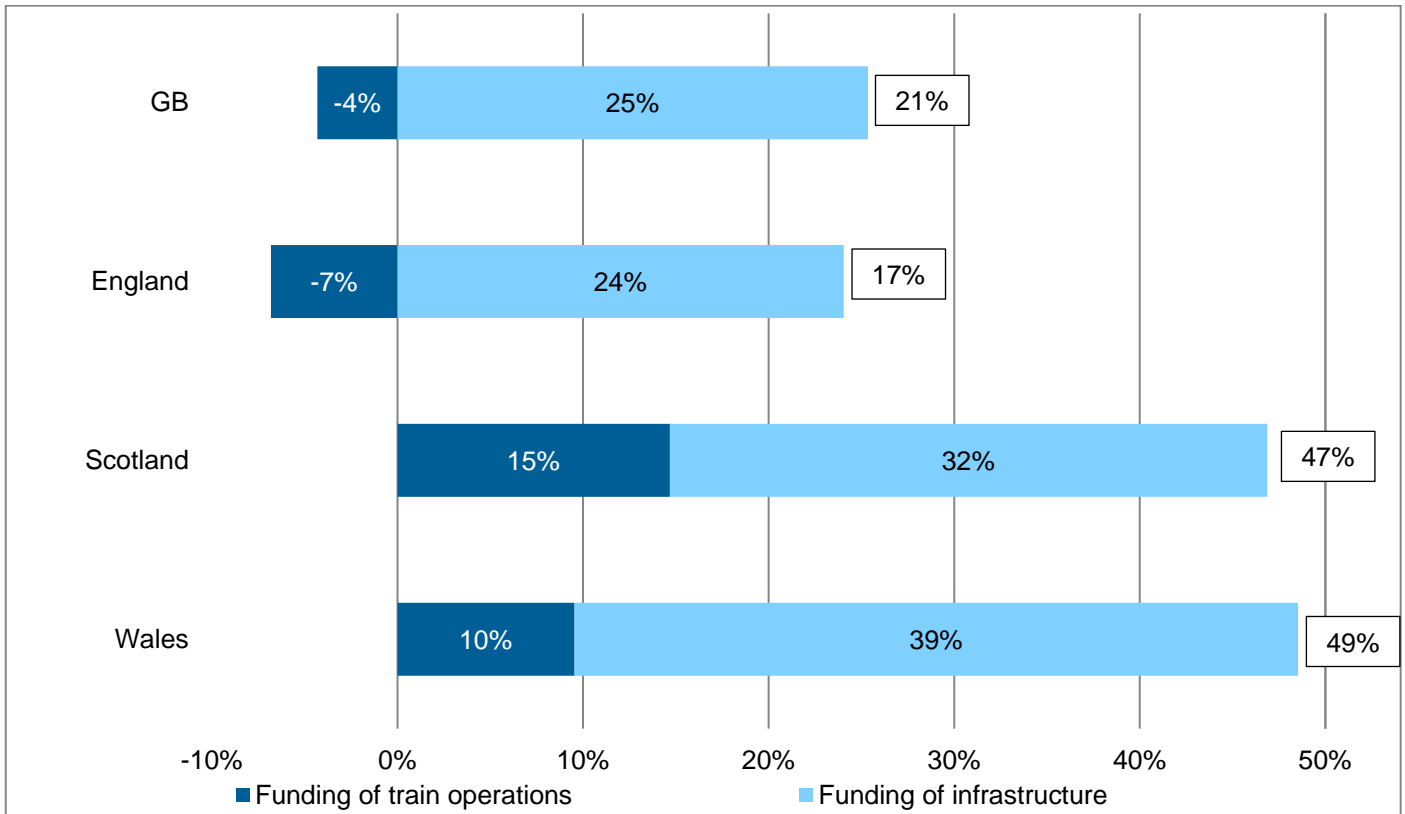


1.10 Figure 1.6 below shows net government funding as a percentage of the industry's total income in England, Scotland and Wales and we also show separately the government funding of infrastructure (25% of total industry income) and train operations (-4% of total income, i.e. an overall payment to government).

²¹ Funding of Northern Ireland Railways by the government of Northern Ireland is not shown in this table. The funding from the Northern Ireland government is included in table 2.19.

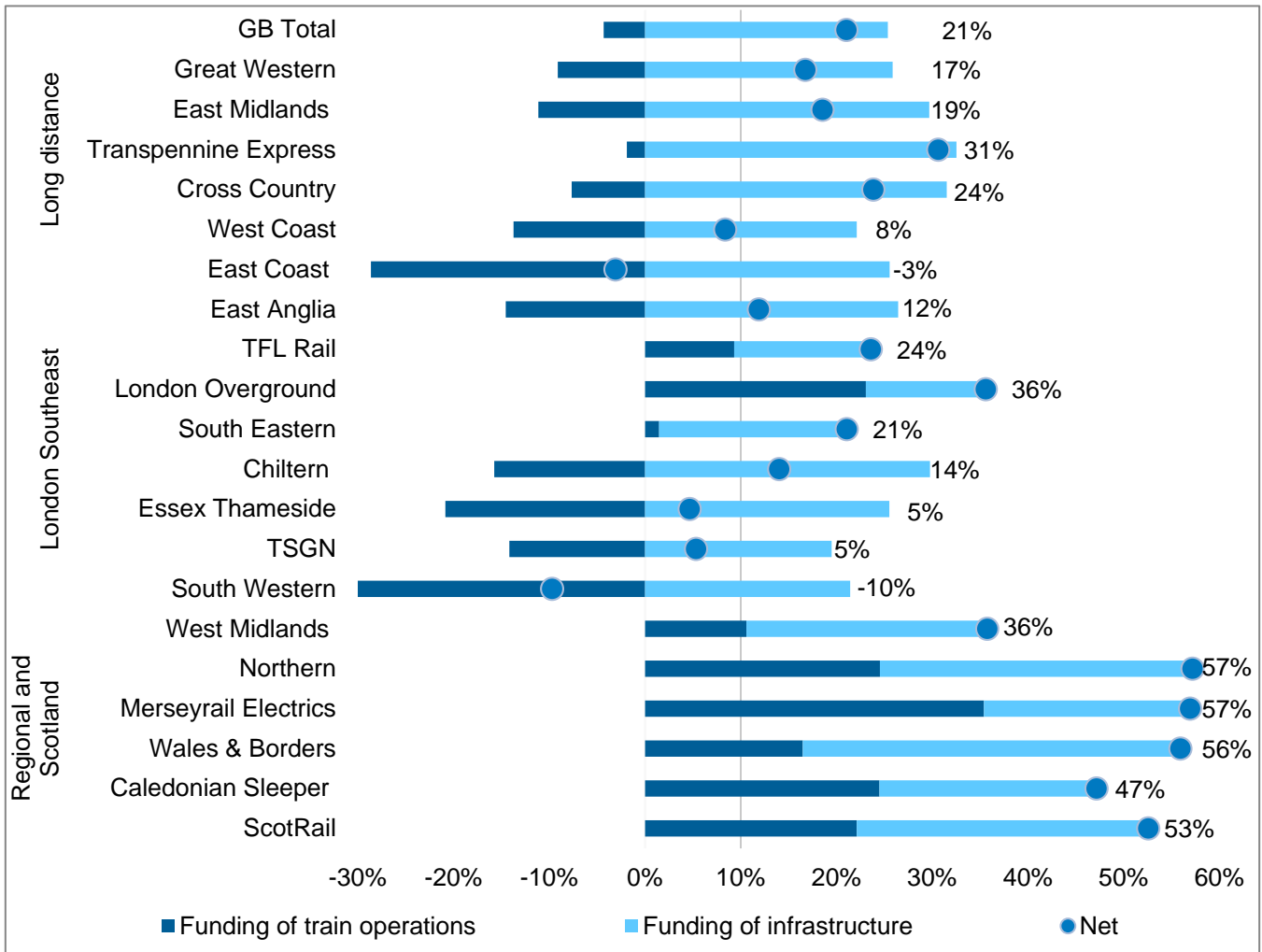
²² PTEs are Passenger Transport Executives, for more information see Annex B Industry Structure.

Figure 1.6 Net government funding as a percentage of total income (GB only)



1.11 In Figure 1.7, Table 1.1 and Table 2.14 we have combined the actual franchise payments for franchised TOCs (either to or from government) with a notional allocation, to each franchise area, of the funding of infrastructure (i.e. the amount Network Rail received from government). This is one way of showing how net government funding of the industry is distributed across the country based on franchise areas. We also show in Table 2.11 net government funding distributed across the country based on Network Rail's routes.

Figure 1.7: Net government funding as a % of total income in 2016-17 (GB only)²³



1.12 Table 1.1 below shows total net government funding of the industry by franchise. The table shows the £4.1bn of net funding for Network Rail offset by the £0.7bn of net franchise receipts paid by train operators (see GB total line). Therefore, net government funding is £3.4bn.

1.13 To illustrate this. For the East Coast franchise, the train operator made a payment of £272m to government and the train operator received no direct funding from government. The £243m of infrastructure funding for East Coast was allocated to the franchise based upon Network Rail’s costs for that franchise.

