
Rail Partners

# The facts about rail operator profit in the pandemic

2022

# 1. The facts

## During the pandemic rail operators delivered services and were paid a small fee in return

**In March 2020, the pandemic plunged the country into lockdown and rail passenger numbers fell to record lows. Government placed operators onto emergency contracts and they worked hard to keep key workers and goods moving. As part of the current industrial dispute on the railways, the RMT and others have made claims regarding the role of the private sector and profit levels in rail before and during the pandemic, below are the facts:**

- By contracting with the private sector, government benefits from the commercial incentives placed on operators to attract more passengers and revenue while containing costs – with the main beneficiary being the taxpayer.
- Since privatisation, rail companies have more than doubled passenger journeys and grown revenue at twice the rate of GDP, while reducing significantly a £2 billion annual operating loss.
- In the years prior to the pandemic under franchising, operators averaged 2% profit margins – much lower than many would assume.
- During the pandemic, it has been suggested emergency contracts led to 'profiteering' – it is categorically not the case that train operators involved in this dispute made between £500m or £600m per year as the RMT and others have suggested.
- RMT implies that £500m of profit is available to operators to fund the pay rise in this dispute, however RMT's document acknowledges the majority of this money is not actually operator profits.
- DfT fee data shows that their 12 contracted operators were paid approx. £150m in fixed and performance fees during the first year of the pandemic – data is not yet available for the second year.
- Fees do not necessarily represent a profit and if DfT deems that an operator has not been 'good and efficient', costs incurred can be 'disallowed' and a penalty applied for lost revenues.
- ORR publishes financial data that shows DfT contracted operators involved in this dispute made a surplus (income over cost) of approx. £99m in 2020/21, lower than the £150m paid in fees, meaning fees were used to fund costs not covered by the DfT – reducing overall profit.
- These two sets of data indicate a collective range of profits between £99m-£150m during the first year of the pandemic – rather than the £100s of millions implied by RMT.
- RMT further state operators will make £124m per year under new National Rail Contracts (NRCs) – again this is misleading.
- NRCs have a fixed fee which equates to approx. 0.5% and an additional performance based fee – with an overall likely range of £40m-£120m, with the upper end only achieved against stretching targets.
- Fees paid during the pandemic and in NRCs are much lower when compared to other sectors providing management services which average 2%-3.5%.
- Railway companies have a proud track record of restoring the industry's finances and turning an operating deficit into an operating surplus – and with the right operating environment can do this again.

**Key takeaways**

1. Commercial incentives are part of a healthy system, generating a dividend for taxpayers through higher revenue growth and firm cost control.
2. In the years prior to the pandemic, operators made an average of 2% under franchising – *a very low profit margin.*
3. During the pandemic, profits were between £99m-£150m during the first year – *rather than the suggested £100s of millions*.
4. Post-pandemic, contracts will likely pay £40m-£120m, with the top only achieved through excellent performance – *rather than the suggested guaranteed £124m*.
5. All fees are lower than comparable sectors providing management services.

# 2. Setting the record straight

## During the pandemic operators were paid a capped fee – there was no 'profiteering'

**During the first year of the pandemic, operators were placed onto emergency contracts which paid between £99m-£150m – certainly not £100s of millions as implied by RMT.**

Running rail operations became financially unsustainable during the pandemic and operators were placed on emergency contracts. These contracts transferred cost and revenue risk to government and operators were paid a fee to ensure services could continue running, protecting railway jobs, and keeping key workers moving.

During the pandemic:

- Operators were placed onto two types of emergency contracts with a mix of fixed and variable payments: Emergency Measures Agreements (EMAs, paying a total fee of approx. 2%) and then after around 6 months into the pandemic, Emergency Recovery Measures Agreements (ERMAs, paying a total fee of approx. 1.5%).
- DfT fee data shows operators were paid approx. £150m in fixed and performance fees during the first year of the pandemic (DfT Fee and Performance data).
- Although fees represent the maximum profit an operator can make, if DfT deems an operator not to have acted in a 'good and efficient' manner, costs incurred can be disallowed and a penalty applied for lost revenues.
- Parts of the fees are performance related, and are only paid if operators meet demanding targets on things like punctuality, customer experience and so on.
- ORR publishes financial data that shows DfT contracted operators involved in this dispute made a surplus of approx. £99m in 2020/21, lower than the £150m paid in fees (ORR TOC Finances).
- These two data sets indicate a collective profit range of between £99m-£150m during the first year of the pandemic – rather than the £100s of millions implied by RMT.
- Claims of profits leaving the country to fund other nationalised railways are unfairly presented, with two of the biggest owning groups in the UK rail market being British success stories (FirstGroup and Go-Ahead) – while others invest considerably into the domestic network and have not paid dividends for many years.
- Open markets work both ways and for example Go-Ahead runs rail services in Germany and Norway. Other UK transport companies not involved in UK rail also run rail operations in other countries – and more of these opportunities will arise as the European Union works to liberalise its rail network.

