Rail Supply Group
Industry and Government in Partnership

The Rail Supply Group

Industry Cost Analysis Financial Year 2021/22

An Industry Cost Analysis

Various reports, reviews, and studies have identified high (unit) costs for construction, enhancement, renewal, maintenance, and operation of the railway, compared with historical or other benchmarks.

These industry costs are determined by a complex set of interactions between people, processes, and technology, embedded within the industry's culture.

To understand where savings may be possible, this report comprises an analysis of industry costs for the financial year 2021/22. It includes client and supplier expenditure information for Network Rail, Operators, Transport for London (TfL) and project investments such as HS2 and other special project bodies. The analysis and allocation of costs to activities has been undertaken and agreed in collaboration with each of the clients.

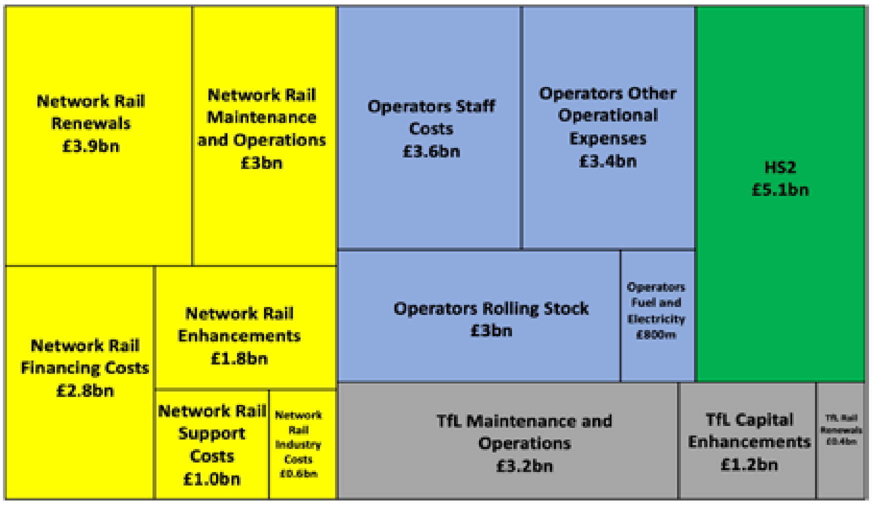
This is the first stage of the Rail Supply Group's industry cost reduction initiative. The purpose of this report is to provide a validated baseline industry cost analysis, enabling identification and prioritisation of initiatives.

Note: The high-level analysis in this report is based on several different sources including published accounts, annual reports, publicly available supplier expenditure data, and additional confidential information supplied in good faith by nominated representatives from; Network Rail, HS2 Ltd, Transport for London, and train operators. The data has been authorised for use in this report by these representatives. All information contained within the report is provided for general purposes and in good faith, although the Rail Supply Group, each organisation and their representatives, and the authors of the report make no warranty of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability or completeness of any information.

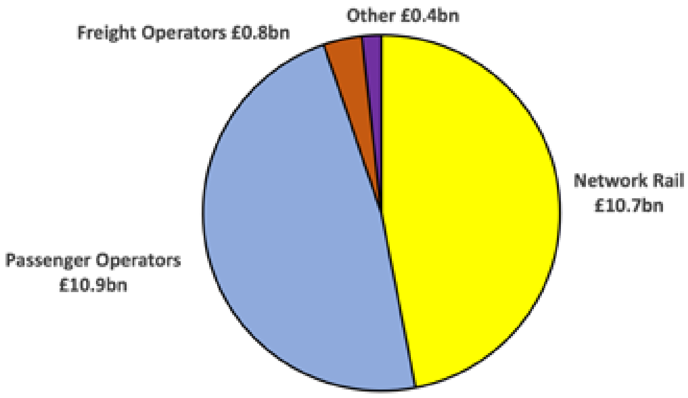
Industry Costs Overview

In the financial year 2021/2022 (FY21/22) the total expenditure across Network Rail, Train Operators, HS2, Special Project Bodies and Transport for London was £33.9bn.

Network Rail	£13.1bn
Operators	£10.9bn
HS2	£5.1bn
Transport for London	£4.8bn
Total	**£33.9bn**



Running the Railway



The overall income and expenditure statement for running the railway from the Office of Rail and Road shows income at £21.3bn and expenditure at £22.8bn in FY21/22.

In addition, the UK's largest integrated transport authority, Transport for London, spent £4.8bn running their underground and rail network.

