



# Policy Briefing

March 2023

## Railtrack revived? How private profiteers are driving Network Rail's cuts to maintenance spending – and risking passenger safety

### Summary

- Network Rail is seeking to cut £100 million from its infrastructure maintenance spending this year. RMT believes this is due to Network Rail's desire to create 'headroom' for further growth in its debt servicing burden.
- Almost every year since 2010, Network Rail has spent more servicing its debt than it has spent on infrastructure maintenance.
- In 2022, the cost of financing Network Rail's debt soared to £2.8 billion, representing 30% of its revenue, compared with £1.9 billion on maintenance (20% of revenue).
- As a percentage of its spending on renewals, enhancements, maintenance and finance, Network Rail is spending less than Railtrack did just before it was taken into administration. This followed five years where Railtrack pressed down on its maintenance spending in order to help generate dividends for its shareholders.
- As a proportion of its operational costs, Network Rail is spending less on infrastructure maintenance than Railtrack did.
- Although that Network Rail spent on finance fell in the last couple of years, it will shortly be rising again. In 2023, a 3% sterling bond for £399 million will mature and following that two more large bonds worth £743 million and £389 million in 2024 and 2025 respectively. So, Network Rail's debt burden will rise again in the next few years.
- In essence Network Rail is behaving increasingly like Railtrack. Where Railtrack squeezed its maintenance spending to generate dividends for its shareholders, Network Rail is doing so to satisfy the claims of its private sector bondholders.

### Network Rail's plans to cut maintenance spending

Network Rail managers have tabled cuts aimed at making cost savings of £100 million in maintenance spending and £170 million in management costs. The plans would entail a reduction of around 34% in scheduled maintenance hours and threaten 2,500 maintenance jobs.

Network Rail bosses say “Britain’s railway is the safest major network in Europe, and we’d never make changes that would compromise that hard-won achievement. The modernisation proposals we’ve put on the table would help our workforce be more flexible, enabling us to avoid compulsory job losses [and] help our workforce be safer because they won’t work on live tracks as often.”<sup>1</sup>

Yet Network Rail is looking to reduce the amount that it spends on maintenance by £100 million – around 5% of what it spent on maintenance last year – and moving toward ‘risk-based’ maintenance.

In moving toward ‘risk based’ maintenance, Network Rail is reversing one of the key moves it made when it took over from Railtrack in the wake of the Hatfield crash. In its final report on the Hatfield crash from 2006, the Independent Investigation Board noted that Network Rail had introduced ‘proactive maintenance through development of automated track related inspection, focusing on geometry, component condition and rail integrity. This is a move away from the old philosophy of “find and fix” to a more proactive inspection philosophy of “measure, predict and prevent’.<sup>2</sup>

## **Why is Network Rail cutting maintenance and gambling with safety?**

RMT believes that the cuts to maintenance are not driven by any assessment of the safety of the railway but by the increasingly onerous burden of financing its debt. In 2004, when it was in the private sector, Network Rail issued bonds to the capital markets, initially to the value of £20 billion, under what was called its Debt Issuance Programme. This debt was issued to compensate for under-funding.

Bonds issued under this programme now account for just under 46% of NR’s debt burden (£24.6 billion). This bond debt consists of 31 different products, each with a maturity date and its own interest rate (coupon rate). Interest rates on Network Rail’s market debt vary from 0.5% to around 4%. But the largest tranches of debt are bonds which mature in 2027, 2035 and 2047 (around £15 billion) and these have interest rates of around 1.3-1.6%. £1.2 billion is bonds which mature in 2035 with a 4% interest rate. Over the lifetime of these bonds, Network Rail must repay £24 billion as each bond matures and an additional £5.4 billion in interest (coupon) payments (Table 1).