²³ TSGN means Thameslink Southern and Great Northern.

Table 1.1 Net government funding in 2016-17 by franchise area (£m, GB only)

	Franchise	Infrastructure ²⁴	Train Operations	Total Funding
	GB Total	4,082	-695	3,387
Long Distance	Great Western	375	-132	243
	East Midlands	184	-69	115
	TransPennine Express	146	-9	138
	Cross Country	266	-65	201
	West Coast	342	-212	130
	East Coast	243	-272	-29
London Southeast	East Anglia	233	-128	105
	TfL Rail	20	13	34
	London Overground	53	98	150
	South Eastern	252	19	271
	Chiltern	88	-46	41
	Essex Thameside	57	-46	10
	Thameslink, Southern and Great Northern	376	-273	103
	South Western	252	-366	-114
	West Midlands	191	80	271
	Northern	378	284	663
Regional and Scotland	Merseyrail Electrics	45	74	120
	Wales & Borders	225	94	319
	Caledonian Sleeper	14	15	30
	ScotRail	339	246	586

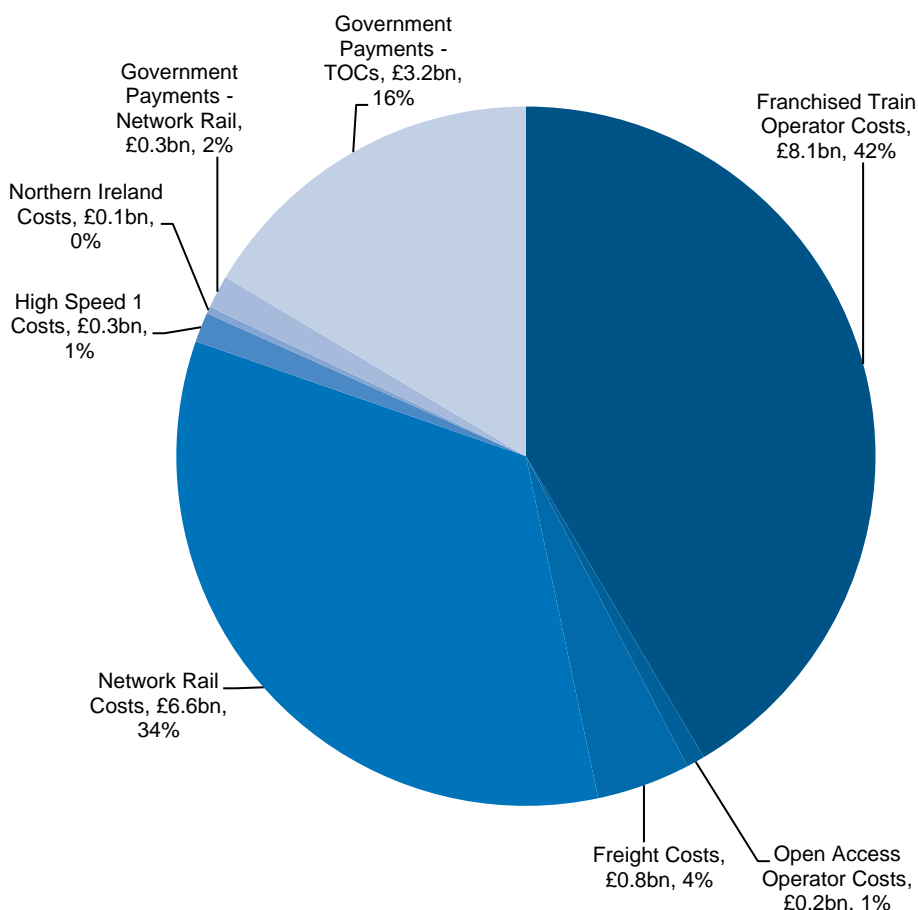
²⁴ Allocated in our analysis.

Industry expenditure

1.14 Industry expenditure in 2016-17 was £19.5bn of which £8.1bn (42%) was spent by train operators on operating services and £6.6bn (34%) was spent by Network Rail on railway infrastructure.

1.15 Network Rail and train operators also made payments of £3.5bn to the DfT (18% of total expenditure)²⁵.

Figure 1.8: UK consolidated industry expenditure in 2016-17

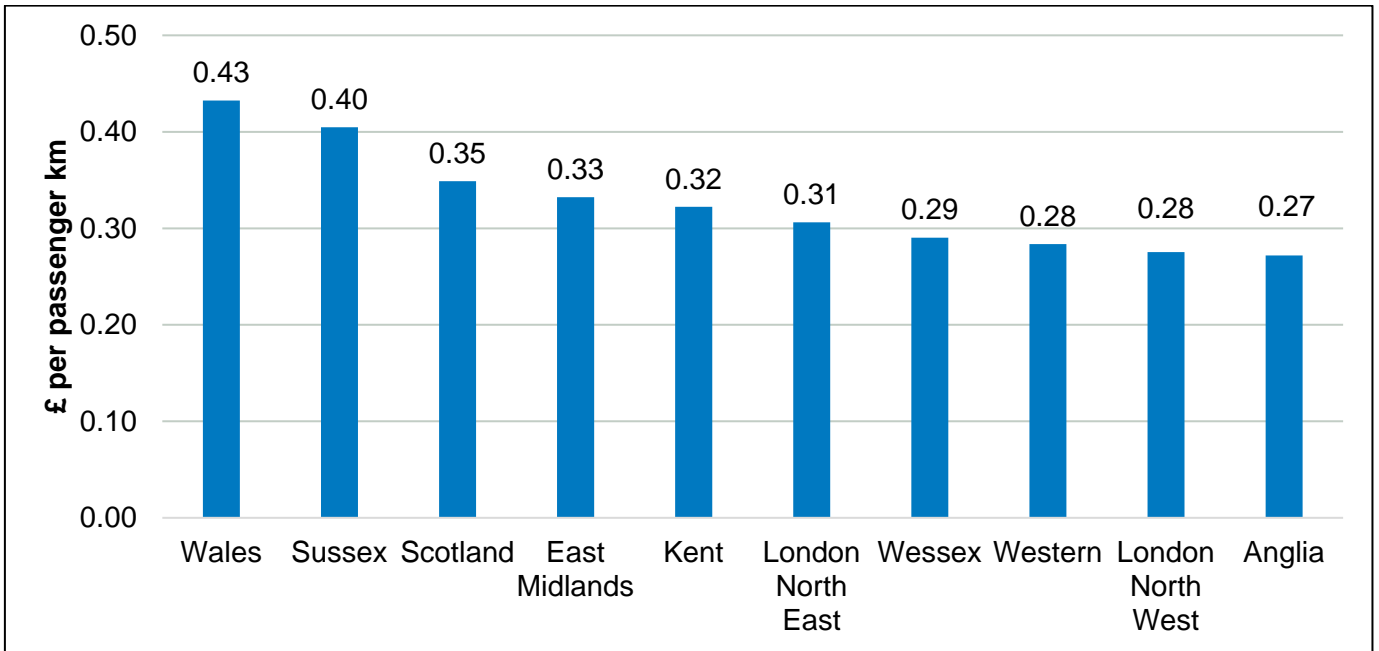


1.16 As shown in Figure 1.9, expenditure²⁶ per passenger km was highest in the Wales route at 43 pence per km, followed by Sussex at 40 pence per km and Scotland at 35 pence per km.

²⁵ This is the £3.2bn of franchise premium payments from train operators and the £0.3bn payment from Network Rail for the FIM fee.

²⁶ This is franchised train operators and Network Rail expenditure only.

Figure 1.9 GB expenditure per passenger km in 2016-17



Franchised train operators expenditure

1.17 Franchised train operators expenditure was £12.6bn in 2016-17.

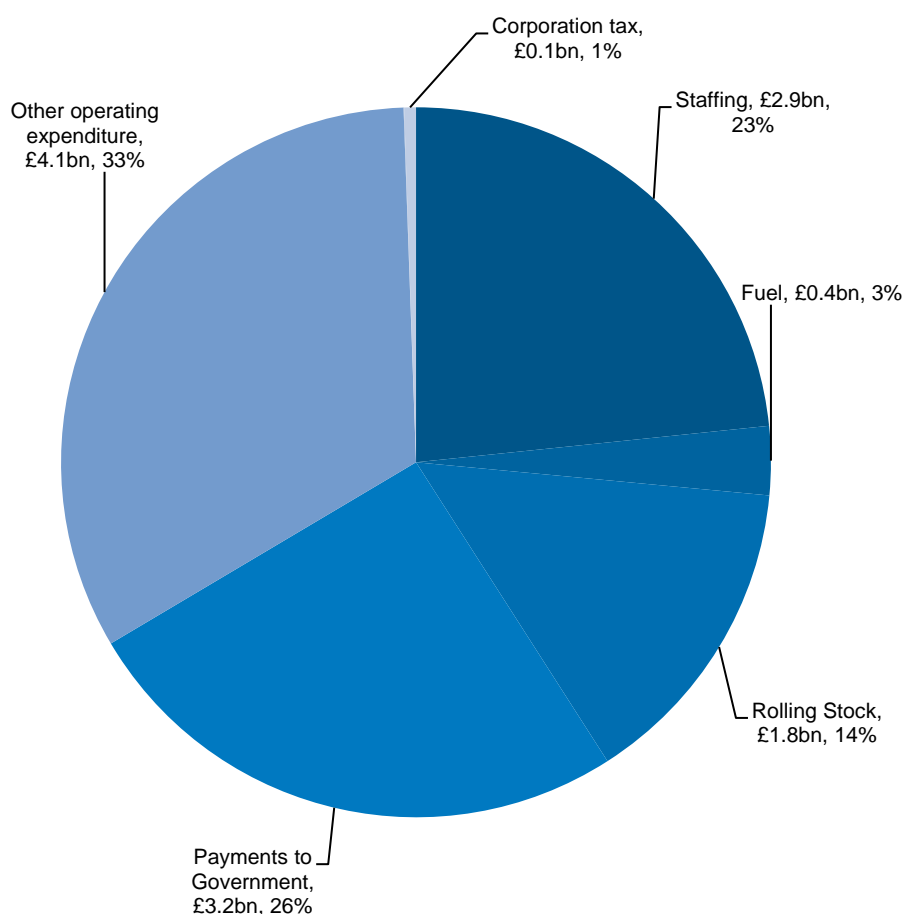
1.18 The operation of passenger rail services (staffing, leasing rolling stock and accessing the network) accounts for 74% of expenditure with 26% of expenditure being payments to government.

