Policy Briefing

15 October 2021

The unbearable cost of failure: Private profiteering on 'Great British Railways'

On 17 October 2021, yet another franchise will pass into public ownership as a consequence of private sector failure, this time seemingly involving the Serious Fraud Office.

The Southeastern franchise joins Scotrail, Wales and Borders, the East Coast Mainline and Northern Rail in public ownership.

Yet the government continues frantically rearranging the deckchairs on its sinking liner, blinded to the logical conclusion of its actions by its desperation to keep profits flowing out of our railways.

While rail workers are told they must accept a pay freeze and job cuts and passengers are face above inflation fare rises, Britain's railways must continue to be a cash cow for privateers.

In this short briefing we show some of the ways in which the private sector is extracting public money and fare revenue and turning it into private profit and we assess the scale of the looting that is being licenced, past and present.

£8.7 billion in dividends, 1996-2020

- Private companies operating and leasing trains have made at least £8.7 billion in dividend payments to shareholders since 1996.
- Private train operating companies have extracted an estimated £3.2 billion in dividends from Britain's privatised railways since 1996 (Table 1)
- Rolling Stock Companies have extracted an estimated £5.5 billion in dividends from Britain's privatised railways since 1996 (Table 1)

Table 1: The cost of dividends paid to private train and rolling stock companies since privatisation

	1996-2010*	2010-2020**	Total post-privatisation
TOCs	£1,000,000,000	£2,185,899,000	£3,185,899,000
ROSCOs	£2,520,000,000	£2,998,736,430	£5,518,736,430
Total	£3,520,000,000	£5,184,635,430	£8,704,635,430

*Source: Rebuilding Rail (Transport for Quality of Life, 2012)
**Source: RMT analysis of franchisee company accounts, 2010-2020.

£955 million in TOC profits from EMAs, ERMAs and National Contracts, 2020-27

When the government stepped in to bail out the private train operators, it put them on management contracts for six months called Emergency Measures Agreements. The government took on all the revenue risk from plummeting passenger fares and covered all industry costs, while at the same time guaranteeing the TOCs a 2% profit in the form of a management fee. Department for Transport data show that these managements fees – guaranteed profits – amounted to **£98 million** between March 2020 and September 2020, around £40 million of which is likely to go overseas (Table 3 -Appendix 1).

After September 2020, these were succeeded by Emergency Recovery Management Agreements which were to run for 18 months and guarantee profits of 1.5% in the form of a management fee. The EMA fee contained a guaranteed 1.5% and a 0.5% performance element. In practice almost all the performance element was paid but the DfT data does allow us to see what 1.5% over 6 months produces and then to calculate what each TOC is likely to earn from a 1.5% management fee over 18 months. The TOCs are likely to make in the region of **£231 million** over the 18-month duration of the ERMAs (Table 3 – Appendix 1).

After the ERMAs expire in 2021-22, the TOCs are likely to be awarded National Contracts modelled on the ERMAs, containing the same or very similar management fees. The Prior Information Notices for the West Coast, Great Western and Thameslink, Southern and Great Northern franchises indicate these are envisaged to last 5 years. Using the figure for 1.5% over six months as the basis of our calculations, we can see that by the time the National Contracts expire around 2027, the TOCs are likely to have extracted a further **£626 million** in profits and dividends (Table 4 Appendix 2).

All this profit is available for distribution as dividends subject to the Secretary of State's agreement, which 'he will not unreasonably withhold'.[1]

If that happens, by 2027 the TOCs would have taken out **£955 million** in dividends since

[1] https://questions-statements.parliament.uk/written-questions/detail/2020-09-23/94390

the pandemic alone (Table 2).

Table 2: profits from government contracts 2020-27

Train operation contracts	Profits
EMA profits (1 March 2020-1 September 2020	£98 million
ERMA profits (1 September 2020-1 April 2022)	£231 million
National Contract profits (2022-2027)	£626 million
TOTAL	**£955 million**

Pandemic profiteering – £1,125 million by ROSCOs and TOCs

The pandemic year hasn't really seen much let up in the profiteering. As RMT revealed recently, the Rolling Stock Companies have continued with their obscene dividend payments. On average, they pay around £260 million a year in dividends. In 2020, they paid out **£950 million** to their shareholders. With the government covering their lease payments and taking no interest in controlling their dividend payouts, the pandemic has posed, as they put it, 'no material risk'.[2]

