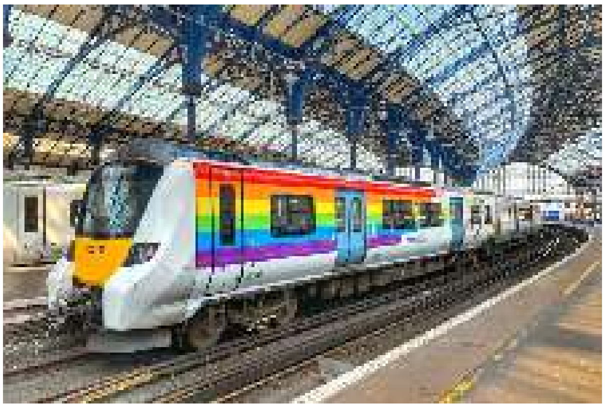
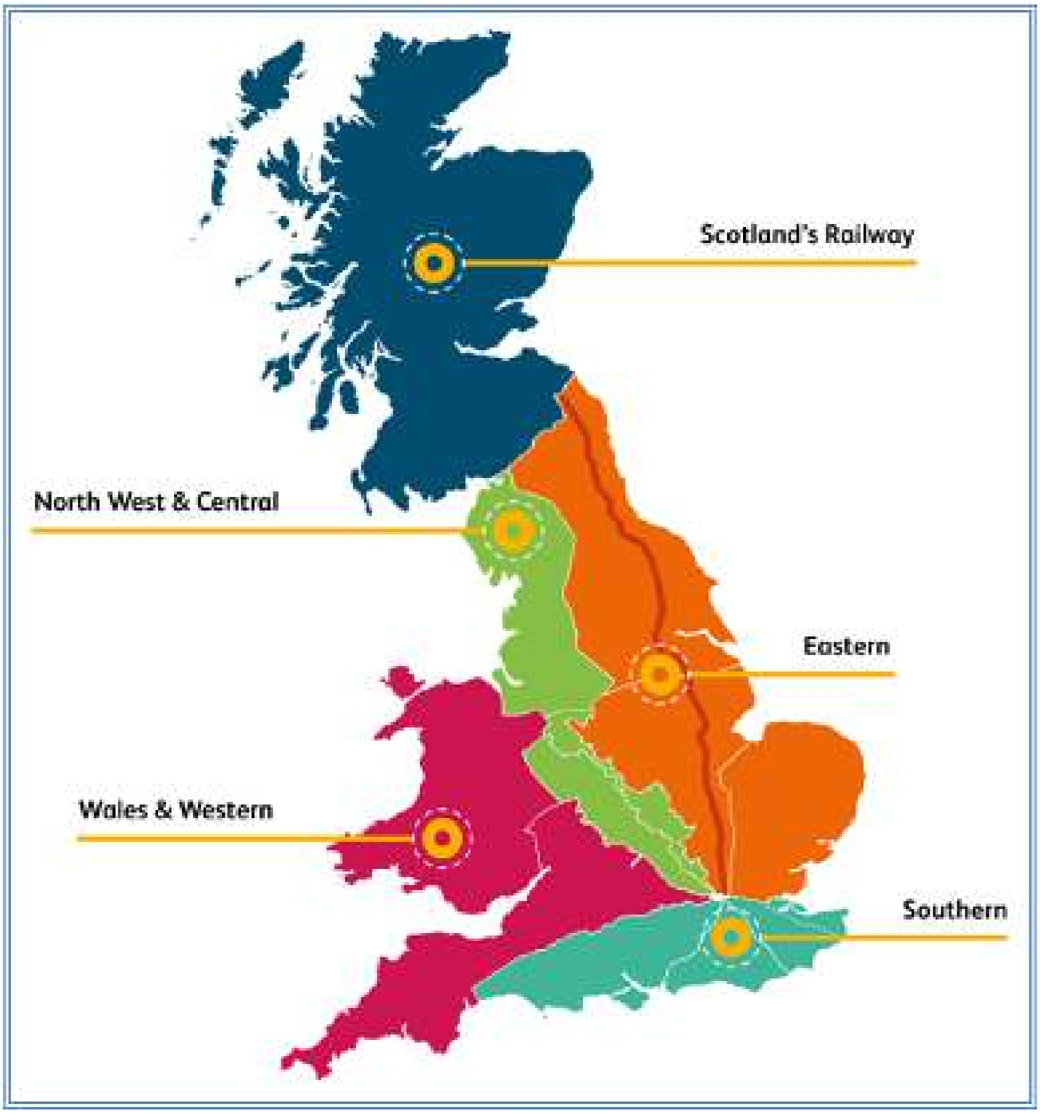


Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2024



Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2024

Directors' Review

In £m cash prices unless stated otherwise

Introduction

The year ended 31 March 2024 was the final financial year of Network Rail's five-year control period, covering the period from 1 April 2019 to 31 March 2024. This review will look back over the last year, which has seen Network Rail deliver its challenging efficiency targets whilst completing its five-year plan.

Network Rail met its revised five-year target of £4bn planned efficiencies from its cost base. This exceeded our original five-year target by £500m. We delivered £1.1bn against the cost baselines at the start of the control period in this final year of the delivery plan. We remain focused on further increasing productivity by reducing our cost base by another £3.9bn in the period 2024-2029.

Whilst Network Rail reached a settlement with its employees last March, train performance overall continued to be impacted by industrial action by train crews and drivers. This continued to hamper rail recovery. Nevertheless, passenger numbers increased by around 16 per cent year on year to around 93 per cent (83 per cent excluding Elizabeth line) of the pre-covid levels.

As we regain the confidence of our customers the industry's reliance on taxpayer's backing will reduce. In the meantime, the Government continues to support our industry and our direct customers, the passenger and freight operating companies, and has continued to pay amounts owed to Network Rail on-time.

In this control period Network Rail also used its risk funds to mitigate revenue shortfalls. As a result, we realised our delivery plan outputs whilst remaining on a firm financial footing.

The Office of Rail and Road (ORR) published Network Rail's determination of funding and outputs for 2024-29, providing clarity and certainty for the railway and its supply chain. The settlement, whilst a vote of confidence in the industry, also requires some tough strategic choices including managing the risk that inflation may impact our spending plans.

Directors' Review continued

In £m cash prices unless stated otherwise

Summary Income and Expenditure for 2023/24

	Actual	Baseline	Variance	FPM
Income				
Grant income	8,331	7,705	626	0
Franchised track access charges	3,158	3,035	123	(6)
Other single till income	881	768	113	111
Total income	**12,370**	**11,508**	**862**	**105**
Operating expenditure				
Network operations	812	701	(111)	(111)
Support costs	1,157	939	(218)	(144)
Traction electricity, industry costs and rates	1,103	1,196	93	(3)
Maintenance	2,290	1,812	(478)	(443)
Schedule 4	412	312	(100)	(84)
Schedule 8	259	69	(190)	(190)
	6,033	5,029	(1,004)	(975)
Capital expenditure				
Renewals	3,930	3,993	63	(70)
Enhancements	2,267	2,223	(44)	14
	6,197	6,216	19	(56)
Other expenditure				
Risk	0	900	900	0
Financing costs	2,583	2,220	(363)	0
Corporation tax	0	91	91	0
Total expenditure	**14,813**	**14,456**	**(357)**	**(1,031)**
Total FPM				**(926)**

Income

Grant income was higher than the regulatory baseline this year in order to meet working capital, operating and finance costs. Amounts received from government is driven by other net expenditure variances are outside of the scope of FPM.

Income from train operators is greater than the regulatory baseline this year largely due to higher-than-expected inflation resulting in increased payments under track access contracts. This inflation benefit is more than offset by inflationary increases Network Rail has been subject to across its cost base.