1.19 Some franchised train operators make payments to the government and some receive support (see Table 2.13). As previously stated, the sum of these equals an overall payment from operators to the government (£0.7bn).

1.20 Other operating expenditure accounts for £4.1bn. This includes Network Rail access charges, maintenance, marketing, fleet cleaning, office costs etc²⁷.

1.21 Some of train operators expenditure, such as access charges, is removed to present industry expenditure in figure 1.8.

Figure 1.10: GB franchised train operators expenditure in 2016-17

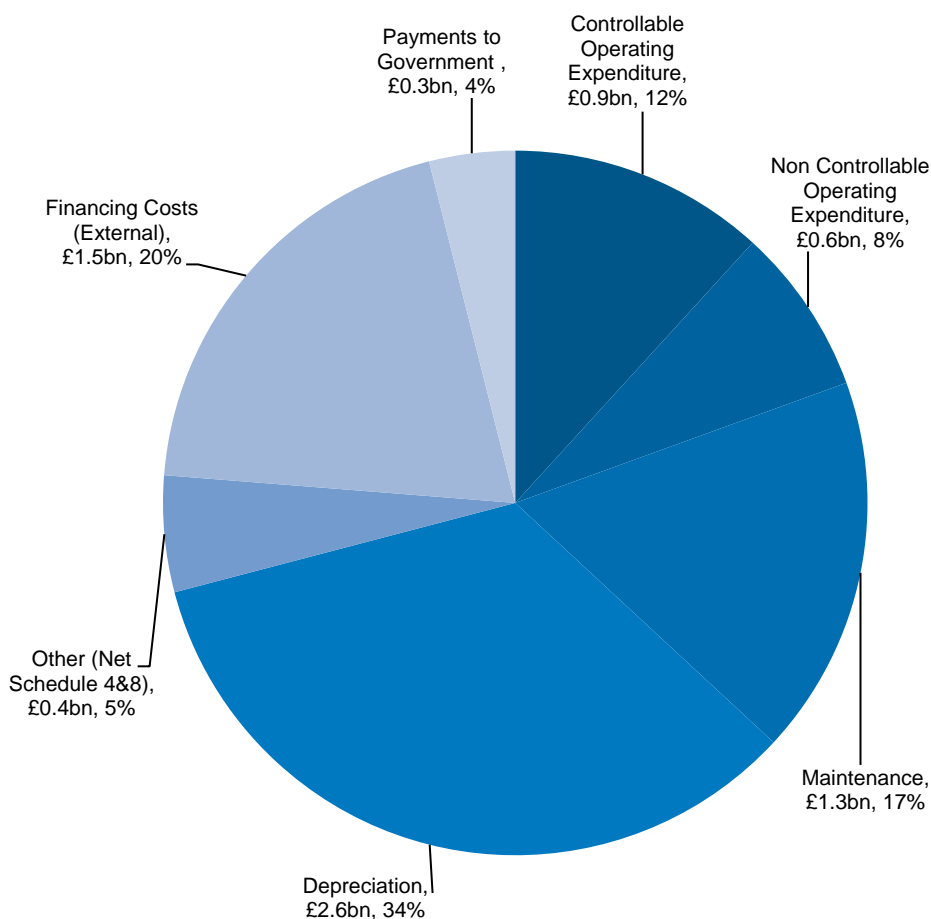


²⁷ We have not separated out these costs because of the lack of consistent data across the companies.

Network Rail expenditure

1.22 Network Rail's expenditure was £7.6bn in 2016-17. Operating and maintenance costs account for 37% of Network Rail expenditure with depreciation accounting for 34% and financing costs 20%. Schedules 4 and 8 payments were 5% and payments to government were 4% of total expenditure, this is the FIM fee paid to DfT for insuring part of Network Rail's debt.

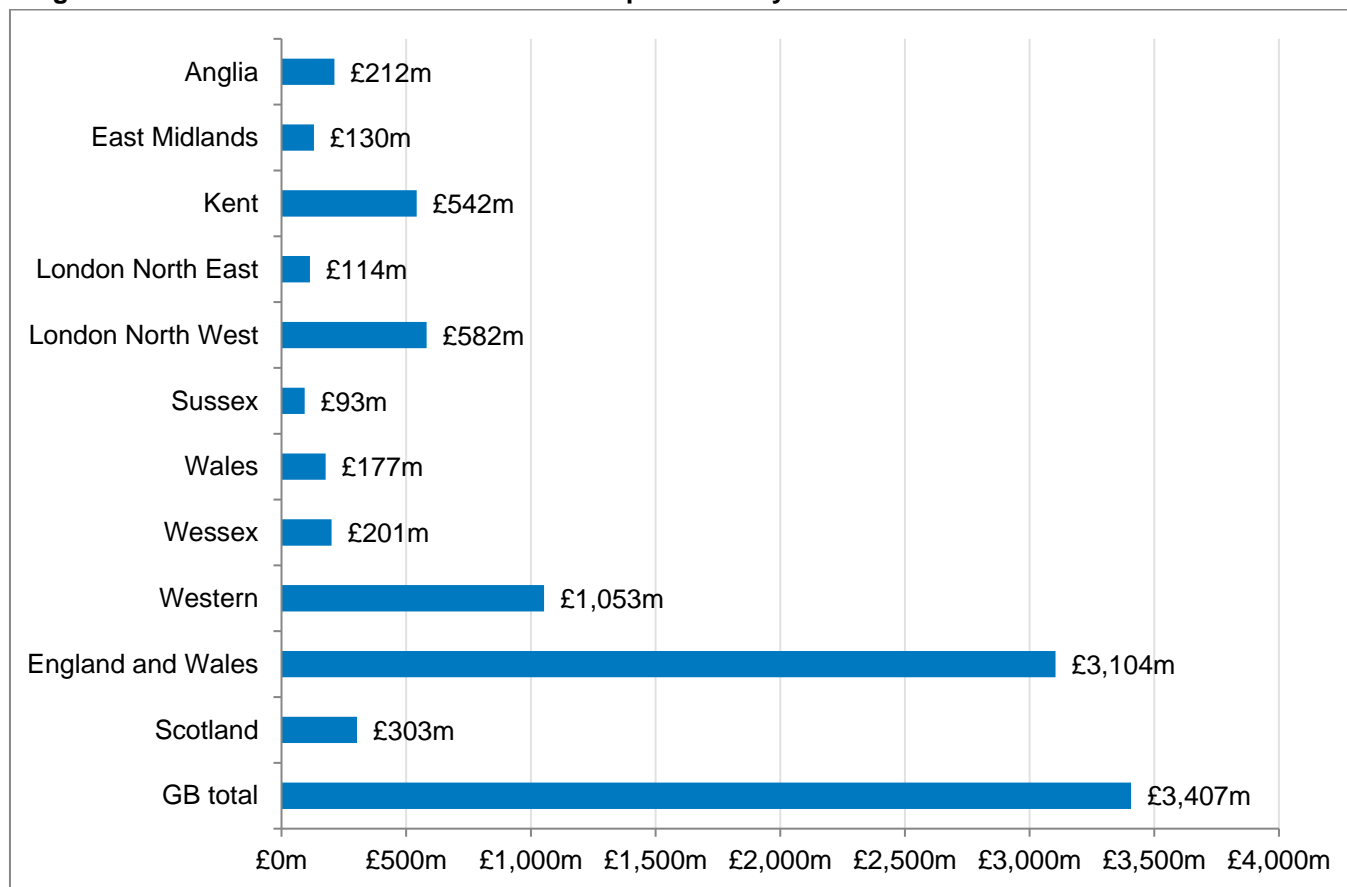
Figure 1.11: GB Network Rail expenditure in 2016-17



Network Rail enhancements expenditure

1.23 Figure 1.12 shows total Network Rail enhancements expenditure in 2016-17 by route²⁸.

Figure 1.12: GB Network Rail enhancements expenditure by route in 2016-17



²⁸ Enhancements expenditure is not included in the industry analysis in Figure 1. Figure 1 reflects the finances of the operational railway in one financial year, whereas enhancements are long-term investments. A depreciation charge is included in Figure 1 to reflect the in-year usage of these long-term assets.