As we've seen above the TOCs have also managed to keep the profits rolling. As Table 3 shows, the EMAs gave them £98 million in clear profit for the first 6 months of the pandemic while the ERMAs are likely to result in them getting a further £77 million for the rest of the year, a total of **£175 million**. As we've seen this All this profit is available for distribution as dividends subject to the Secretary of State's agreement, which 'he will not unreasonably withhold'.[3]

Table 5: Pandemic profits by TOCs and ROSCOs

Pandemic year profits	
ROSCO dividends	£950 million
TOC profits	£175 million
Total	£1,125 million

Some TOCs have already paid out dividends during 2020. Southeastern paid out a £30 million dividend, while Merseyrail a concession run by Abellio and Serco, managed to pay out £3 million. In addition, at least one, Abellio's East Midlands Railways, has written to the Secretary of State requesting permission to pay out a dividend. Its operating profits last year were £20 million, so its dividend could well be in the region of that number.

As Table 5 shows, the TOCs and ROSCOs combined could take around £1.125 billion out of the railways in dividends. All in all, it's not bad for a global pandemic which has claimed the lives of 150,000 UK citizens.

---

2 https://www.rmt.org.uk/news/railway-rolling-stock-fat-cats-paid-out-1-billion/
[3] https://questions-statements.parliament.uk/written-questions/detail/2020-09-23/94390

Network Rail sub-contracting – £174 million per year leaking out through outsourcing renewals

In 2004, in the wake of the disastrous crashes that accompanied privatisation of infrastructure, Network Rail brought its maintenance in house. This generated savings of between £100 and £264 million every year from the reduced overheads from commercial profit margins, removal of duplication of systems to manage staff and programmes and economies of scale.

However, renewals and enhancement work continued to be outsourced. This decision was criticised in 2004 by the Transport Select Committee which said that "Taking more work "in-house" would also be an opportunity to reduce the number of company "interfaces" and contracts which currently burden the industry. In the longer term, Network Rail should reconsider its decision to retain private sector contracts for track renewals. It should also review now what other services it currently purchases and which might be more economically provided under direct management control."[4]

In spite of these recommendations, Network Rail has continued to outsource this work.

As Table 4 shows:

- Last year, Network Rail spent £4.7 billion on this outsourced work: £2.9 billion on renewals and £1.8 billion on enhancement. Commercial profit margins in renewals are reported to be around 6%.[5]

- That means that around £284 million of Network Rail's funding leaked out of the industry into commercial profits.

- Of that £284 million, £174 million is going in profits from the Network Rail's contracts in renewals.

If Network Rail were to end the outdated practice of outsourcing renewals and bring this work in house, as was recommended by the Transport Select Committee, it could save around £174 million each year.

---

4 https://publications.parliament.uk/pa/cm200304/cmselect/cmtran/145/145.pdf
5 https://publications.parliament.uk/pa/cm200304/cmselect/cmtran/145/145.pdf, see para 91.

Table 6: Network Rail outsourcing profit leakage[6]

Network Rail spending, Financial Year 2019-20[7]	(£m)	Profit leakage (£m)[8]
Operations and support	2117	0
Maintenance	1737	0
Renewals (outsourced)	2908	174
Enhancements (outsourced)	1824	109
Finance costs	2105	
Other	360	
TOTAL	**11051**	**284**

Nationalise the railways, cut fares and raise wages

The government is propping up a failing private sector, helping them to extract profits from our railways at public expense, even as stark reality forces them to nationalise ever more of the network.

The price of this dogma is that in the pandemic year, around £1.3 billion will leave the industry in profits to the private sector that will not be reinvested in the railway.

Table 7: Pandemic year profits – whole system

ROSCO dividends	£950 million
TOC profits	£175 million
Network Rail sub-contracting profits	£174 million
Total	£1,229 million

Instead of being siphoned off overseas by foreign investors or shuffled off into tax havens, this money should be spent on the railways.

Staff costs in 2019-20 were £3.1 billion. If the government were to take the TOCs back into public ownership as their ERMAs expire, the TOCs' profits from this year would be more than enough to pay for an inflation-matching pay rise for all staff (£149 million).