Directors' Review continued

In £m cash prices unless stated otherwise

Other single till income in the year is higher than the regulatory baseline mostly due to increased levels of property sales this year, which has offset reduced property income. Whilst recovery from Covid has been encouraging, turnover from rental units at stations has yet to recover to pre-pandemic levels due to reduced station footfall.

Operating expenditure

Network Operations costs were higher than the regulatory baseline reasons for which included increased investment in performance improvement schemes to improve the passenger experience, additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards

Support costs were higher than the regulatory baseline mainly due to increasing electricity prices, along with more project expenditure was classified as operating expenditure rather than capital expenditure compared to the original regulatory expectation. As this doesn't impact the total expenditure of the organisation this is treated as neutral when assessing financial performance.

Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year due to savings on Business rates, following latest government revaluations of rateable values of Network Rail's estate. Traction electricity is broadly in line with expectations despite widely-publicised increases in market electricity costs in recent years as most of the operators had pre-bought expected requirements when prevailing market rates were lower, protecting them against the market movements for Control Period 6.

Maintenance costs are higher than the regulatory baseline this year mainly due to additional activity was delivered on the network along with inflationary pressures on materials and supply chain prices.

Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the regions.

Schedule 8 costs are higher than the regulatory baseline. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather.

Capital expenditure

This year we delivered £6.6bn of railway investment, including works funded by parties other than DfT and TS. Enhancements that will increase the capacity of the network have amounted to £2.7bn. This included £2.1bn of DfT-funded schemes, £0.2bn funded by Transport Scotland (TS) and £0.4bn of other grant-funded projects. Major schemes included Transpennine improvements, on network works relating to East West Rail, Midland Main Line improvements, East Coast Main Line improvements and in Scotland, electrification projects to decarbonise the network and improvements at Levenmouth which reinstated and electrified 19km of railway with two new stations, and was officially opened in May 2024.

All these schemes will improve connectivity, reduce Great Britain's carbon footprint and drive economic development. For example, the Transpennine Route Upgrade will improve journey times, enhance the reliability of this busy part of the network and enable a reduction in greenhouse gas emissions in the region.

Directors' Review continued

In £m cash prices unless stated otherwise

We have also invested £3.9bn on renewals this year. This included £1.1bn of track renewals, which delivered 1,000km of new track and replaced seven hundred switches and crossings. In addition, £0.7bn was spent on signalling renewals, £0.4bn on structures, including around 52,000 square meters of bridges, £0.3bn on electrification assets, £0.4bn on buildings and property including improving stations for passengers, and £0.5bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment.

Other expenditure

As part of the CP6 regulatory framework, some of Network Rail's renewals funding was separated and held as risk funding. This was to cover risks of higher inflation, train performance, efficiency challenges not being fully recognised or other exogenous events. If this risk was not fully required for these items, it could be used to deliver additional asset management works or other strategic priorities. There is no expenditure reported in this line as the actual costs have been included in renewals or opex costs or to mitigate reduced income.

Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on inflation-linked debt instruments. Costs in the current year are higher than the regulatory baseline as higher RPI has led to increased expenses on our accreting debt. This has been partly offset by lower interest rates on DfT-issued debt which are derived from market interest rates at the time of debt issuance and have been lower than the regulatory baseline assumed. As Network Rail have minimal influence on these costs they are outside the scope of financial performance.

Under current tax law set up, Network Rail has not made any corporation tax payments this year whereas the regulatory expectation assumed payments would be made.

Regulatory Asset Base

As with most other regulated business, Network Rail has a Regulatory Asset Base (RAB). Subject to certain criteria established by the ORR, each year capital expenditure is added to the RAB and amortisation is deducted. This year the RAB increased in value from £84.4bn to £87.6bn. In line with the regulatory financial framework, the RAB is inflated each year. Although inflation was lower than 2022/23, it was still above the Bank of England long-term target of 2 per cent and added £3.3bn to the RAB valuation this year. Additions of £3.9bn were offset by amortisation of the same value. Reductions were then made for property disposals to arrive at the final valuation for 31 March 2024. Under the ORR CP6 Regulatory Accounting Guidelines, enhancements are not added to the RAB as the costs of enhancements are directly funded through capital grants paid by the organisation requesting the enhancement, largely Department for Transport and Transport Scotland.

