

# Abolish 'profiteering' Train Operating Companies, says report

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University of Manchester experts have called for the abolition of the rail franchising system which they say allows Train Operating Companies to profiteer from hidden public subsidies, in a new report.

The team at the University's ESRC Centre for Research of Socio-Cultural change (CRESC) says the Association of Train Operating Companies (ATOC) is wrong to argue the system is working.

The report also casts doubt on the TOCs' claims that it is their marketing effort rather than GDP growth which drives increasing passenger numbers.

In a vociferous reaction to CRESC's earlier TUC sponsored research entitled The Great Train Robbery , Richard Branson defended Virgin's record in a Guardian column.

And ATOC weighed in with its own report, Growth and Prosperity, based on KPMG research.

Professor Karel Williams, from The University of Manchester and co-Director of CRESC said: "The TOCs do not confront the issue of why we need private train operators who receive large subsidies, invest almost no capital and take very little risk because they can and do walk away from loss making franchises with modest penalties and no claw back.

"Our research challenges ATOC claims about the success of the private [train operating companies](#) and shows how the franchising system allows TOCs to distribute profit from an undisclosed public subsidy.

"The financial outcome is that TOCs return on capital employed is 121.6% -an annual return of £1.21 for every £1 invested. So why is the taxpayer licensing this level of returns? We say it would make sense to stop the extraction from the public purse by abolishing the private Train Operating Companies. That would cost the taxpayer nothing if it was done as franchises expired.

"We need to stop consuming ATOC narratives about success and make plans to integrate train and track operations within a new not for profit company."

According to CRESC's latest report, ATOC cannot explain away the low track access charges, which provide a large indirect subsidy to all train operators.

The 'dysfunctional system' allows the state and the taxpayer to fund rail investment and guarantees Network Rail's increasingly unsustainable debt mountain.

He added: "The train operators defend themselves by restating what we call a "trade narrative" about how private operators deliver social benefits.

"This is part of a much larger political problem about how privatisation and outsourcing entrenches corporate players with self- serving narratives that overestimate their contribution"

Virgin Railways, for example, is hugely subsidy dependent according to the researchers. Net direct subsidy alone amounts to nearly £2billion and

indirect subsidy through low track access charges has increased in recent years as direct subsidy declines. These subsidies have allowed £460 million to be paid out as dividends.

The new report aggregates the results of all the private train operators and shows they have just £219 million of capital employed on which they earn a pre-tax return on capital employed of 121.8%

The publicly funded Network Rail has £36 billion of capital employed on which it has a wafer thin return of 1.34%.

A report is titled 'The Conceit of Enterprise: train operators and trade narrative [report](#).'

**More information:** [www.cresc.ac.uk/news/news-from ... always-reform-agenda](http://www.cresc.ac.uk/news/news-from...always-reform-agenda)

Provided by University of Manchester

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