2. Data tables

2.1 The data tables in this section provide detailed financial information for the rail industry. The tables are split into two parts, tables 2.1 to 2.15 include data for franchised train operators and Network Rail and we split this data by country (tables 2.1 to 2.7), by route (tables 2.8 to 2.12) and by franchise (tables 2.13 to 2.15). These tables show the two largest parts of the industry and supports comparability across franchise areas, routes and countries. The following tables (2.16 to 2.19) cover other parts of the industry (freight, open access operators, High Speed 1 (HS1) and Northern Ireland).

2.2 The tables in this section underpin the analysis in Section 1. These tables have not been adjusted to remove intra-industry income and expenditure, i.e. are not consolidated. However, it is possible to identify these items within the tables.

Data Tables

Table	Disaggregation	Title
2.1	Country	Income and expenditure in 2016-17
2.2	Country	Income and expenditure since 2010-11
2.3	Country	Income in 2016-17
2.4	Country	Expenditure in 2016-17
2.5	Country	Government funding in 2016-17
2.6	Country	Sources of government funding in 2016-17
2.7	Country	High level analysis in 2016-17
2.8	Route	Income and expenditure in 2016-17
2.9	Route	Income in 2016-17
2.10	Route	Expenditure in 2016-17
2.11	Route	Government funding in 2016-17
2.12	Route	High level analysis in 2016-17
2.13	Franchise area	Income and expenditure in 2016-17
2.14	Franchise area	Government funding in 2016-17
2.15	Franchise area	High level analysis in 2016-17

Other Rail Sectors

2.16	Freight	Income and expenditure in 2016-17
2.17	Open Access	Income and expenditure in 2016-17
2.18	High Speed 1	Income and expenditure in 2016-17
2.19	Northern Ireland Railways	Income and expenditure in 2016-17

Table 2.1 Franchised train operators and Network Rail income and expenditure in 2016-17

£m	GB total	England	Scotland	Wales
Income				
Passenger income	9,470	8,781	456	233
Other TOC income ²⁹	858	774	38	45
Network Rail income ³⁰	2,383	2,087	227	69
Government funding ³¹	6,897	5,764	724	409
TOC and Network Rail income	19,607	17,406	1,445	756
Expenditure				
Franchised train operators expenditure	9,362	8,227	825	309
Rail infrastructure expenditure	7,272	6,221	699	352
Government payments ³²	3,510	3,340	88	82
TOC and Network Rail expenditure	20,144	17,789	1,612	743
Income less expenditure	-536	-383	-167	13

Reconciliation of Tables 2.1 to 2.15 to Figure 1:

- Passenger fares income is shown as £9.7bn in Figure 1. The difference to passenger income in Table 2.1 is open access operators income of £0.2bn, which is not included in Table 2.1. Other passenger income in Figure 1 also excludes open access operators. See Table 2.17 for open access operators income.
- The only income in the Network Rail line in Figure 1 is that which is external to the industry, e.g. property income. It excludes government grants, which are shown separately in the government funding line in Figure 1. It also excludes Network Rail's access charges, which are internal to the industry. Table 2.3 provides an analysis of Network Rail's income.
- The Network Rail income line in Table 2.1 excludes government grants, which are included in the government funding line in Table 2.1.
- The franchised train operators expenditure and rail infrastructure expenditure lines in Table 2.1 do not include payments to government, which are included in the government payments line, see Table 2.5.

²⁹ Other TOC income includes on-board catering, car parking charges, advertising etc.

³⁰ This income consists of charges received from operators and other income, such as property rental, etc.

³¹ Government provides grant funding for infrastructure (Network Rail) and other funding for franchised train operators.

³² Government receives franchise premiums, fares income (in some cases) and profit share from operators and receives the FIM fee from Network Rail.

Table 2.2 Great Britain - Franchised train operators and Network Rail income and expenditure since 2011-12

£m	2016-17	2015-16 ³³	2014-15 ³⁴	2013-14	2012-13	2011-12
	Actual	Variance to 2016-17				
Income						
Passenger income	9,470	9,361	9,056	8,593	8,305	8,013
Other TOC income	858	851	821	813	799	803
Network Rail income	2,383	2,350	2,357	3,118	2,747	2,547
Government funding	6,897	6,825	6,074	6,008	6,446	6,282
TOC and Network Rail income	19,607	19,388	18,308	18,533	18,296	17,645
Expenditure						
Franchised train operators expenditure	9,362	9,284	8,956	9,361	8,960	8,729
Rail infrastructure expenditure	7,272	6,775	6,597	6,260	6,218	6,087
Government payments	3,510	3,418	2,827	2,287	2,355	1,986
TOC and Network Rail expenditure	20,144	19,477	18,380	17,908	17,532	16,802
Income less expenditure	-536	-90	-72	625	764	842

³³ Prior year numbers have been restated to more easily compare the data across the years. For this reason, data in this table will not match the data in previous publications for those years.

³⁴ The current control period (CP5) started in 2014-15. The large variance between 2014-15 and 2013-14 is largely due to changes to government funding at the beginning of CP5.

Table 2.3 Franchised train operators and Network Rail income in 2016-17

£m	GB total	England	Scotland	Wales
Franchised train operators income				
Passenger income	9,470	8,781	456	233
Other income	858	774	38	45
Government funding	2,517	2,126	260	131
Franchised train operators income	12,844	11,681	754	409
Network Rail income				
Fixed charges	392	279	93	20
Variable charges	1,119	1,001	87	31
Other Network Rail income	872	807	47	18
Government funding	4,380	3,638	464	278
Network Rail income	6,763	5,725	691	347
Total income	19,607	17,406	1,445	756

Table 2.4 Franchised train operators and Network Rail expenditure in 2016-17

£m	GB total	England	Scotland	Wales
Franchised train operators expenditure				
Staff costs	2,937	2,532	287	118
Fuel costs	393	323	49	21
Rolling stock charges	1,816	1,605	162	48
Payments to government	3,212	3,084	61	67
Other operating expenditure	4,145	3,703	325	117
Interest and exceptional expenditure / (income)	3	3	1	-1
Corporation tax	67	61	1	5
Franchised train operators expenditure	12,574	11,312	886	376
Rail infrastructure expenditure				
Controllable operating expenditure	891	758	80	53
Non controllable operating expenditure	582	521	51	10
Maintenance	1,319	1,133	118	68
Depreciation ³⁵	2,575	2,163	276	136
Other (net schedule 4&8)	404	354	39	11
Corporation tax	2	2	0	0
Financing costs (external)	1,499	1,290	135	74
Payments to government	298	256	27	15
Network Rail expenditure	7,570	6,477	726	367
Total expenditure	20,144	17,789	1,612	743

³⁵ Depreciation is an accounting charge to account for the utilisation of capital assets.

Table 2.5 Government funding of franchised train operators and Network Rail in 2016-17

£m	GB total	England	Scotland	Wales
Franchised passenger train operators				
Franchise receipts from government	2,438	2,047	260	131
Passenger Transport Executive (PTE) funding	79	79	0	0
Government funding	2,517	2,126	260	131
Government receipts	-3,212	-3,084	-61	-67
Total funding	-695	-959	199	64
Network Rail				
Network Rail grant	4,380	3,638	464	278
Government-related financing	-298	-256	-27	-15
Total funding	4,082	3,382	437	263
Total government funding of franchised train operators and Network Rail	3,387	2,423	636	327

Table 2.6 Sources of government funding to franchised train operators and Network Rail in 2016-17

£m	GB Total	Train Operators	Network Rail
Department for Transport	2,318	-1,300	3,618
Transport Scotland	726	262	464
Welsh Government	153	153	0
Transport for London	111	111	0
Passenger Transport Executives	79	79	0
Net Government Funding	3,387	-695	4,082

Table 2.7 Franchised train operators and Network Rail statistical analysis

£m	GB total	England	Scotland	Wales
Government funding³⁶				
Share of net government funding (%)	100.0%	71.6%	18.8%	9.7%
Government funding per passenger journey (£)	1.96	1.53	6.08	8.82
Government funding per passenger km (£)	0.05	0.04	0.14	0.19
Passenger income³⁷				
Passenger income per passenger journey (£)	5.48	5.53	4.36	6.27
Passenger income per passenger km (£)	0.14	0.15	0.10	0.14
Expenditure³⁸				
Expenditure per passenger journey (£)	11.65	11.21	15.41	20.02
Expenditure per passenger km (£)	0.31	0.30	0.35	0.43
Income / expenditure				
Passenger income / expenditure (%)	47.0%	49.4%	28.3%	31.3%
Income (excluding government funding) less expenditure per passenger journey (£)	-2.27	-1.77	-7.68	-8.47
Income (excluding government funding) less expenditure per passenger km (£)	-0.06	-0.05	-0.17	-0.18

³⁶ Government funding as per Table 2.5 only.

