

The true cost of rail subsidies

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Introduction

Now that the government announced rail fares will rise by 5.9 per cent from the 5th March 2023, some will be relieved that the increase is below the 12.3 per cent RPI measure of inflation usually used as a benchmark for this increase.

However, this is not the whole story from the point of view of taxpayers and rail users. Taxpayers provide a substantial subsidy, whether they use rail services or not.

This note will set out the level of subsidy the taxpayer must provide to keep the railways running, both in total and on a journey-by-journey basis.

Key findings

- Forecasts indicate that rail services will be subsidised by £11 billion in the financial year 2022-23.
- The average rail fare in 2022-23 will be £6.12 per journey. An additional £7.51 in subsidy is required to make up the full cost of that journey.
- Increases in rail sector pay over and above that recommended by the independent pay review body, will be met by taxpayers, not the rail operating companies or rail users.
- Taxpayer subsidies to the rail industry were running at £4.7billion per annum in 2018-19 before the effects of covid. The taxpayer support required due to reduced passenger numbers will total £48.7billion in the 4 years 2019-20 to 2022-23.

Funding of the railways

A summary of key results for the railway industry over the last four financial years is set out in Table 1¹. Financial forecasts for 2022-23 are projected from passenger rail usage reports for the six months to September 2022².

Table 1: Rail Industry Finance 2018-19 to 2022-23

Actual results are shown in 2021-22 prices, estimates for 2022-23 are shown in current prices.

£billion unless otherwise specified	Actual 2018-19	Actual 2019-20	Actual 2020-21	Actual 2021-22	Estimated 2022-23
Government subsidy	4.7	6.8	17.6	13.3	11.0
Fare and passenger income	12.1	12.1	2.6	6.5	9.9
Fare income	11.0	10.9	1.9	5.8	9.0
Passenger journeys (million)	1,753	1,739	388	990	1,464
Average fare per journey (£)	6.28	6.27	4.93	5.89	6.12
Average subsidy per journey (£)	2.68	3.73	43.55	13.43	7.51

The results demonstrate that even before the disruption of covid, the railways could not survive without substantial taxpayer subsidy. It is as yet unknown to what level the number of rail journeys will recover, now that covid is no longer a factor. Given the increase of working from home that lockdowns have seemingly entrenched, it is reasonable to assume that the level of 1.8 million journeys in 2018-19 will not be achieved again any time soon. There is therefore no prospect of the railways existing without significant taxpayer subsidy in the foreseeable future.

In the year 2021-22 the total expenditure of the rail industry was £22.8bn. Of that expenditure, £6.3bn was staff costs (of which passenger operators £3.6bn and Network Rail £2.7bn). That is 27.6 per cent of the total. Therefore, any pay increases in the rail industry over and above forecast average earnings (5.4 per cent in 2020-23 and 3.5 per cent in 2023-24)³ will have to be met by the taxpayers in the form of increased subsidy. This will be an additional burden on taxpayers, already facing a reduction of 7.1 per cent in living standards over the next 2 years⁴.

The independent review of rail industry employments costs in October 2022 concluded that “Aggregate industry-level results indicate that total reward for rail industry roles covered by this study is in line with that for comparable roles employed elsewhere in the economy”. However, the report also concluded that rail industry rewards are 9 per cent above the average for comparable roles and so very close to an ‘above market’ assessment⁵.

Increased taxpayer subsidies to the rail industry during the period of covid will amount to £30 bn by March 2023, or almost £1,000 for every UK taxpayer. These subsidies were in part met by taxpayers on furlough and reduced earnings. In contrast employees in the rail industry, and in common with other public sector workers, suffered no such loss of salary or benefits over the same covid lockdown period.

In the circumstances it is difficult to see how pay rises in the rail industry, above the average for those in the private sector, could possibly be justified at the expense of already hard-pressed taxpayers.

¹ Office of Rail and Road, Rail industry finance (UK) reports, 2019 to 2022

² Office of Rail and Road, Passenger rail performance, April to June 2022 & July to September 2022

³ Office for Budget Responsibility, Economic and fiscal outlook, November 2022

⁴ Ibid

⁵ Incomes Data Research, Review of rail industry employment costs, October 2022