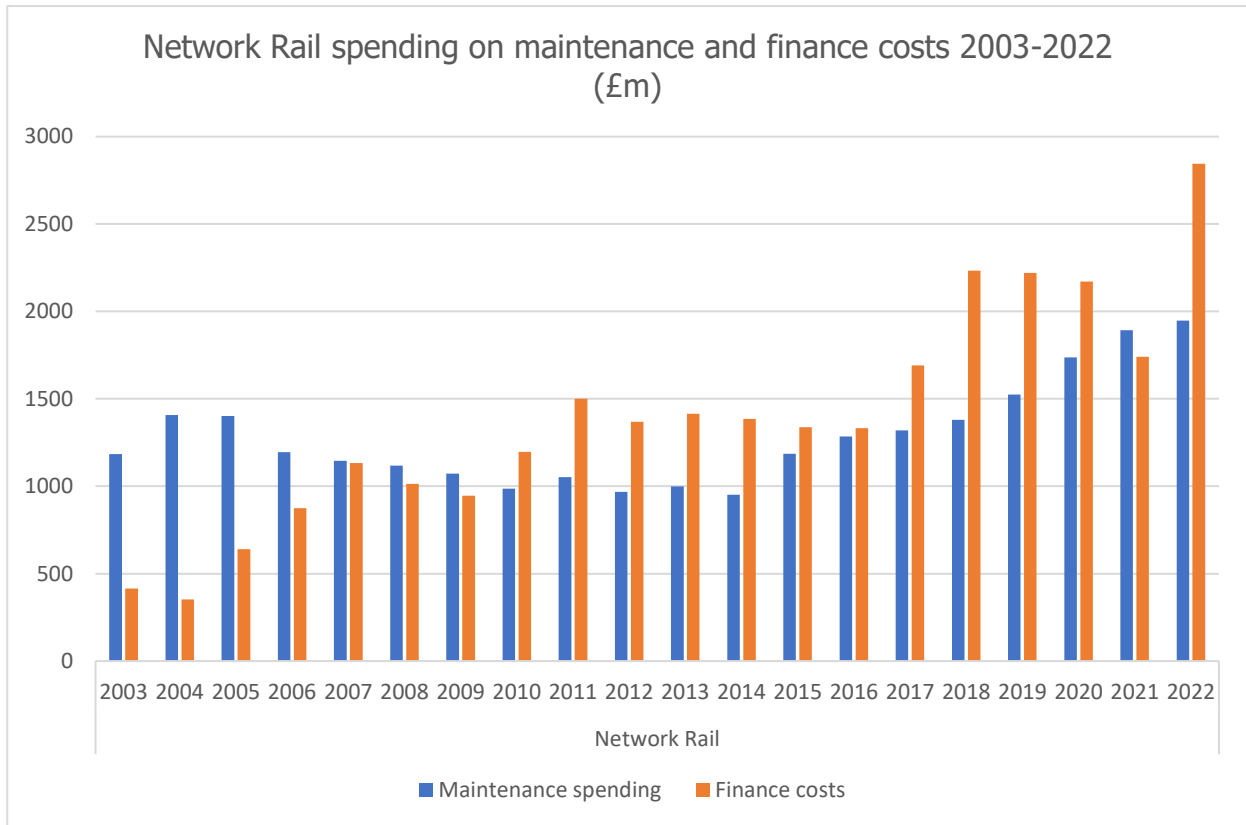
The burden of servicing this debt has become a large part of Network Rail’s expenditure. We can see this over time in Figure 1 below. The cost of financing Network Rail’s debt has ballooned and over the last 10 years it has consistently spent more on finance costs than maintenance.