³⁷ Passenger income as per Table 2.1 only.

³⁸ Expenditure as per Table 2.4 only.

Table 2.8 Route level - Franchised train operators and Network Rail income and expenditure in 2016-17

£m	Anglia	Kent	London North East	London North	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB Total
Income³⁹											
Passenger income	1,131	887	1,364	2,072	567	781	886	1,092	233	456	9,470
Other TOC income	93	81	130	207	54	58	62	89	45	38	858
Network Rail income	225	208	349	547	110	192	229	227	69	227	2,383
Government funding	507	441	1,151	1,399	389	810	610	455	409	724	6,897
TOC and Network Rail income	1,956	1,618	2,994	4,226	1,121	1,841	1,788	1,864	756	1,445	19,607
Expenditure											
Franchised train operators expenditure	974	895	1,337	2,169	445	758	825	823	309	825	9,362
Rail infrastructure expenditure	646	628	1,163	1,614	375	507	580	708	352	699	7,272
Government payments	253	155	626	382	260	763	705	196	82	88	3,510
TOC and Network Rail expenditure	1,872	1,679	3,126	4,165	1,081	2,029	2,110	1,727	743	1,612	20,144
Income less expenditure	83	-61	-133	61	40	-187	-322	137	13	-167	-536

³⁹ Financial data is presented for 10 routes. For operational purposes, London North East has merged with East Midlands (LNE/EM). Kent and Sussex have merged to form the "London South East" route.

Table 2.9 Route level - Franchised train operators and Network Rail income in 2016-17

£m	Anglia	Kent	London North	London North	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB Total
Franchised train operators income											
Passenger income	1,131	887	1,364	2,072	567	781	886	1,092	233	456	9,470
Other income	93	81	130	207	54	58	62	89	45	38	858
Government funding	111	128	394	380	158	623	300	30	131	260	2,517
Franchised train operators income	1,335	1,097	1,888	2,660	780	1,462	1,249	1,212	409	754	12,844
Network Rail income											
Fixed charges	28	22	54	91	17	13	23	31	20	93	392
Variable charges	110	87	179	278	57	95	102	93	31	87	1,119
Other Network Rail income	87	99	116	178	36	84	104	103	18	47	872
Government funding	396	313	757	1,019	231	187	310	425	278	464	4,380
Network Rail income	621	521	1,106	1,566	341	379	539	652	347	691	6,763
Total income	1,956	1,618	2,994	4,226	1,121	1,841	1,788	1,864	756	1,445	19,607

Table 2.10 Route level - Franchised train operators and Network Rail expenditure in 2016-17

£m	Anglia	Kent	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB Total
Franchised train operators expenditure											
Staff costs	303	236	424	620	134	233	277	304	118	287	2,937
Fuel costs	56	1	52	121	25	5	7	58	21	49	393
Rolling stock charges	207	180	253	500	71	150	151	92	48	162	1,816
Payments to government	231	125	580	316	245	746	683	158	67	61	3,212
Other operating expenditure	402	466	609	900	208	368	387	362	117	325	4,145
Interest and exceptional expenditure / (income)	-3	0	4	-1	3	2	-1	-1	-1	1	3
Corporation tax	9	12	-5	28	4	1	4	8	5	1	67
Franchised train operators expenditure	1,204	1,021	1,917	2,485	691	1,505	1,508	981	376	886	12,574
Rail infrastructure expenditure											
Controllable operating expenditure	85	67	142	207	40	88	59	70	53	80	891
Non controllable operating expenditure	66	61	85	135	26	52	63	33	10	51	582
Maintenance	127	110	209	320	76	67	93	131	68	118	1,319
Depreciation	210	203	459	572	134	146	203	236	136	276	2,575
Other (net schedule 4&8)	47	38	35	49	22	68	50	45	11	39	404
Corporation tax	0	0	1	1	0	0	0	0	0	0	2
Financing costs (external)	111	149	232	330	77	86	112	193	74	135	1,499
Payments to government	22	30	46	66	15	17	22	38	15	27	298
Network Rail expenditure	668	658	1,209	1,680	390	524	602	746	367	726	7,570
Total expenditure	1,872	1,679	3,126	4,165	1,081	2,029	2,110	1,727	743	1,612	20,144

Table 2.11 Route level - Franchised train operators and Network Rail government funding in 2016-17

£m	Anglia	Kent	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB Total
Franchised passenger train operators											
Franchise receipts from government	111	128	394	302	158	623	300	30	131	260	2,438
Passenger Transport Executive (PTE) funding	0	0	0	79	0	0	0	0	0	0	79
Government funding	111	128	394	380	158	623	300	30	131	260	2,517
Government receipts	-231	-125	-580	-316	-245	-746	-683	-158	-67	-61	-3,212
Total funding	-119	3	-187	65	-87	-123	-382	-128	64	199	-695
Network Rail											
Network Rail grant	396	313	757	1,019	231	187	310	425	278	464	4,380
Government-related financing	-22	-30	-46	-66	-15	-17	-22	-38	-15	-27	-298
Total funding	374	283	711	953	216	170	288	387	263	437	4,082
Total government funding of franchised train operators and Network Rail	255	286	524	1,018	129	47	-94	259	327	636	3,387

Table 2.12 Route level - Franchised train operators and Network Rail statistical analysis

	Anglia	Kent ⁴⁰	London North East	London North West	East Midlands	Sussex	Wessex	Western	Wales	Scotland	GB Total
Government funding											
Share of net government funding (%)	7.5%	8.4%	15.5%	30.1%	3.8%	1.4%	-2.8%	7.7%	9.7%	18.8%	100.0%
Government funding per passenger journey (£)	0.86	1.37	3.16	3.59	2.00	0.22	-0.38	2.50	8.82	6.08	1.96
Government funding per passenger km (£)	0.04	0.05	0.05	0.07	0.04	0.01	-0.01	0.04	0.19	0.14	0.05
Passenger income											
Passenger income per passenger journey (£)	3.81	4.26	8.21	7.31	8.78	3.64	3.55	10.51	6.27	4.36	5.48
Passenger income per passenger km (£)	0.16	0.17	0.13	0.14	0.17	0.16	0.12	0.18	0.14	0.10	0.14
Expenditure											
Expenditure per passenger journey (£)	6.30	8.06	18.81	14.69	16.73	9.46	8.46	16.63	20.02	15.41	11.65
Expenditure per passenger km (£)	0.27	0.32	0.31	0.28	0.33	0.40	0.29	0.28	0.43	0.35	0.31
Income / expenditure											
Passenger income / total expenditure (%)	60.4%	52.9%	43.6%	49.8%	52.5%	38.5%	42.0%	63.2%	31.3%	28.3%	47.0%
Income (excluding government funding) less expenditure per passenger journey (£)	-0.58	-1.67	-3.95	-3.38	-1.38	-1.09	-0.91	-1.18	-8.47	-7.68	-2.27
Income (excluding government funding) less expenditure per passenger km (£)	-0.02	-0.07	-0.06	-0.06	-0.03	-0.05	-0.03	-0.02	-0.18	-0.17	-0.06

⁴⁰ Some of Southeastern's services in Kent make use of High Speed 1 rail infrastructure, the cost of which is excluded from our analysis. Therefore, care is required in comparing Kent to other operating routes.

Table 2.13 Franchise area level - Franchised train operators and Network Rail income and expenditure in 2016-17

£m	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	East Anglia	Great Western	Northern	South Eastern	South Western	Thameslink Southern & Great Northern	TransPennine Express	Wales & Borders	West Coast	West Midlands	London Overground	Merseyrail Electrics	ScotRail	TfL Rail	Caledonian Sleeper ⁴¹	GB Total
Franchised train operators																					
Passenger income	169	196	507	741	375	587	927	298	757	1,003	1,420	221	140	1,083	338	222	52	328	83	23	9,470
Other income	10	18	7	78	47	45	71	42	72	84	104	21	48	80	51	17	18	29	14	1	858
Franchise receipts ⁴²	0	0	91	0	0	0	0	284	46	257	1,147	0	153	0	86	98	79	246	13	15	2,517
Operator income (a)	178	214	605	820	422	632	998	624	876	1,345	2,671	242	341	1,163	475	337	149	603	110	39	12,844
Staff costs ⁴³	40	51	93	158	104	153	325	268	209	237	390	59	104	180	134	96	58	239	33	8	2,937
Fuel costs	9	13	42	22	27	32	57	26	0	0	2	10	18	66	8	13	6	38	5	0	393
Rolling stock charges	26	27	97	93	35	133	76	101	163	132	266	72	41	308	72	30	12	113	17	0	1,816
Franchise payments to government	46	46	156	272	69	128	132	0	27	624	1,420	9	59	212	6	0	5	0	0	0	3,212
Corporation tax	0	1	0	-11	6	7	10	7	12	4	0	0	5	15	5	2	4	1	1	0	67
Other including Network Rail charges	48	76	194	300	159	150	359	206	424	331	604	92	92	330	226	189	50	220	54	42	4,148
Operator expenditure (c)	170	215	583	834	400	602	960	609	836	1,327	2,682	242	319	1,112	452	330	134	610	108	50	12,574
Operator income less expenditure⁴⁴	9	-1	22	-15	22	30	39	16	40	17	-11	0	22	51	23	7	15	-7	2	-11	271
Network Rail																					
Franchised train operators access charges	17	18	61	117	43	76	96	64	84	99	158	37	29	191	53	14	9	108	6	8	1,287
Net government grant	60	94	286	256	197	246	409	406	279	271	408	156	240	362	205	57	49	362	22	15	4,380
Other	17	22	68	43	41	68	114	92	103	104	144	33	35	63	46	19	11	64	6	2	1,096
Network Rail income (b)	94	134	415	416	281	391	619	562	466	475	710	226	303	616	304	90	69	533	34	25	6,763
Network Rail expenditure (d)	101	144	460	449	318	420	703	613	589	531	890	245	322	655	328	104	75	561	36	26	7,570
Network Rail income less expenditure	-7	-11	-45	-33	-37	-29	-85	-51	-123	-55	-180	-19	-19	-39	-24	-14	-5	-27	-3	-1	-807
Total income (a + b)	272	348	1,020	1,235	703	1,022	1,617	1,186	1,342	1,820	3,381	468	644	1,779	779	427	219	1,136	144	64	19,607
Total expenditure (c + d)	271	360	1,043	1,283	717	1,022	1,663	1,222	1,425	1,858	3,571	487	641	1,766	780	434	209	1,171	144	76	20,144
Income less expenditure	2	-12	-22	-48	-14	1	-46	-35	-83	-38	-191	-19	3	12	-1	-7	9	-35	0	-12	-536