Table 1 on the following page explains in further detail how RMT calculated its figures and why these do not marry with official datasets.

As we emerge from the pandemic, operators are being moved from emergency contracts and onto National Rail Contracts (NRCs) – which contain some cost risk and a limited degree of revenue risk. However, elements of the NRC fee are not guaranteed:

- NRCs have a fixed fee which equates to approx. 0.5% (£40m) and an additional performance based fee only if demanding targets are met.
- RMT state operators will make £124m per year under new National Rail Contracts (NRCs) –this is misleading.
- The likely range of overall fees is £40m-£120m, the top of the range only achievable through excellent performance.
- NRC fees are much lower when compared to other sectors providing management services (average between 2%-3.5%).

Table 2 on the following page explains in further detail what operators will make in the future.

**Table 1: What operators made during the pandemic**

| RMT claim | What RMT got wrong | What TOCs actually made |
|---|---|---|
| **The rail sector as a whole made £500m per year during the pandemic**<br><br>*Source: The Great British Gravy Train and RMT media interviews* | ▪ **RMT implies that £500m of profit is available to operators to fund the pay rise in this dispute, however RMT's document acknowledges the majority of this money is not actually operator profits.**<br>▪ RMT conflate profits from different parts of the railway such as operator fees, rolling stock companies and supply chain – most not involved in strike action.<br>▪ RMT themselves attribute only £150m of profit to operators directly through EMA/ERMA fees, each year, until April 2022.<br>▪ However, some operators moved onto National Rail Contracts earlier than April 2022 which have different fee arrangements – and data does not yet exist for the FY2021-22. | ▪ **Operators made between £99m-£150m during the first year of the pandemic – data for the second year is not available yet.**<br>▪ DfT data shows operators were paid a fee of approx. £150m during the first year of the pandemic (DfT Fee and Performance data).<br>▪ ORR data shows DfT operators involved in this dispute made an operating surplus of approximately £99m 2020/21 (ORR TOC Finances).<br>▪ These two sets of data indicate a collective range of profits between £99m-£150m during the first year of the pandemic. |
| **TOCs made £600m of profit in one financial year (2020-2021)**<br><br>*Source: Bailing out the TOCs* | ▪ **The RMT also argues that TOCs made £600m in the first year of the pandemic despite this contradicting other RMT briefings.**<br>▪ This figure comes from statutory accounts filed at Companies House for the financial year 2020/21.<br>▪ This data contains a variety of accounting treatments, including for many TOCs the release of significant sums in 2020/21 held against expected franchise exit fees – this is not cash profit. | ▪ **The two financial years presented by RMT highlight a collective accounting profit of approximately £83m.**<br>▪ Statutory account figures highlight that operators were required to pay exit fees to move from their previous contracts onto NRCs.<br>▪ Many set aside money to pay for this exit fee which generated theoretical losses in 2019/20.<br>▪ Following negotiations, some of these exit fees were lower than expected and the money was released the following financial year generating theoretical profits.<br>▪ Overall this led TOCs to account for losses of £515m in 2019/20 and then a profit of £599 in 2020/21 – meaning a statutory profit of £83m over the two years – a very long way from £600m annual profit.<br>▪ However, given that these figures contain different levels of accounting treatments, the ORR and DfT data set out above is a better proxy for profit. |

**Table 2: What operators will make in the future**

| RMT claim | What RMT got wrong | What TOCs actually made |
|---|---|---|
| **TOCs will make £124m per year in the future**<br><br>*Source: The Great British Gravy Train* | ▪ RMT suggest operators will make £124m per year on new National Rail Contracts (NRCs)<br>▪ This figure assumes NRCs will pay a guaranteed fee of 1.5% when in fact it is about 0.5% (£40m).<br>▪ Anything above 0.5% is only received if demanding targets are met. | ▪ **Under NRCs, operators will make a likely range of between £40m-£120m.**<br>▪ This is based on a fixed fee of approximately 0.5% (the lower level) and any fee based on excellent performance. |