Financing arrangements

Since becoming a public sector body in September 2014, Network Rail has borrowed directly from government and no longer issues debt on the capital markets. Investments are funded by grants and from cash generated from operations and fresh borrowing is used only for refinancing maturing loans. The regulatory settlement for Control Period 7 provides strong security for future income and the DfT loan agreement provides a robust loan refinancing platform for all of Network Rail's debt portfolio. We have not undertaken any new net borrowing during this control period and do not expect to do so in the next year. Instead, our activities are funded by grants from DfT, TS, and revenue from train and freight operators.

Directors' Review continued

In £m cash prices unless stated otherwise

During the year ended 31 March 2024, we used the DfT loan facility to refinance maturing borrowing with DfT of £2.7bn, and commercial borrowing instruments of £1.2bn. Inflation-linked bonds increased in line with the Retail Price Index, increasing debt by £1.6bn. Net debt rose from £58.2bn to £59.5bn.

Grant agreements with Department for Transport and Transport Scotland

Eight separate grants are in place between NRIL and DfT/TS (excluding agreements with Great British Rail Transition Team which are outside the scope of the Regulatory Financial Statements). These grants are:

- With DfT:
  - network grant;
  - enhancements grant;
  - British Transport Police grant;
  - financing costs grant for DfT interest;
  - financing costs grant for external interest (bonds and swaps); and
  - corporation tax grant
- With TS:
  - network grant; and
  - enhancements grant

Summary

Network Rail will continue delivering efficiency plans throughout the next five-year planning period. This will build on the last five years where we achieved over £4bn of efficiencies by delivering more for less.

Given the huge challenges faced by the rail industry over the last five years this is a credible performance and is tangible evidence that a focus on delivering value-for-money is embedded in our way of doing business.

This has put Network Rail on a firmer footing as we look forward to our next five-yearly control period, Control Period 7 (CP7).

Following the announcement of the funding for the five-year period 2024-2029, we have carefully reviewed the detail of the regulator's determination and developed a detailed CP7 delivery plan. The impact of inflation, tight public finances and the need for greater investment to manage the impact of more frequent extreme weather events on the infrastructure means that our funding will need to go further than ever before.

We are committed to delivering extensive investments across the length and breadth of the network. In addition to improvements to safety, we'll work to boost train performance, usher in new technologies, invest significantly more funds to tackle climate change as well as make £3.9 bn of efficiency savings.

In doing so we will become an increasingly important part of our national infrastructure and a key driver of clean, green, and safe economic growth. We will deliver a railway that's simpler, better, greener and more affordable for rail users and taxpayers.

Directors' Review continued

In £m cash prices unless stated otherwise

The Directors' report and the Regulatory financial statements were approved by the board of directors on 26th September 2024 and signed on its behalf on 07/11/ 2024.

Signed on behalf of the Board of Directors

Andrew Haines (Director) Jeremy Westlake (Director)

Statement of Directors' Responsibilities

The directors are responsible for preparing Regulatory financial statements in accordance with Condition 9 of the Network Licence as at 1 April 2019.

In preparing those Regulatory financial statements, the directors are required by Condition 9 to:

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2024 and (save as otherwise provided in Condition 9 or the CP6 Regulatory Accounting Guidelines December 2019) on a consistent basis in respect of each financial year;
- maintain all systems of control and other governance arrangements that ensure the information collected and reported to ORR is in all material respects accurate, complete and fairly presented and ensure that such governance arrangements are kept under regular review by the directors of the licence holder so that they remain effective for this purpose.
- include the confirmation required under Condition 9.5 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 9, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 9.5 and (where applicable) with Condition 9.9 and, if so requested by the ORR, evidence in support of that confirmation.

In addition, the directors are responsible for selecting suitable accounting policies where these are not directed by CP6 Regulatory Accounting Guidelines (December 2019) and for making judgements and estimates that are reasonable and prudent.