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<sup>1</sup> <https://www.theguardian.com/business/2022/may/04/network-rails-proposed-cuts-put-passengers-at-risk-say-unions?msclkid=f274914fcfa011ecb63cb6cb30b09c21>

<sup>2</sup> [https://www.railwaysarchive.co.uk/documents/HSE\\_HatfieldFinal2006.pdf](https://www.railwaysarchive.co.uk/documents/HSE_HatfieldFinal2006.pdf)

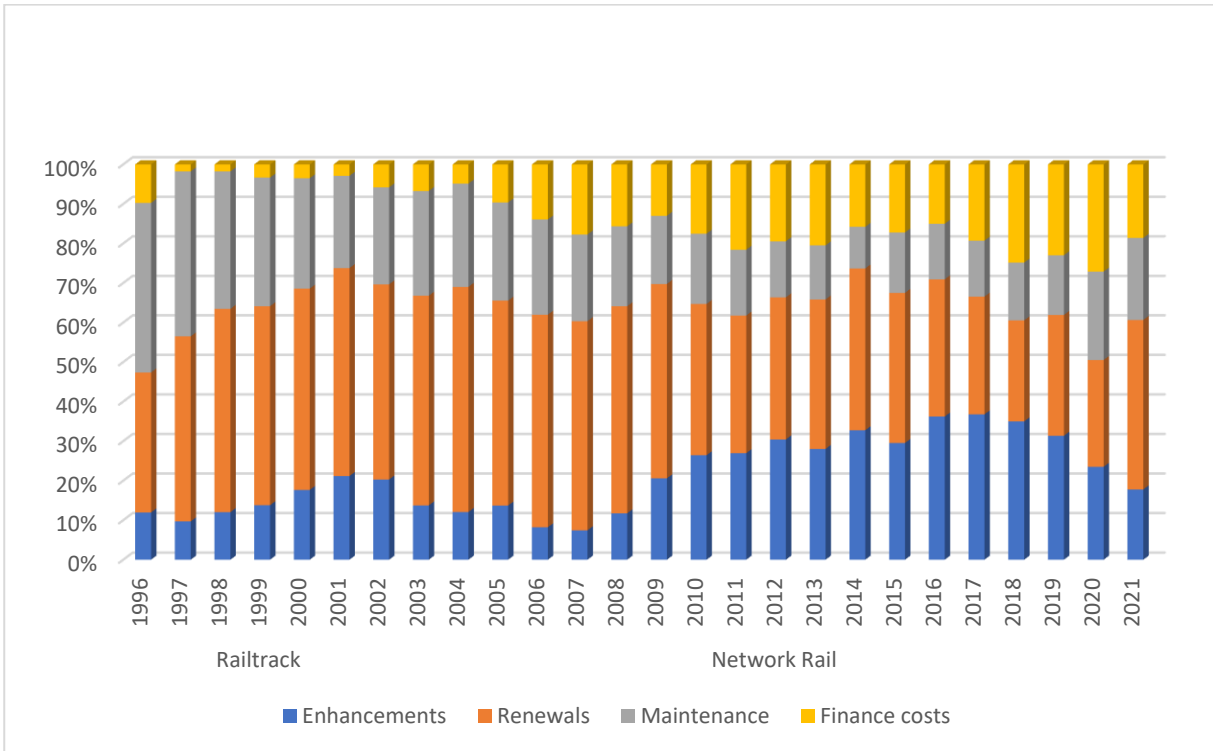
**Figure 1: Railtrack and Network Rail spending volumes and trends 1996-2021**



