

Fare rises and Network Rail's derivative losses

Yesterday the RPI for July told us that rail fares will go up by 3.6% next year. As I reported yesterday on this site, costs have been mounting at the nationalised Network Rail which supplies the expensive track, stations and train slots. The railways will want this substantial fare rise, which always bears heaviest on commuters. Off peak and leisure travellers can benefit from highly discounted fares designed to try to fill the many empty seats outside peak hours.

Rail travellers paying those fares will not be amused to learn that the losses Network Rail have been making from their derivative dealing continue. According to the last accounts Network Rail lost another £116 m on "movement in the value of cash flow hedge derivatives", compared to a £232 m loss the previous year. (Accounts page 95) The total fair value of derivatives they hold rose again last year, from £963 m to £1102 million. (Accounts p 97). The liabilities on derivatives rose from £1408 million to £1529 million. The notional amounts were of course much greater, rising from £17,094 m to £17,974 million. (Accounts pp 120-121 Note 19)

I am surprised Network Rail continues to run such large positions in derivative instruments now that its financing is all secured by the government. The present management have inherited both foreign currency borrowing and index linked borrowing. Their predecessors took out various derivative positions in interest rates and currencies with the results I have reported before by quoting their Accounts, now updated for the most recent year.

I continue to ask why do they do this. What benefit is this to taxpayers who supply 70% of the revenue and who own 100% of the shares of this business?