In accordance with the CP6 Regulatory Accounting Guidelines (December 2019) details should be provided in the Appendix with all reasonable necessary information required to reconcile items included in the Regulatory financial statements with similar items in the statutory financial statements. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion

Independent Auditors' Report to the company and the ORR – National Audit Office

Opinion

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2024 which comprise the following statements:

- Statement 1: Summary Regulatory Financial Performance (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 2: Analysis of Income (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3: Analysis of Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.1: Analysis of Operations Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.2: Analysis of Maintenance Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.3: Analysis of Support Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.4: Analysis of Traction Electricity, Industry Costs and Rates (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.5: Analysis of Schedule 4 and Schedule 8 Income and Costs (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.6: Analysis of Renewals Expenditure (figures pertaining to the columns labelled "Actual" and "Variance" only);
- Statement 3.7: Analysis of Enhancements Expenditure (figures pertaining to the columns labelled "Actual" only);
- Statement 3.9: Analysis of Staff Costs
- Statement 3.10: Analysis of Amounts Payable to Auditors and Independent Reporter (figures pertaining to the columns labelled "2023-24" only);
- Statement 4: Regulatory Financial Position;
- Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Asset Valuation;
- Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory Financial Statements and Statutory Accounts;
- Appendix C: Reconciliation of Regulatory Income to Statutory Turnover;
- Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt;
- Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense.

For the avoidance of doubt, my independent opinion does not extend to any figure pertaining to "financial out / (under) performance" or "anticipated final cost", nor any other statement or information contained in the Regulatory Accounts that is not explicitly listed above.

Independent Auditors' Report to the company and the ORR – National Audit Office continued

The financial reporting framework that has been applied in their preparation is Condition 9 of the Company's Network Licence ("the Regulatory Licence") and the Regulatory Accounting Guidelines ("RAGs") issued by the Director General of the Office of Rail and Road ("the Regulator"), and the accounting policies set out in the statement of accounting policies.

In my opinion the Regulatory Accounts, defined above, are:

- fairly presented in accordance with Condition 9 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2024 and its financial performance for the year then ended; and
- have been properly prepared, in all material respects, in accordance with Condition 9 of the Regulatory Licence.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and having regard to the guidance contained in ICAEW Technical Release 02/16AAF (Revised) *Reporting to regulators on regulatory accounts.* My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Regulatory Accounts section of my report.

I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the Regulatory Accounts in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of preparation

I draw attention to the fact that the Regulatory Accounts have been prepared in accordance with a special purpose framework, Condition 9 of the Regulatory Licence, Regulatory Accounting Guidelines ("the RAGs") issued by the Regulator; and the accounting policies set out in the statement of accounting policies. The nature, form and content of the Regulatory Accounts are determined by the Regulator. It is not appropriate for me to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, I make no such assessment.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the UK ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

My opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Regulatory Accounts defined above and my auditor's report thereon. My opinion on the Regulatory Accounts does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

Independent Auditors' Report to the company and the ORR – National Audit Office continued

In connection with my audit of the Regulatory Accounts, my responsibility is to read the Directors' Review contained within the Regulatory Accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. I have not performed any audit procedures nor provided any other assurance on the Directors' Review.

I have nothing to report in this regard.

Responsibilities of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Regulatory Accounts and for such internal control as the directors determine is necessary to enable the preparation of Regulatory Accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Regulatory Accounts

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

I have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by the RAGs. Where the RAGs do not give specific guidance on the accounting policies to be followed, my audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company.

Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, I did not evaluate the overall adequacy of the presentation of the information, which would have been required if I were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Other matters

In arriving at my opinion, and in accordance with the Regulatory Licence (condition 9), I have considered the following matters, to report on any in respect of which I am not satisfied:

- whether appropriate accounting records have been kept by the Company and proper returns adequate for my audit have been received from operating locations not visited by me;
- whether the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts; and
- whether I have obtained all the information and explanations which I consider necessary for the purposes of my audit.

