Profiteering at a time of crisis:

How the public is funding profiteering on rail during the Coronavirus

July 2020

1. Profiteering at a time of crisis

- Britain's private rail companies stand to make almost £500 million in profits out of the crisis on UK railways over a 12 month period, if the government goes ahead and extends the current Emergency Measures Agreement (EMA) bailouts. Analysis of ministerial answers to questions in Parliament indicate that the government's EMAs will see the government hand over around £115 million in operating profits to the train operating companies over the initial 6 month period and £231 million over a 12 month period. The train operating companies are currently lobbying the government to extend the agreements for a further 18 months.

- Under the EMAs, the government is also 'picking up the tab' in full for the lease charges that would be paid by the train operating companies to the rolling stock companies who own Britain's trains, the 'ROSCOs'. Analysis of the ROSCOs' accounts shows that in the last year, they made profits of £241 million.

- If the government renews the EMAs and continues to bail out the train operating companies, we could see around £500 million in desperately needed public funds leaking out of the railways into private profit over a 12 month period. The government will be directly funding profiteering in our industry at a time when it desperately needs operating support and investment.

2. Emergency Measures Agreements: guaranteeing a £230 million profit over 12 months

- In April this year, the government created a series of Emergency Measures Agreements with the Train Operating Companies whereby it agreed to take on all the costs of the railway for an initial six month period. It would also pay the companies a 2% management fee for continuing to operate the railways.

- The government is currently deciding whether to extend this £900 million per month bailout. Even before the Covid-19 crisis struck, rail franchising had broken down, with the government stepping in to renationalise Northern Rail and further interventions likely on the South-Western and Transpennine franchises. Now, private companies are lobbying for an extension of the bailout and there is speculation that the system of Emergency Measures Agreements could be locked in for the long-term under the guise of a new system of 'management contracts' or 'concessions'.

- Ministerial answers to questions tabled in Parliament by Ian Mearns MP revealed that the government is preparing to hand the private companies a lump sum worth 2% of the 'cost base' of the franchises before the COVID-19 crisis began.

- On 9th June, Ian Mearns MP asked: 'What estimate [The Secretary of State for Transport] has made of how much each train operating company will receive as payment during the six months of Emergency Measures Agreements?' On 15th June Rail Minister Chris Heaton Harris said: 'Franchisees will be paid a maximum of 2% of the cost base of the franchise before the COVID-19 pandemic began, payable as a lump sum at the end of the initial 6-month Emergency Measures Agreement period. A proportion of the fee will be conditional on operators meeting performance, passenger experience and efficiency targets.'[1]

- Figures published by the Office of Rail and Road reveal that this cost base equated to £11.5 billion over 2018-19. Franchised train operators expenditure is calculated using the ORR's financial information from 2018-19 as the most recent year's data indicating the cost base of franchises before the Covid-19 crisis began. Franchise payments to government have been deducted from this cost base as it is assumed these will not be being paid (Table 1).[2]

- Using this cost base, the TOCs stand to make £115 million over the six-month initial period of the EMAs and would stand to make £231 over a 12 month period. For scale, this is roughly equivalent to the amount that the TOCs paid out in dividends to their owners on average every year for the last 10 years (£219 million).

Table 1: Cost base of rail franchises and the value of a 2% management fee

[1] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2020-06-09/57184/

[2] https://orr.gov.uk/rail/publications/economic-regulation-publications/uk-rail-industry-financial-information/uk-rail-industry-financial-information-2018-19 See data tables 2.2 and 2.4.

£m	GB total	England	Scotland	Wales
Franchised train operators expenditure				
Staff costs	3,303	2,872	298	132
Fuel costs	396	321	56	19
Rolling stock charges	2,450	2,205	171	74
Other operating expenditure	5,194	4,501	527	166
Interest and exceptional expenditure / (income)	161	158	3	0
Corporation Tax	59	54	1	4
Franchised train operator expenditure	11,563	10,111	1,056	395
2% Management fee over 12 months	**231**	**202**	**21**	**8**

Data source: https://orr.gov.uk/rail/publications/economic-regulation-publications/uk-rail-industry-financial-information/uk-rail-industry-financial-information-2018-19 See data tables 2.2 and 2.4. Calculations by RMT.

3. Picking up the tab for the rolling stock companies: £241 million profits for the ROSCOs

- On 7 April, appearing in front of the Transport Select Committee, Minister of State for Rail Chris Heaton Harris was asked whether the government was covering the costs of leasing trains from the ROSCOs or whether the companies had agreed to waive those charges for the duration of the crisis. Heaton Harris said 'Currently, we are picking up the tab.'[3] Labour MP Grahame Morris subsequently tabled further questions in Parliament asking how much the ROSCOs were receiving. On June 2nd the Minister answered that 'Train Operating Companies are continuing to pay the contractually agreed rental cost for rolling stock as they were prior to the Emergency Measures Agreements.' In a further answer he confirmed that 'Rolling stock contracts are fixed over the term of the original franchise and were competitively procured by the operators; the same payments will continue through the period of the EMA.'[4]

- In the last year for which figures are available (2018/19), the train operating companies paid £2.45 billion in leasing charges to the rolling stock companies.[5]

- In the year ending December 2018, the three ROSCOs made profits before tax of £241 million between them.

[3] Transport Committee Oral evidence: Coronavirus: implications for transport, HC 268 Tuesday 7 April 2020 https://publications.parliament.uk/pa/cm5801/cmselect/cmtrans/correspondence/transcript-coronavirus-implications-for-transport-07-04-20.pdf

[4] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-questions-answers/?page=1&max=20&questiontype=AllQuestions&house=commons%2Clords&dept=27

[5] https://orr.gov.uk/rail/publications/economic-regulation-publications/uk-rail-industry-financial-information/uk-rail-industry-financial-information-2018-19.

Table 2: ROSCO profits and dividends for the financial year ending December 2018[6]

Rolling Stock company	Profit Before Tax	Dividend
Porterbrook*	£81,659,000	£80,000,000
Angel Trains**	£128,900,000	£147,000,000
Eversholt***	£30,469,000	£40,100,000
Total	£241,028,000	£267,100,000

*Porterbrook Holdings 1 Ltd, Annual Report and Financial Statements, Year Ended December 2018
**Angel Trains Ltd, Annual Report and Financial Statements, Year Ended December 2018
***Eversholt UK Rails (Holding) Ltd (Security Group), Annual Report and Financial Statements, Year Ended December 2018.

- The public is directly paying for the profits of these rolling stock companies and these companies in turn are being sucked out of the industry and turned into dividends rather than reinvested. The ROSCOs pay an average of £263 million out of the industry in dividends, often more than 100% of their profits, to their owners each year, amounting to £2.39 billion in the last 10 years.[7]

Summary:

- If the government renews the EMAs and continues to bail out the train operating companies, we could see around £500 million in desperately needed public funds leaking out of the railways into private profit over a 12 month period. The government will be directly funding profiteering in our industry at a time when it desperately needs operating support and investment.

- Such profiteering, which sees hundreds of millions in taxpayers' money leaking out of the industry, cannot be right at this time when we need to rebuild a safe, affordable, accessible public transport system to help meet our decarbonisation goals and get Britain moving again. It is surely time to take back control and nationalise this vital public service.

[6] *Picking up the tab for trains: how the public is funding profiteering in rolling stock,* RMT report, July 2020, p.9
[7] *Counting the costs of privatisation*, RMT Report, January 2020.