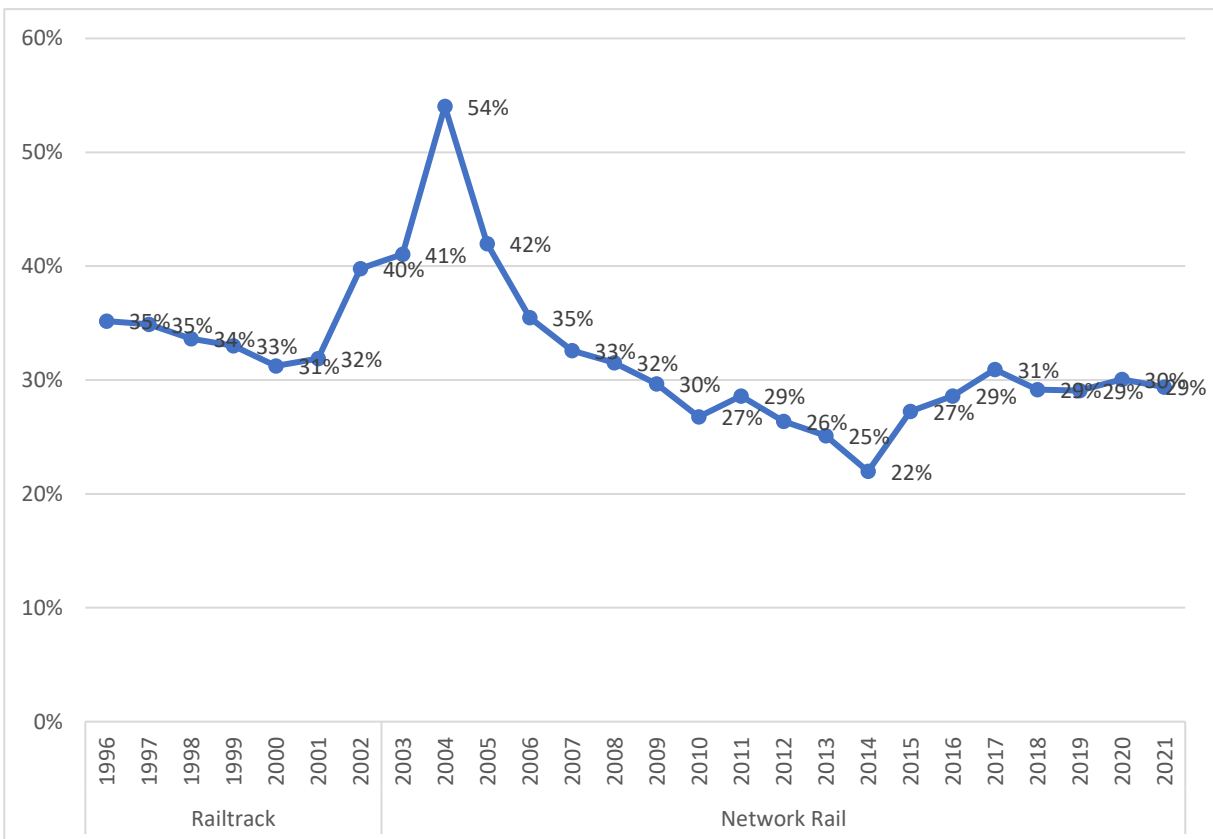
As Figure 2 shows, as a percentage of its spending on renewals, enhancements, maintenance and finance, Network rail is spending less on maintenance than Railtrack did just before it was taken into administration. On privatisation, Railtrack’s maintenance spending represented 42% of what it spent on maintenance, renewals, enhancements and finance. By the time it went into administration, after five years of squeezing maintenance spending, this still represented 24% of its spending. Maintenance spending at Network rail represents only 20% of the same spending.

As Figure 3 shows, examination of annual reports between 1996 and 2021 also shows that maintenance spending is now lower as a percentage of operational costs at Network Rail than it was at Railtrack. Figure 4 clearly shows the different trajectories of maintenance and finance spending under both Railtrack and Network Rail.