⁴¹ Expenditure for Caledonian Sleeper is largely categorised under 'other including Network Rail charges', this does not mean it has no costs under other categories (such as 'fuel', which in this table is shown as £0m), but that more detailed information was not available.

Table 2.14 Franchise area level - Franchised train operators and Network Rail government funding in 2016-17

£m	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	East Anglia	Great Western	Northern	South Eastern	South Western	Tramalink Southern & Great Northern ⁴⁵	TransPennine Express	Wales & Borders	West Coast	West Midlands	London Overground	Merseyrail Electrics	ScotRail	TfL Rail	Caledonian Sleeper	GB total	
Franchised passenger train operators																						
Franchise receipts from government	0	0	91	0	0	0	0	284	46	257	1,147	0	153	0	86	98	0	246	13	15	2,438	
Passenger Transport Executive (PTE) funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	79	0	0	0	79	
Government funding	0	0	91	0	0	0	0	284	46	257	1,147	0	153	0	86	98	79	246	13	15	2,517	
Government receipts	-46	-46	-156	-272	-69	-128	-132	0	-27	-624	-1,420	-9	-59	-212	-6	0	-5	0	0	0	-3,212	
Total funding	-46	-46	-65	-272	-69	-128	-132	284	19	-366	-273	-9	94	-212	80	98	74	246	13	15	-695	
Network Rail																						
Network Rail grant	60	94	286	256	197	246	409	406	279	271	408	156	240	362	205	57	49	362	22	15	4,380	
Government-related financing	-3	-7	-20	-13	-13	-13	-34	-28	-27	-19	-32	-10	-14	-19	-14	-4	-3	-22	-1	-1	-298	
Total funding	57	88	266	243	184	233	375	378	252	252	376	146	225	342	191	53	45	339	20	14	4,082	
Total government funding of franchised train operators and Network Rail	10	41	201	-29	115	105	243	663	271	-114	103	138	319	130	271	150	120	586	34	30	3,387	

⁴² The TSGN franchise is operated under a management contract and has a different arrangement for government funding than other franchises where a management fee is received in place of fares, which are passed to government. In this table, we show fares under 'passenger income', the management fee under 'franchise receipts' and the fares passed through to government as 'franchise payments to government'.

⁴³ East Coast staff costs include £3m for reorganisation costs. Similar costs were categorised under other operating expenditure last year and for this reason comparisons to prior years should be made with caution, as some of the data is not on a consistent basis.

⁴⁴ This is not the same as statutory profit or loss as per statutory accounts.

⁴⁵ TSGN receipts are the management fee paid to TSGN, in exchange TSGN pass through the fares it collects which results in an overall payment to government of £273m.

Table 2.15 Franchise area level - Franchised train operators and Network Rail statistical analysis

£m	Essex Thameside	Chiltern	Cross Country	East Coast	East Midlands	East Anglia	Great Western	Northern	South Eastern	South Western	Thameslink Southern & Great Northern	TransPennine Express	Wales & Borders	West Coast	West Midlands	London Overground	Merseyrail Electrics	ScotRail	TfL Rail	Caledonian Sleeper	GB total	
Government funding																						
Share of net government funding (%)	0.3%	1.2%	5.9%	-0.9%	3.4%	3.1%	7.2%	19.6%	8.0%	-3.4%	3.0%	4.1%	9.4%	3.8%	8.0%	4.4%	3.5%	17.3%	1.0%	0.9%	100.0%	
Government funding per passenger journey (£)	0.22	1.56	5.20	-1.35	4.29	1.28	2.32	6.15	1.49	-0.50	0.32	5.15	9.90	3.44	3.69	0.80	2.80	6.21	0.76	92.30	1.96	
Government funding per passenger km (£)	0.01	0.03	0.06	-0.01	0.05	0.03	0.04	0.25	0.06	-0.02	0.01	0.07	0.26	0.02	0.10	0.12	0.17	0.21	0.06	0.14	0.05	
Passenger income																						
Passenger income per passenger journey (£)	3.62	7.41	13.09	34.23	13.98	7.15	8.84	2.77	4.15	4.36	4.43	8.27	4.34	28.71	4.59	1.17	1.21	3.48	1.86	70.61	5.48	
Passenger income per passenger km (£)	0.14	0.13	0.14	0.13	0.15	0.15	0.15	0.11	0.16	0.16	0.16	0.12	0.11	0.14	0.12	0.17	0.07	0.12	0.15	0.11	0.14	
Expenditure																						
Expenditure per passenger journey (£)	5.81	13.62	26.94	59.25	26.74	12.46	15.85	11.35	7.81	8.08	11.14	18.21	19.87	46.81	10.60	2.30	4.89	12.43	3.24	235.77	11.65	
Expenditure per passenger km (£)	0.22	0.25	0.29	0.23	0.29	0.27	0.28	0.46	0.31	0.29	0.41	0.26	0.52	0.24	0.28	0.34	0.30	0.41	0.25	0.35	0.31	
Income / expenditure																						
Passenger income / total expenditure (%)	62.3%	54.4%	48.6%	57.8%	52.3%	57.4%	55.8%	24.4%	53.1%	54.0%	39.8%	45.4%	21.8%	61.3%	43.3%	51.1%	24.7%	28.0%	57.5%	29.9%	47.0%	
Income (excluding government funding) less expenditure per passenger journey (£)	-0.19	-2.02	-5.78	-0.85	-4.83	-1.27	-2.75	-6.48	-1.94	0.33	-0.92	-5.86	-9.80	-3.11	-3.70	-0.83	-2.58	-6.58	-0.76	-130.12	-2.27	
Income (excluding government funding) less expenditure per passenger km (£)	-0.01	-0.04	-0.06	0.00	-0.05	-0.03	-0.05	-0.27	-0.08	0.01	-0.03	-0.08	-0.26	-0.02	-0.10	-0.12	-0.16	-0.22	-0.06	-0.19	-0.06	

Table 2.16 Freight income and expenditure in 2016-17⁴⁶

£m	DB Cargo ⁴⁷	Devon and Cornwall Railways	Direct Rail Services	Freightliner	Freightliner Heavy Haul	GB Railfreight	Adjustments	GB Total
Income								
Freight Income	346	2	70	184	80	127	-19	790
Government Funding ⁴⁸							19	19
Total Income								
Total Expenditure	404	2	85	195	93	123	0	903
Income less Expenditure	-58	-1	-15	-11	-14	4	0	-94

⁴⁶ Data is sourced from statutory accounts. Colas Rail has been excluded because a high proportion of their income relates to engineering activity, which is not readily separable in the Colas statutory accounts.

⁴⁷ Data for DB Cargo includes financial data for DB Cargo (UK) Limited and DB Cargo International Limited.

⁴⁸ Details of government funding is provided where available (Mode Shift Revenue Support). An industry-level adjustment has been made so that the total agrees to the known industry-level government funding awarded.

Table 2.17 Open access operators income and expenditure in 2016-17

£m	Heathrow			GB Total (excluding Eurostar)	Eurostar ⁴⁹
	Grand Central	Express/Connect	Hull Trains		
Income					
Passenger income	42	121	29	192	793
Other income	6	11	1	18	32
Total Income	48	132	30	210	824
Expenditure					
Staff costs	7	24	5	36	106
Fuel	5	2	3	10	0
Rolling stock	5	7	9	14	0
Other expenditure	23	99	8	137	806
Total Expenditure	40	133	25	197	912
Income less expenditure	8	-1	5	12	-88

⁴⁹ Eurostar is included in this table as it is an open access operator but the majority of its income is from international passenger services. Eurostar operates international only services to and from the UK. We do not have the data to show the UK and international components of Eurostar's income and expenditure. Therefore, no Eurostar income and expenditure is included in Figure 1 and in industry level income and expenditure.