RMT has called for the ROSCOs to be nationalised and for the government to directly

6 https://www.networkrail.co.uk/wp-content/uploads/2021/02/Annual-expenditure-2019-20.pdf
7 https://www.networkrail.co.uk/wp-content/uploads/2021/02/Annual-expenditure-2019-20.pdf
8 6% of the renewals and enhancement budgets which would not have to be spent by Network Rail if it directly employed and managed these workers.

procure and own trains. However, the government could introduce a Windfall Tax on their pandemic dividends. The ROSCOs pay on average, £260 million a year in dividends, an obscene amount in itself.

A Windfall Tax of 50% on all their dividends above this figure would raise around £345 million, enough to fund a cut of 3.6% in rail fares (measured against fare income in 2019/20 which was £9.5 billion). A 100% Windfall Tax would raise £690 million, enough to fund a 7.2% cut in rail fares.

The obscene profiteering by the failing private sector must finally come to an end. It’s time to nationalise the railways again, once and for all.

Appendix 1: Table 3 - Profits from EMAs and ERMAs

Franchise	EMA Management Fee (1.5%)	Total EMA fees payable (2%)	Projected ERMA fees over 18 months (1.5%)	Projected ERMA fees over 12 months (1.5%)	Owner
Chiltern	£1,414,000	£1,885,000	£4,242,000	£2,828,000	Arriva (Deutsche Bahn)
Cross Country	£4,368,000	£5,386,000	£13,104,000	£8,736,000	Arriva (Deutsche Bahn)
East Midlands	£3,598,000	£4,798,000	£10,794,000	£7,196,000	Abellio (Dutch state railways)
East Anglia	£4,627,000	£6,169,000	£13,881,000	£9,254,000	Abellio (Dutch state railways)
Essex Thameside	£1,071,000	£1,428,000	£3,213,000	£2,142,000	Trenitalia (Italian state railways)
Great Western	£10,815,000	£13,911,000	£32,445,000	£21,630,000	FirstGroup
South Eastern	£7,973,000	£7,973,000	£23,919,000	£15,946,000	Nationalised as of October 2021
South Western	£7,525,000	£10,033,000	£22,575,000	£15,050,000	FirstGroup (70%)/MTR (Chinese state, 30%)
Thameslink, Southern and Great Northern	£14,077,000	£17,831,000	£42,231,000	£28,154,000	Govia (comprising Go-ahead 65% and Keolis 35%)
TransPennine Express	£2,156,000	£2,876,000	£6,468,000	£4,312,000	FirstGroup
West Coast Partnership	£8,484,000	£11,313,000	£25,452,000	£16,968,000	FirstGroup(65%) Trenitalia (35%
West Midlands	£4,095,000	£5,187,000	£12,285,000	£8,190,000	Abellio (Dutch State railways) and two Japanese private firms
Abellio ScotRail	£6,654,823	£8,873,098	£19,964,469	£13,309,646	Nationalised as of March 2022
Caledonian Sleeper	£392,518	£497,189	£1,177,554	£785,036	Serco
TOTAL	**£77,250,341**	**£98,160,287**	**£231,751,023**	**£154,500,682**	

Appendix 2: Table 4 - Projected profits from National Contracts

Franchise	Projected National Contract profits (2 years)	Projected National Contract profits (5 years)	Owner
Chiltern	£5,656,000	£14,140,000	Arriva (Deutsche Bahn)
Cross Country	£17,472,000	£43,680,000	Arriva (Deutsche Bahn)
East Midlands	£14,392,000	£35,980,000	Abellio (Dutch state railways)
East Anglia	£18,508,000	£46,270,000	Abellio (Dutch state railways)
Essex Thameside	£4,284,000	£10,710,000	Trenitalia (Italian state railways)
Great Western	£43,260,000	£108,150,000	FirstGroup
South Eastern	£0	£0	Nationalised as of October 2021
South Western	£30,100,000	£75,250,000	FirstGroup (70%)/MTR (Chinese state, 30%)
Thameslink, Southern and Great Northern	£56,308,000	£140,770,000	Govia (comprising Go-ahead 65% and Keolis 35%)
TransPennine Express	£8,624,000	£21,560,000	FirstGroup
West Coast Partnership	£33,936,000	£84,840,000	FirstGroup(65%) Trenitalia (35%
West Midlands	£16,380,000	£40,950,000	Abellio (Dutch State railways) and two Japanese private firms
Abellio ScotRail	0	£0	Nationalised as of March 2022
Caledonian Sleeper	£1,570,072	£3,925,180	Serco
TOTAL	**£250,490,072**	**£626,225,180**	

Contact:

Jonathan White
National Policy Officer, RMT
jwhite@rmt.org.uk