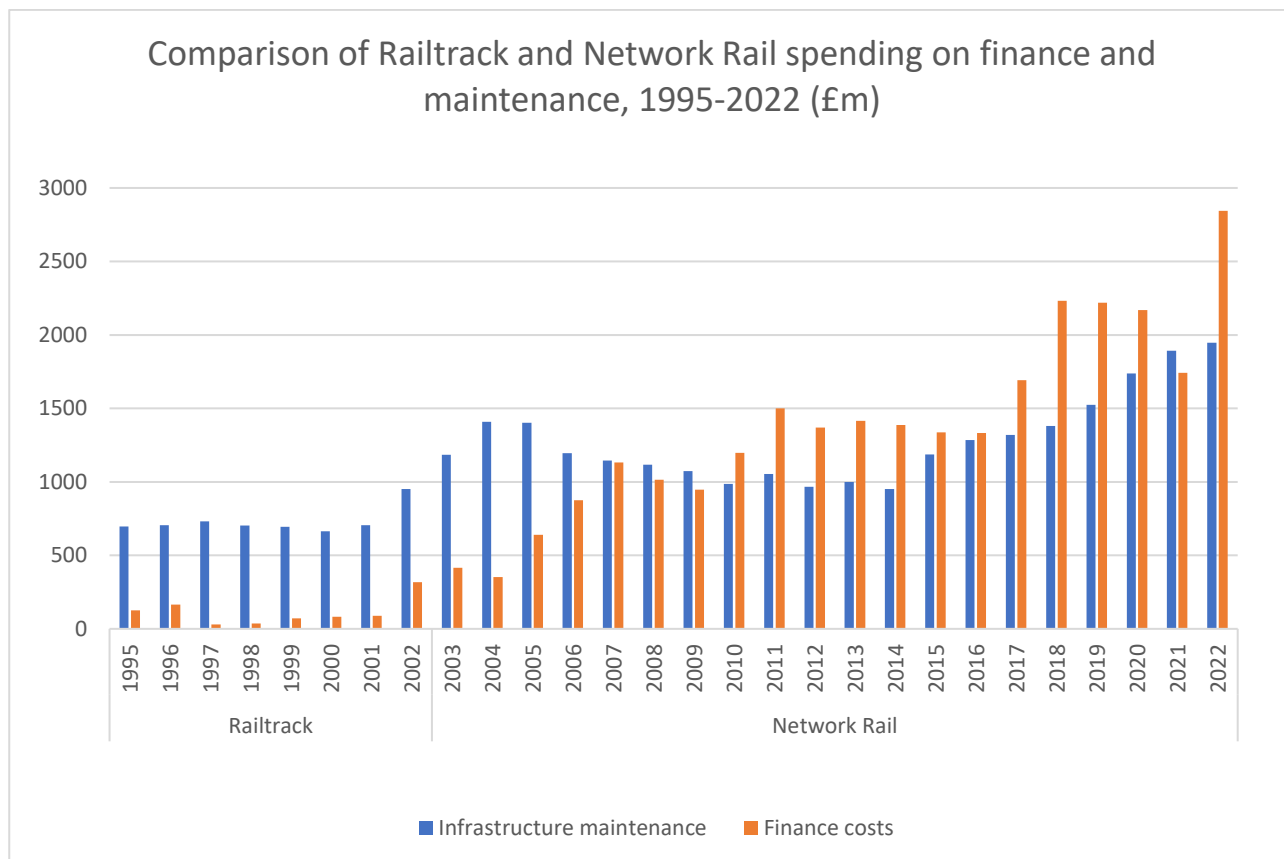
**Figure 2: Railtrack and Network Rail - trends in proportional spending on enhancements, renewals, maintenance and financing, 1996-2021**



**Figure 3: Railtrack and Network Rail - Maintenance as percentage of Operational Costs 1996-21**



**Figure 4: Comparative spending by Railtrack and Network rail on maintenance and finance, 1996-2022**



### A spike in finance costs in 2023-2025

For all Network Rail’s bluster about modernisation, its plans to cut maintenance are more likely to reflect the fact that its finance costs are about to spike again. Although the amount spent on finance fell in the last couple of years, it will shortly be rising again. In 2023, a 3% sterling bond for £399 million will mature and following that two more large bonds worth £743 million and £389 million in 2024 and 2025 respectively. In the next 10 years, 10 bond issues worth £8.2 billion will mature, incurring coupon payments of a further £1.1 billion, meaning that these 10 bonds will cost Network Rail £9.3 billion in finance costs over this period.