I have nothing to report arising from this duty.

Independent Auditors' Report to the company and the ORR – National Audit Office continued

Use of my report

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Regulatory Licence. My audit work has been undertaken so that I might state to the Company and the Regulator those matters that I have agreed to state to them in my report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Company and the Regulator, for my audit work, for this report or for the opinions I have formed.

My opinion on the Regulatory Accounts is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2024, which are prepared for a different purpose. My audit report in relation to the statutory financial statements of the Company (my "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My Statutory audit work was undertaken so that we might state to the Company's members those matters I am required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility for any other purpose or to any other person to whom my Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Sarah Che (Senior Statutory Auditor)

14th November 2024

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Independent Reporters' Report to the company and the ORR – Arup

Introduction

In accordance with the terms of engagement for the Independent Reporter, we have reviewed the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the Company) for the year ended 31 March 2024, which comprise:

- Statement 1: Summary Regulatory Financial Performance (FPM element only);
- Statement 2: Analysis of Income (FPM element only);
- Statement 3: Analysis of Expenditure (FPM element only);
    - Statement 3.1: Analysis of Operations Expenditure (FPM element only);
    - Statement 3.2: Analysis of Maintenance Expenditure (FPM element only);
    - Statement 3.3: Analysis of Support Expenditure (FPM element only);
    - Statement 3.4: Analysis of Traction Electricity, Industry Costs and Rates (FPM element only);
    - Statement 3.5: Analysis of Schedule 4 and Schedule 8 Income and Costs (FPM element only);
    - Statement 3.6: Analysis of Renewals Expenditure (FPM element only);
    - Statement 3.7: Analysis of Enhancements Expenditure (FPM element only);
- Statement 3.8: Analysis of Renewals Unit Costs;

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 9 of the Network Licence. As stated in Clause 2.17-2.19 of the Regulatory Accounting Guidelines (RAGs) dated December 2019, the Regulator may use independent reporters to review some of the information provided by Network Rail in the regulatory financial statements. This will complement the work of the auditors.

Work completed – basis of opinion

We have conducted our review on a test basis, focusing upon evidence relevant to the amounts and disclosures in the statements listed in our terms of reference. Our review has comprised sample testing of the regulatory financial statements to underlying supporting information and reconciliation to other parts of the financial statements where appropriate.

We have performed where possible, compliance tests to confirm the adequacy of accounting controls and procedures and detailed substantive testing to confirm the accuracy of accounting entries.

Opinion

Based on our review and audit of information and evidence provided in respect of the statements within the Regulatory Accounts, we confirm that in our opinion the statements that we have reviewed (listed in the introduction above) have been prepared in accordance with the Regulatory Accounting Guidelines and are consistent with the underlying financial statements.

Independent Reporters' Report to the company and the ORR – Arup continued

Yours faithfully.

15th November **2024**

Mark Rudrum

Named Independent Reporter

Ove Arup & Partners Ltd

Accounting policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence as at 1 April 2019, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 9 of the Licence and the Statements must be prepared in accordance with detailed CP6 Regulatory Accounting Guidelines issued by ORR under Condition 9 in December 2019.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP6 Regulatory Accounting Guidelines ("RAGs") issued by ORR in December 2019. These are consistent with those detailed in the Network Rail Limited consolidated statutory financial statements for the year ended 31 March 2024 which were approved by the board of directors on 12 July 2024 and signed on its behalf on 25 July 2024 with the following notable exceptions:

Inflation

Each year the opening Regulatory Asset Base ("RAB") is inflated to bring its valuation up to current prices. The statutory accounts are prepared on an historical cost basis with the exception of fixed assets, investment properties and certain financial assets and liabilities which are carried at their fair value.

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight-line basis over its estimated weighted average remaining useful economic life (currently 40 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in ORR's Periodic Review 2018 Financial Framework document.