Table 2.18 High Speed 1 income and expenditure in 2016-17⁵⁰

	£m
Income ⁵¹	306
Operating expenditure	-242
Operating Profit	64
Interest receivable and similar income	16
Finance Charges ⁵²	-35
Tax	-7
Surplus for the financial year	38

⁵⁰ Data is based upon statutory accounts for the year ended 31 March 2017.

⁵¹ Income is from regulated charges, unregulated charges and stations along the HS1 route (St Pancras International, Stratford International, Ebbsfleet International and Ashford International).

⁵² Our analysis aims to show the operational costs of the railway; to that end, finance charges of £117m paid to parent and group undertakings have been removed from table 2.18.

Table 2.19 Northern Ireland Railways income and expenditure in 2016-17⁵³

	£m
Passenger income	47
Other income	0
Revenue support from government	18
Total income	65
Staff costs	-42
Other operating expenditure	-20
Total operating costs	-63
Operating Profit	2
Net interest	0
Other non-operational expenditure	-1
Taxation	0
Profit/(loss) after tax	1

⁵³ Financial data is based upon statutory accounts for the 52 weeks ended 26th March 2017. Northern Ireland Railways accounting data is presented in aggregate for the infrastructure management and passenger operating parts of the business. Its share of cross-border services with the Republic of Ireland is included in its figures.

3. Methodology

Source data

3.1 Financial information included in this publication comes from a variety of sources as follows:

- Franchised train operators data is based upon management information packs sent to franchising authorities.
- Open access operators data is based upon bespoke returns sent to the ORR.
- Freight operators and Northern Ireland Railways data is based upon statutory financial statements.
- Network Rail and HS1 data is based on regulatory reports:
 - a. Network Rail Regulatory Financial Statements; and
 - b. HS1 AMAS report (Asset Management and Annual Statement).

3.2 Data is shown on a comparable basis where possible, however the financial data mentioned above will contain differences for the following reasons:

- Accounting Standards – management accounting will differ from statutory reports and regulatory reports will present data as defined by the ORR (for example the regulatory accounting guidelines for Network Rail).
- Time Period – most companies prepare financial data on an April to March financial year basis, however some companies (for example freight) prepare accounts on a calendar basis (January to December).

3.3 We have used accruals accounting, with income and expenditure matching the periods in which they are earned or fall due, rather than when cash flows.

Scope

3.4 The only major change in scope since 2015-16 is that we have not included rolling stock companies in the analysis this year. This is because our coverage of rolling stock companies was not sufficiently comprehensive to be reflective of the sector and statutory accounts were not yet available. Prior year numbers have been restated.

3.5 Some important areas of the industry are not included in this publication, such as rolling stock companies, engineering companies and other parts of the rail industry supply chain, which have been excluded because financial data is either not available, or consolidation into the industry analysis is not yet possible. The funding and expenditure of the HS2 and Crossrail projects have also been excluded as they are not yet operational (however the operational part of Crossrail is included, i.e. in TfL Rail).

Inflation

3.6 The November to November retail prices index (RPI) is used throughout our analysis to adjust for the effect of inflation. This allows us to view prior year data on a consistent basis with all prior year numbers shown in a 2016-17 price base. The change in RPI from November 2015 to November 2016 was 2.2% (11.3% change since 2011-12).

Fares analysis

3.7 The majority of rail tickets issued are recorded on the LENNON database. LENNON is used to allocate the revenue from ticket sales between operating companies when more than one company runs services for a particular origin/destination/ticket type/routing combination, or where more than one train is needed to complete a journey. LENNON also allocates revenue to Network Rail routes⁵⁴.

3.8 Our analysis of regulated and unregulated passenger income is based on LENNON data. The LENNON income data was mapped to regulated and unregulated ticket types to produce a Fares Index Dataset, which enabled an analysis of the contribution of regulated and unregulated ticket types for each train operators passenger income.

3.9 Our approach is sufficiently robust to provide a high level summary of the relative contribution of different ticket types to train operators income but there are limitations (for example, the fares index dataset is only available on a January to December basis).

Network Rail borrowing

3.10 Network Rail was reclassified from the private sector to the central government sector in the UK national accounts with effect from 1 September 2014⁵⁵. Prior to

⁵⁴ The LENNON database is the source of the passenger income figure published as part of the <http://orr.gov.uk/statistics/published-stats/statistical-releases>

⁵⁵ Office for National Statistics, http://webarchive.nationalarchives.gov.uk/20160108030414/http://www.ons.gov.uk/ons/dcp171766_345415.pdf, 17 December 2013.

that change, Network Rail borrowed on the capital markets. Its debt was guaranteed by the UK government and the company was therefore able to borrow at a lower rate. For this guarantee, Network Rail paid a Financial Indemnity Mechanism (FIM) fee to the Department for Transport (DfT). The FIM fee is still paid on this historical debt, which we include as government income.

Financial analysis

3.11 In this publication we show financial information in 3 ways:

- **industry level** analysis consolidates income and expenditure for the parts of the UK rail industry in our scope;
- **national** and **route-level** analysis sets out to show what the combined income and expenditure of an integrated infrastructure manager and train operating company would look like for GB, England, Scotland, Wales and the 10 routes; and
- **franchise** analysis shows the finances of individual franchises, as well as allocating Network Rail's income and expenditure to each franchise.

3.12 Although all entities are included in the industry level analysis, we have not included freight, open access, HS1 or Northern Ireland Railways in the national or operator-level analysis. The industry level consolidation methodology is as described below.

Industry level analysis

3.13 Our industry level analysis as shown in Figure 1 is produced by bringing together the financial information from each of the industry's sectors into a 'consolidated' whole and making adjustments for money flows within the industry.

3.14 For example, some of Network Rail's income, such as from access charges, and some of train operators expenditure, such as access charges, is excluded from the industry analysis because these are money flows entirely within the industry. This eliminates the double counting of income, expenditure and other items that would otherwise occur because of transactions within the industry.

3.15 This contrasts with the 'gross' analysis shown in Figure 4, which shows the financial information of each sector prior to any adjustments.

3.16 Both 'consolidated' and 'gross' ways of showing industry financials are important. The 'consolidated' analysis helps us understand the total income and costs of the industry from outside it (for passengers and government) and the 'gross' analysis helps us understand the income and costs of each part of the industry.

3.17 The main industry money flows excluded from industry finances in the consolidated analysis are as follows.

Table 3.1 Money Flows within the industry (£bn)

Train Operators	1.3	Network Rail	0.7
<i>Of which:</i>		<i>Of which:</i>	
Network Rail charges	1.5	Traction electricity	0.3
Performance income	(0.2)	Performance costs	0.4

National and route-level analysis

Allocation of franchise income and costs to routes

3.18 To ensure that different operators who have only operated a franchise for part of the year are comparable with other operators, we have presented financial information by franchise, rather than by operator.

3.19 We have allocated passenger franchise income between routes using the industry's Network Modelling Framework matrix, which is derived from LENNON data.

3.20 Passenger franchise expenditure has been allocated between routes and therefore between England, Scotland and Wales, as a share of the total train distance travelled in each route⁵⁶.

3.21 We have also allocated net government funding (support less premium and profit share) on the basis of train distance travelled in each route.

Allocation of Network Rail costs to routes

3.22 This allocation has already been done by Network Rail in its regulatory financial statements⁵⁷.

3.23 Scotland and Wales are routes in their own right. The 8 other routes are added together for the England totals. Network Rail uses a set of principles to attribute income and expenditure to routes, which are set out in a guidebook.

3.24 For statutory reporting purposes, Network Rail's renewals and enhancements expenditure is capitalised and then depreciated over the useful economic life

⁵⁶ The train distance travelled information was provided to us by Network Rail and is considered the most appropriate currently available to the industry. There are occasional changes to route boundaries but these are likely to have only a minor effect on our analysis.

⁵⁷ <https://www.networkrail.co.uk/who-we-are/publications-resources/financial/>

of the assets. This capital expenditure can be “lumpy”, i.e. it can vary significantly from year to year and if we used actual annual expenditure, the amounts in our analysis could significantly vary from year to year. In our PR13 determination and its regulatory accounts, Network Rail’s amortisation (depreciation) charge is based on the forecast long-run annual average renewals expenditure that is required to maintain the network in a steady state, as adjusted for financial sustainability⁵⁸. We use this amortisation charge in this publication (referred to, for simplicity sake, as depreciation).

3.25 Amortisation is directly allocated to routes based on the renewals work required in each route in 2016-17 for each asset type. Enhancement expenditure is not separately depreciated but the future renewals of an enhancement are included in the long-run renewals calculation.

Franchise area analysis

3.26 The franchise area analysis shows the finances of individual franchises, as well as allocating Network Rail’s income and expenditure to each franchise. Due to the overlapping and misaligned geographies of franchises and operating routes there are many different approaches to the allocation of Network Rail’s income and expenditure and the allocation of government funding to franchised train operators and operating routes. It is important that it is recognised that there is no definitive view on how this should be done and therefore care is required in understanding and interpreting our analysis.