**Table 1: Bond maturities and interest payments**

| Maturity year | Amount (m) | Coupon | Years to maturity | Description           | interest payments before maturity (£m) |
|---------------|------------|--------|-------------------|-----------------------|--|
| 2021          | £77.0      | 2.15   | 1                 | Japanese yen bond     | £1.7                                   |
| 2021          | £77.0      | 2.28   | 1                 | Japanese yen bond     | £1.8                                   |
| 2021          | £77.0      | 2.31   | 1                 | Japanese yen bond     | £1.8                                   |
| 2023          | £399.0     | 3      | 2                 | 3% sterling bond      | £23.9                                  |
| 2024          | £743.0     | 4.75   | 3                 | 4.75% sterling bond   | £105.9                                 |
| 2025          | £389.0     | 1.96   | 4                 | Sterling index linked | £30.5                                  |

|                        |           |      |    |                                  |           |
|------------------------|-----------|------|----|----------------------------------|-----------|
|                        |           |      |    | bond                             |           |
| 2026                   | £13.0     | 4.57 | 4  | Norwegian krone bond             | £2.4      |
| 2026                   | £47.0     | 4.62 | 5  | Norwegian krone bond             | £10.9     |
| 2027                   | £5,548.0  | 1.75 | 6  | 1.75% sterling index-linked bond | £582.5    |
| 2030                   | £872.0    | 4.37 | 9  | 4.375% sterling bond             | £343.0    |
| 2035                   | £459.0    | 1.65 | 14 | Sterling index linked bond       | £106.0    |
| 2035                   | £1,234.0  | 4.75 | 14 | Sterling bond                    | £820.6    |
| 2037                   | £5,717.0  | 1.38 | 16 | Sterling index linked bond       | £1,257.7  |
| 2038                   | £100.0    | 4.65 | 17 | Sterling index linked bond       | £79.1     |
| 2039                   | £80.0     | 1.2  | 18 | Sterling index linked bond       | £17.3     |
| 2040                   | £302.0    | 1.22 | 19 | Sterling index linked bond       | £70.0     |
| 2041                   | £75.0     | 1.17 | 20 | Sterling index linked bond       | £17.6     |
| 2043                   | £61.0     | 1.16 | 22 | Sterling index linked bond       | £15.6     |
| 2044                   | £308.0    | 1.57 | 23 | Sterling index linked bond       | £111.2    |
| 2045                   | £55.0     | 1.13 | 24 | Sterling index linked bond       | £14.9     |
| 2047                   | £99.0     | 0    | 26 | Sterling index linked bond       | £0.0      |
| 2047                   | £5,819.0  | 1.13 | 26 | Sterling index linked bond       | £1,709.6  |
| 2048                   | £134.0    | 0.68 | 27 | Sterling index linked bond       | £24.6     |
| 2051                   | £154.0    | 0    | 30 | Sterling index linked bond       | £0.0      |
| 2051                   | £136.0    | 0.52 | 30 | Sterling index linked bond       | £21.2     |
| 2051                   | £136.0    | 0.53 | 30 | Sterling index linked bond       | £21.6     |
| 2051                   | £27.0     | 1    | 30 | Sterling index linked bond       | £8.1      |
| 2052                   | £154.0    | 0    | 31 | Sterling index linked bond       | £0.0      |
| 2052                   | £141.0    | 1.08 | 31 | Sterling index linked bond       | £47.2     |
| Total                  | £23,433.0 |      |    |                                  | £5,446.6  |
| Total payments by 2030 |           |      |    |                                  | £28,879.6 |

## **Railtrack all over again?**

When Network Rail was established following the disastrous crashes at Ladbroke Grove and Hatfield, RMT welcomed this as a step in the right direction. It was vital to take private shareholders out of the control of rail infrastructure at the very least. However, the failure to fund it properly led to Network Rail taking on a massive private debt burden which now dominates its spending, typically representing around 20% of its expenditure. These claims by private bondholders are forcing Network Rail to seek economies elsewhere and making it behave increasingly like Railtrack. Where Railtrack squeezed its maintenance spending to generate dividends for its shareholders, Network Rail is doing so to satisfy the claims of its private sector bondholders. Safety, once again, is coming second to profits.