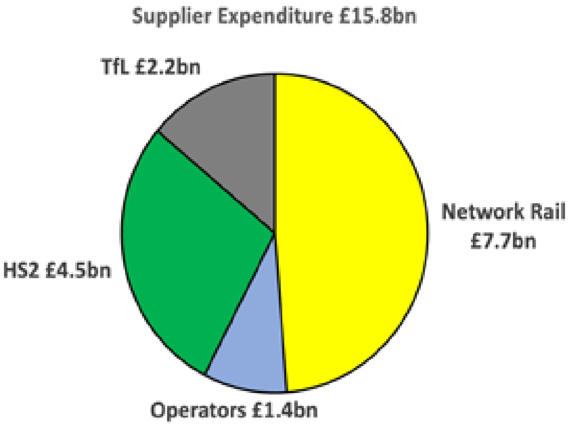
Investment in the Railway

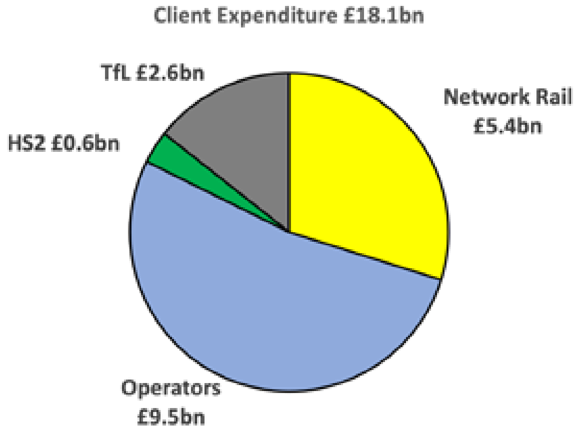
Since April 2016, £39.4 billion has been spent on rail infrastructure enhancements and rolling stock, an average of £6.6 billion each year. Of this there was £16.2 billion of Network Rail enhancements, £17.2 billion of expenditure on HS2 and £6.0 billion of private investment.

In FY21/22, this included:

- Network Rail's investment in enhancing the railway of £1.8bn. This includes Single Project Body investments such as Transpennine Route Upgrade, East West Rail, East Coast Mainline Improvements, Midland Mainline Improvements and East Coast Digital Programme.
- Building HS2, with an investment totalling £5.1bn, funded by the Department for Transport.
- Transport for London's work on the Elizabeth Line and Crossrail – totalling £579m.
- Private sector investments of £762m related to Network Rail investments in track and signalling, rolling stock and stations.

Supplier and Client Expenditure



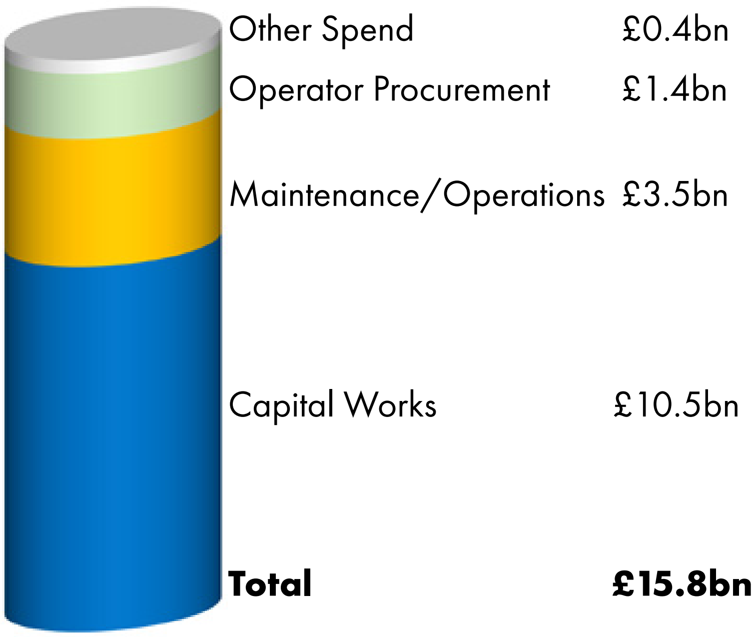


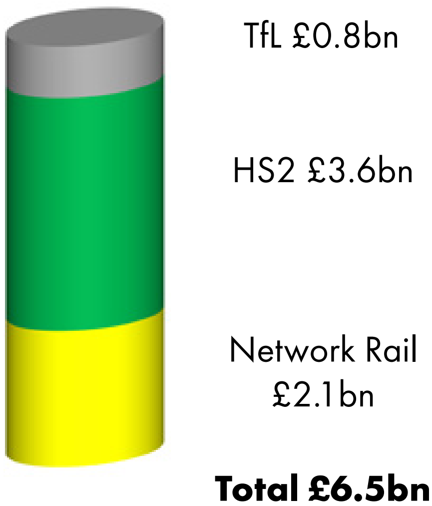
Supply side expenditure is £15.8bn, approximately 51% of the total expenditure, with the remaining 49% being client-side costs (excludes £2.8bn Network Rail financing costs).

Supplier Category Expenditure

At £10.5bn capital works is the largest element of the £15.8bn supplier spend (enhancements and renewals).

Civils works, totalling £6.5bn, was the highest proportion (62%) of capital works.