3.27 Freight operators and open access operators are excluded from this analysis. Based on the structure of charges, Network Rail’s income from FOCs and OAOs is assumed to match Network Rail’s expenditure for providing infrastructure to them. On that basis, Network Rail’s income and expenditure relating to FOCs and OAOs cancel out in our analysis.

Franchise train operators income and expenditure

3.28 Franchised train operators income is made up of:

- *farebox income and other income*, which includes car parking, catering etc. For comparability between franchises, this also includes farebox income that is passed directly to franchising authorities; and

⁵⁸ In PR13, ORR determined that Network Rail’s total amortisation (depreciation) in CP5 would be the sum of the long-run renewals required to maintain the network in a steady state, as adjusted for financial sustainability (£400m). This is explained in Chapter 12 of our PR13 determination.

- *government support and/or management fee* is revenue support grant or a management fee, which is paid to the franchise if the franchise passes the farebox income directly to the franchising authority (as in the case with the Thameslink, Southern and Great Northern franchise).

3.29 Franchise train operators expenditure is made up of:

- *franchise premium, profit share and TSGN fares paid to DfT*, which is paid to a franchising authority in accordance with the terms of a franchise agreement;
- *charges paid to Network Rail*, as specified in a track access contract; and
- *staff and other franchise costs*, which includes rolling stock costs.

3.30 The difference between income and expenditure gives the franchise's surplus or deficit. However, because the data is sourced from management accounts, these figures may not match the company's profit or loss. **Care should be taken when interpreting this information.**

Network Rail's income from franchises

3.31 Charges paid by franchises to Network Rail are known at an aggregate level. We have allocated this income to each franchise's route-level "account" in our calculations on the following basis:

- *variable usage charges (excluding electricity)* are known for each franchise in each route;
- *electricity charges* (including the electrification asset usage charge) have been allocated based on an operator's variable usage charge in a route, if it uses electricity in that route; and
- *fixed and other charges* have been allocated based on that franchise's share of train distance travelled in that route.

Network Rail's expenditure allocated to franchises

3.32 The costs incurred by Network Rail in providing infrastructure have been attributed for the purposes of our consolidation to a route-level "account" in our calculations for each franchise on the following basis:

- *maintenance costs* in each route have been allocated to franchises in proportion to the total variable usage charge paid by each franchisee in

that route. The variable usage charge rate (£ per train km) is calculated based on a train's engineering characteristics and the wear and tear that a train causes to the track and is therefore an appropriate cost driver;

- *electricity costs* (including the electrification asset usage charge) have been allocated based on an operators VUC in a route, if it uses electricity in that route;
- *depreciation/amortisation* and *other costs* have been allocated in proportion to train distance travelled by each franchise in each route; and
- *network grant* has been allocated at route level in proportion to the residual Network Rail income less expenditure that we have calculated in each franchise's route-level "account".

Non-financial information

3.33 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 statistics⁵⁹.

⁵⁹ Data covering a range of rail statistics is available at <http://orr.gov.uk/statistics/data-portal>

Annex A: ORR Financial Statistical Release

A.1 The ORR also provides financial information on the rail industry in our Rail Finance 2016-17 Annual Statistical Release⁶⁰.

Rail Finance 2016-17 Annual Statistical Release

A.2 This release contains information on rail finance in Great Britain covering the period from 1985-86 to 2016-17.

A.3 It focuses upon government support to the rail industry and private investment.

Differences between the ORR publications

A.4 The Rail Finance Annual Statistical Release is primarily sourced from government data whereas this publication is primarily sourced from industry data.

A.5 Total government funding is £4.2bn in the rail finance annual statistical release and £3.4bn in this publication. This is largely because this publication does not include government support to the Crossrail and HS2 projects (see table below).

A.6 Train operators payments to government also differ between the two publications because of a difference in accounting policies between the government and industry, that affects when transactions are accounted for, this results in timing differences.

Reconciliation between Rail Industry financial information and the Rail Finance 2016-17 Annual Statistical Release

	£bn
Government funding per Rail Finance 2016-17 Annual Statistical Release	4.2
Less: HS2 investment	(0.8)
Less: Miscellaneous costs.	(0.3)
Add: Difference between government and industry data for net TOC premiums	0.1
Add: Payment from Crossrail to the Corporation of London (included in the annual statistical release as government income, which reduces total government funding but is <u>not</u> included in this publication)	0.2
Government funding per 2016-17 Rail Industry financial information	3.4

⁶⁰ http://orr.gov.uk/_data/assets/pdf_file/0005/22982/rail-finance-statistical-release-2016-17.pdf

Annex B: Industry structure

B.1 To varying degrees, national, regional and local **governments** provide funding to the rail industry, award contracts for public rail services and regulate fares. These include:

- Department for Transport (England).
- Transport Scotland.
- Department for Infrastructure (NI).
- Welsh Government.
- Transport for London.
- Passenger Transport Executives

B.2 **Franchised Passenger Train Operating Companies** (TOCs) run services contracted by government bodies. Some operators pay a premium to government to run services. Services that provide a socioeconomic benefit but would not otherwise be financially viable are run with public support, known as “revenue support grant”. Some operators operate under management contracts, where the operator receives a fee for providing the service but does not keep the passenger fares. The fee is sometimes based on the fares collected.

B.3 **Open access and Charter** are train operators that provide passenger services outside the franchise system. They receive no direct government support.

B.4 **Freight operating companies** (FOCs) provide freight services in bulk or containerised forms. Mode Shift Revenue Support grants are available for some

movements, for FOCs moving freight by rail instead of road, where it would otherwise be commercially unviable to do so.

B.5 **Rolling stock companies** (ROSCOs) own, and in some cases maintain and upgrade, locomotives, passenger carriages and freight wagons.

B.6 **Infrastructure managers** operate, maintain, renew and enhance railway infrastructure, such as track, signals and structures. These include: Network Rail, Northern Ireland Railways, High Speed 1, Eurotunnel, Transport for London (East London Line) and Heathrow Airport (for the spur line). The Crossrail central operating section will be part of TfL. The arrangements for HS2 have not yet been determined.

B.7 The **Rail Safety and Standards Board** is a non-profit company owned by the rail industry. It collects data on safety incidents, undertakes research and develops standards. It is funded by a levy on the industry and government grant funding for research.

B.8 The **Rail Accident Investigation Branch** is funded by the Department for Transport to independently investigate accidents.

B.9 The **Office of Rail and Road** is a non-ministerial government department. It is the independent economic and safety regulator of the Great Britain and Northern Ireland’s railways and monitor of strategic highways in England. It is a prosecuting authority and competition authority, as well as having statistics functions. Its railway functions are funded by a levy on the industry.

B.10 **British Transport Police** is the dedicated railway police force in Great Britain. It is sponsored by the Department for Transport but is largely funded by the rail industry through Police Service Agreements.

B.11 **Transport Focus** is the statutory independent transport user watchdog in Great Britain. It conducts the National Rail Passenger Survey and handles complaints from rail users.

B.12 **The Rail Delivery Group** (incorporating the Association of Train Operating Companies) provides ticketing, National Rail Enquiries and coordination functions.

B.13 This list of railway-related bodies is not exhaustive. The industry supply chain, such as engineering contractors and manufacturers are not analysed in this publication. Neither are skills academies.

Annex C: Companies included in our analysis

This publication includes the following companies.

Franchised Train Operators

Company	Company Number
East Midlands Trains Limited	5340682
London & Birmingham Railway Limited	5814584
Arriva Rail North Limited	4337712
Stagecoach South Western Trains Limited	5599788
First Transpennine Express Limited	9111801
East Coast Main Line Limited	4659708
First Greater Western Limited	5113733
West Coast Trains Limited	3007940
XC Trains Limited	4402048
Arriva Trains Wales/Trenau Arriva Cymru Limited	4337645
The Chiltern Railway Company Limited	3007939
NE No.3 Limited & Trenitalia C2C Limited	2938993 (now 07897267)
Abellio Greater Anglia Limited	6428369
Govia Thameslink Railway Limited	7934306
London and South Eastern Railway Limited	4860660
Arriva Rail London Limited	4165861
Merseyrail Electrics 2002 Limited	4356933
Abellio Scotrail Ltd	SC450732
MTR Corporation (Crossrail) Limited	8754715
Serco Caledonian Sleepers Limited	SC477821

Open Access Operators

Eurostar International Limited	2462001
Grand Central Railway Company Limited	3979826
Heathrow Express Operating Company Limited	3145133
Hull Trains Company Limited	3715410

Freight Operating Companies

DB CARGO (UK) LIMITED	2938988
DB CARGO INTERNATIONAL LIMITED	3232475
DEVON AND CORNWALL RAILWAYS LIMITED	4973992
Direct Rail Services Limited	3020822
Freightliners Limited	3281655
Freightliner Heavy Haul Limited	3831229
GB Railfreight Limited	3707899

Other

High Speed One (HS1) Limited	6045862
Network Rail Infrastructure Limited	2904587
Northern Ireland Railways Company Limited	NI006929



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