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Profiteering on 'Great British Railways'

While rail workers they must accept a pay freeze and job cuts, Britain's railways 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.

The cost of privatisation since 1996: profit leakage

- Private companies operating and leasing trains have made at least £8.3 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 £5.1 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*	2010-2019**	Total post-privatisation
TOCs	£1,000,000,000	£2,152,899,000	£3,152,899,000
ROSCOs	£2,520,000,000	£2,627,964,430	£5,147,964,430
Total	£3,520,000,000	£4,780,863,430	£8,300,863,430

*Source: Rebuilding Rail (Transport for Quality of Life, 2012)
**Source: RMT analysis of company accounts

Train operating company profits from EMAs, ERMAs and National Contracts

- Private train operating companies have made £88 million in profits in 6 months of the Emergency Measures Agreements between March 2020 and September 2020, around £40 million of which is likely to go overseas (Table 2)

- Private train operators stand to make a further £210 million in profits over the 18 months of their ERMAs. In 12 months, they will make around £140 million. All of this is available to be turned into dividends and around half of this is likely to go to overseas parent companies (Table 3).

Table 2: The cost of TOC profiteering from EMAs

Operator	Total fees payable (2% management fee)	Owner	Amount of profit available for export
Chiltern	£1,885,000	Arriva (Deutsche Bahn)	£1,885,000
Cross Country	£5,386,000	Deutsche Bahn	£5,386,000
East Midlands	£4,798,000	Abellio (Dutch state railways)	£4,798,000
East Anglia	£6,169,000	Abellio (Dutch state railways)	£6,169,000
Essex Thameside	£1,428,000	Trenitalia (Italian state railways)	£1,428,000
Great Western	£13,911,000	FirstGroup	£0
South Eastern3	£7,973,000	Govia (comprising Go-ahead 65% and Keolis 35%)	£2,790,550
South Western	£10,033,000	First (70%)/MTR (Chinese state, 30%)	£3,009,900
Thameslink, Southern and Great Northern	£17,831,000	Govia (comprising Go-ahead 65% and Keolis 35%)	£6,240,850
TransPennine Express	£2,876,000	FirstGroup	£0
West Coast Partnership	£11,313,000	First (65%) Trenitalia (35%	£3,959,550
West Midlands	£5,187,000	Dutch State railways and two Japanese private firms	£5,187,000
Total	**£88,790,000**		**£40,853,850**

- Like the ERMAs, the new National Contracts will guarantee profits of 1.5%, meaning that the TOCs will be able to extract around £140 million each year in dividends (Table 3)

- If ownership remains the same, around half of this will flow overseas.

Table 3: Projected TOC profits from the ERMAs/National Contracts

	1.5% Management fee (18 months)	**1.5% Management fee over 12 months**	**Owner**	**Amount of profit available for export (12 months)**
Chiltern	£4,242,000	£2,828,000	Arriva (Deutsche Bahn)	£2,828,000
Cross Country	£13,104,000	£8,736,000	Arriva (Deutsche Bahn)	£8,736,000
East Anglia	£13,881,000	£9,254,000	Abellio (Dutch state railways)	£9,254,000
East Midlands	£10,794,000	£7,196,000	Abellio (Dutch state railways)	£7,196,000
Essex Thameside	£3,213,000	£2,142,000	Trenitalia (Italian state railways)	£2,142,000
Great Western	£32,445,000	£21,630,000	FirstGroup	0
South Eastern[3]	£23,919,000	£15,946,000	Govia (comprising Go-ahead 65% and Keolis 35%)	£5,581,100
South Western	£22,575,000	£15,050,000	First (70%)/MTR (Chinese state, 30%)	£4,515,000
Thameslink, Southern and Great Northern	£42,231,000	£28,154,000	Govia (comprising Go-ahead 65% and Keolis 35%)	£9,853,900
TransPennine Express	£6,468,000	£4,312,000	FirstGroup	0
West Coast Partnership	£25,452,000	£16,968,000	First (65%) Trenitalia (35%	£5,938,800
West Midlands	£12,285,000	£8,190,000	Dutch State railways and two Japanese private firms	£8,190,000
Total	**£210,609,000**	**£140,406,000**		**£64,234,800**

Network Rail contractors – leakage of public money through the 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."[1]

- 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%.[2]

- 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.

[1] https://publications.parliament.uk/pa/cm200304/cmselect/cmtran/145/145.pdf
[2] https://publications.parliament.uk/pa/cm200304/cmselect/cmtran/145/145.pdf, see para 91.

Table 4: Network Rail outsourcing profit leakage[3]

Network Rail spending, Financial Year 2019-20[4]	(£m)	Profit leakage (£m)[5]
Operations and support	2117	0
Maintenance	1737	0
Renewals (outsourced)	2908	174
Enhancements (outsourced)	1824	109
Finance costs	2105	
Other	360	
TOTAL	**11051**	**284**

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[3] https://www.networkrail.co.uk/wp-content/uploads/2021/02/Annual-expenditure-2019-20.pdf
[4] https://www.networkrail.co.uk/wp-content/uploads/2021/02/Annual-expenditure-2019-20.pdf
[5] 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.