Client and Supplier Expenditure

Network Rail

Activity	Network Rail % Cost	Supplier % Cost	Total Expenditure	Network Rail Internal Expenditure	Supply-Side Expenditure
Maintenance	43%	57%	£2.1bn	£0.9bn	£1.2bn
Operations	26%	74%	£1.9bn	£0.5bn	£1.4bn
Renewals	17%	83%	£3.9bn	£0.7bn	£3.2bn
Enhancements	17%	83%	£1.8bn	£0.3bn	£1.5bn
Other			£0.6bn	£0.2bn	£0.4bn
Totals			**£10.3bn**	**£2.6bn**	**£7.7bn**

Operators

Activity	Operator % Cost	Supplier % Cost	Total Expenditure	Operator Internal Expenditure	Supply-Side Expenditure
Train Operations	87%	13%	£10.9bn	£9.5bn	£1.4bn

HS2

Activity	HS2 % Cost	Supplier % Cost	Total Expenditure	HS2 Internal Expenditure	Supply-Side Expenditure
Project	12%	88%	£5.1bn	£0.6bn	£4.5bn

Transport for London

Activity	TfL % Cost	Supplier % Cost	Total Expenditure	TfL Internal Expenditure	Supply-Side Expenditure
Maintenance and Operations	71%	29%	£3.2bn	£2.3bn	£0.9bn
Renewals	35%	65%	£0.4bn	£0.1bn	£0.3bn
Enhancements	14%	86%	£1.2bn	£0.2bn	£1.0bn
Totals			**£4.8bn**	**£2.6bn**	**£2.2bn**

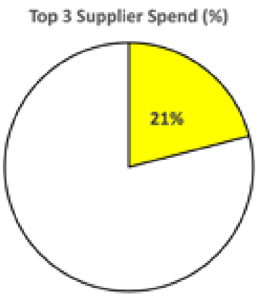
Note: some values are subject to rounding errors so percentage splits may vary slightly from those suggested by the expenditure figures in each table.

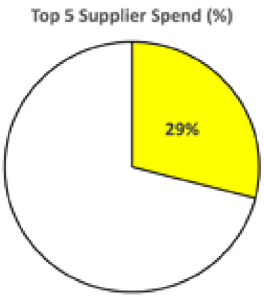
Industry Supplier Concentration

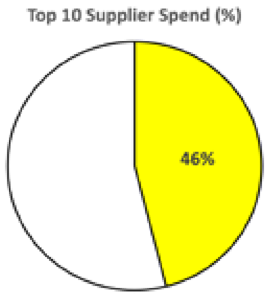
5 of Network Rail's top 10 suppliers are engaged as participants in HS2 joint ventures and 7 out of the top 10 Network Rail suppliers also supply HS2 Tier 1 contracts.

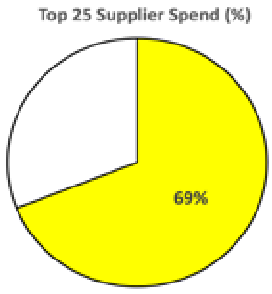
Network Rail Supplier Concentration

Network Rail's expenditure is mainly concentrated with a small number of suppliers. There is a significant flow down from these to SME suppliers - 36% of total Network Rail spend is with SMEs.



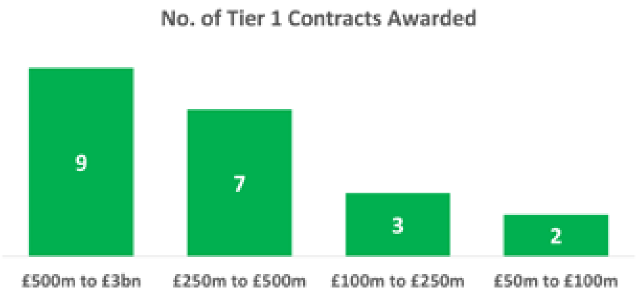


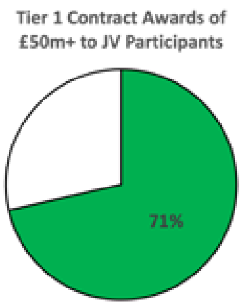


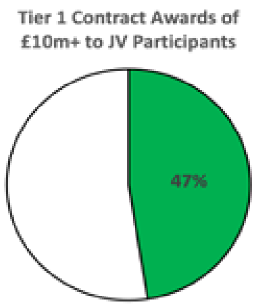


HS2 - Supplier Concentration

HS2 awarded 21 first tier contracts above £50m. The largest are concentrated on a limited number of suppliers, with 25 companies involved across 11 joint ventures (JVs) and the companies participating in those JVs securing a total of 71% of all tier 1 contracts.

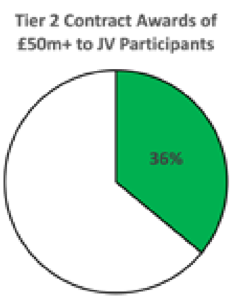


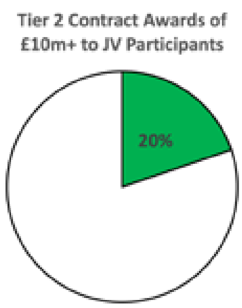




HS2 - Second Tier Supplier Expenditure

Contracts awarded by HS2's first tier suppliers involve several of HS2's first tier JV participant companies.





9.5% of the 262 Tier 2 contracts between £1m and £10m were also awarded to JV participant companies.

The Rail Supply Group is a partnership between government and industry to deliver shared objectives, taking a whole-industry impartial perspective to work in the best interests of the whole rail sector by accelerating growth and focusing on customers and communities.

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