## **What should be done?**

Network Rail's finances are a mess as a legacy of successive governments' unwillingness to fund its operations properly.

RMT agrees with the authors of an incisive report published almost 10 years ago, who said: "There is no alternative here to the big write off of Network Rail's debts....The two options are either to write off Network Rail's debt by charging it against current public expenditure; or to convert the (off balance sheet, publicly guaranteed) Network Rail debt into (on balance sheet) public debt. But, even then, once and for all writing off of National Rail debt is not enough. Whatever the subsequent model of organisation and ownership that replaces franchising, subsidy shuffling should be abolished with all subsidy made direct and explicit."<sup>3</sup>

The government should charge Network Rail's outstanding debt against public expenditure, repaying the private bondholders directly, financing this if necessary with its own borrowing, which has always been far cheaper than for bodies like Network Rail, when it was permitted to borrow. However it is done, Network Rail must be freed from the burden of financing this debt. If it persists in seeking cuts from its basic infrastructure operations to maintain payments to its bondholders, the real danger is that the cost won't be measured in pounds sterling, but in lives.

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<sup>33</sup> Karel Williams, Andrew Bowman, Peter Folkman, Julie Froud, Sukhdev Johal, John Law, Adam Leaver and Michael Moran, 'The Great Train Robbery: the economic and political consequences of rail privatisation' CRESC (2013), <http://hummedia.manchester.ac.uk/institutes/cresc/sites/default/files/GTR%20Report%20final%205%20June%202013.pdf>

**Table 2: Railtrack spending 1996-2002**

| <b>(£m)</b>   | <b>1996</b> | <b>1997</b> | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Enhancements  | 202         | 170         | 243         | 294         | 419         | 648         | 1112        |
| Renewals      | 599         | 821         | 1038        | 1073        | 1209        | 1611        | 2704        |
| Maintenance   | 725         | 732         | 702         | 694         | 663         | 715         | 1345        |
| Finance costs | 165         | 31          | 36          | 71          | 83          | 89          | 318         |

**Source: Railtrack registered Annual Reports****Table 3: Network Rail spending 2003-2011**

| <b>(£m)</b>   | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Enhancements  | 846         | 875         | 912         | 515         | 475         | 760         | 1496        | 1804        | 1873        |
| Renewals      | 3268        | 4127        | 3447        | 3374        | 3376        | 3389        | 3575        | 2612        | 2419        |
| Maintenance   | 1632        | 1894        | 1652        | 1512        | 1400        | 1309        | 1255        | 1214        | 1157        |
| Finance costs | 415         | 352         | 640         | 875         | 1132        | 1014        | 946         | 1197        | 1501        |

**Source: Network Rail accounts and regulatory documents****Table 4: Network Rail spending 2012-21**

| <b>(£m)</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Enhancements  | 2139        | 2046        | 2962        | 2293        | 3213        | 3426        | 3303        | 3164        | 1824        | 1620        |
| Renewals      | 2528        | 2760        | 3701        | 2949        | 3077        | 2774        | 2413        | 3082        | 2098        | 3910        |
| Maintenance   | 997         | 999         | 952         | 1186        | 1248        | 1319        | 1380        | 1525        | 1737        | 1892        |
| Finance costs | 1369        | 1496        | 1428        | 1338        | 1332        | 1797        | 2347        | 2319        | 2105        | 1696        |

**Source: Network Rail accounts and regulatory documents**