IFRS16 Leases

IFRS 16 was introduced for entities preparing accounts in accordance with International Financial Reporting Standards adopted for use in the European Union for reporting periods beginning on or after 1 January 2019. This has not been adopted for these Regulatory financial statements to keep the accounting treatment consistent with the CP6 funding settlement, financial framework and regulatory baselines.

Debt

Debt is calculated by reference to the principal amount outstanding of any such financial indebtedness. No mark to market value is used to calculate its amount. Where financial indebtedness is denominated in a foreign currency, hedged by a derivative, the principal amount is calculated by reference to the sterling amount payable under the relevant derivative. This approach is consistent with the definition used in CP5 which ORR have confirmed is appropriate for CP6.

Pensions

Pension expenses in the Regulatory financial statements are accounted for as employer's contributions fall due. In the statutory accounts, the pension expenses also include any adjustment required to reflect the results of the actuarial valuation of the current service cost. Interest in the statutory accounts also includes the expected return on assets less interest on liabilities in respect of defined benefit pension schemes.

Accounting policies continued

Turnover

For Regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts but does include the access charge supplement earned under this element of the performance regime. Also, income in the Regulatory financial statements includes profit on the disposal of properties after adjusting for the costs of the divestment programme. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 'Presentation of Financial Statements'.

Basis of disaggregation

No segmental analysis is provided in the statutory financial statements because Network Rail operates one class of business, that of managing the national rail infrastructure, and undertakes that class of business in one geographic location, Great Britain, and is thus outside the scope of IFRS 8 'Operating Segments'.

However, for the Regulatory financial statements Network Rail is obliged to present information about the performance of the business for all of its five operational Regions. The principles of how this information is derived is set out below.

Operational Regions

Network Rail's income and expenditure can be classified into the following two main categories dependent upon how the items are managed:

(a) Regionally-managed - income and expenditure which is managed by the local Region leadership team. This is assigned directly to each Region. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual Regions. All of these costs/ revenues are included in the Region income and expenditure reported in the Regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the Region-managed works delivery team. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issued by ORR December 2019.

(b) Centrally-managed. These types of income and expenditure are included separately in each of the statements in the Regulatory financial statements where required by the Regulatory Accounting Guidelines issued by ORR December 2019. There are three sub-sections of Centrally-managed costs as follows:

i. Directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual Regions can affect the company wide costs. This covers items where the Region is consuming a service from central functions and are charged in proportion to the amount of service they utilise. This would include items such as capital delivery of assets that are managed nationally, such as Telecoms. These costs can be attributed to the Region directly

Accounting policies continued

ii. Region identifiable - income and expenditure which is the responsibility of central functions where Region leadership teams have little direct influence. However, the geographic location of activity giving rise to the income and expenditure is readily ascertainable. This would include many of the operations of Network Rail's property team such as income from commercial lettings, rental of retail premises at stations managed by Network Rail and sales of parts of the railway estate. In these circumstances it is possible to assign the costs/ income to the applicable operational Region

iii. Allocated by driver – income and expenditure incurred for the whole network or company. Minimal causal link between Region management teams' decisions and the level of costs incurred by Network Rail. This would include amounts paid to the ORR for regulatory licences, Board and governance costs. In these circumstances, costs have to be attributed to Regions using an appropriate driver. The driver represents a proxy for the cause of the cost in each Region. Network Rail has supplied supporting detailed documentation to the regulator (as well as the auditors and the reporters) setting out this methodology.

Great Britain
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	8,331	7,705	626	-	7,754
Franchised track access charges	3,158	3,035	123	(6)	2,880
Other Single Till Income	881	768	113	111	702
Total Income	**12,370**	**11,508**	**862**	**105**	**11,336**
Operating expenditure					
Network operations	812	701	(111)	(111)	744
Support costs	1,157	939	(218)	(144)	1,059
Traction electricity, industry costs and rates	1,103	1,196	93	(3)	1,017
Maintenance	2,290	1,812	(478)	(443)	2,170
Schedule 4	412	312	(100)	(84)	816
Schedule 8	259	69	(190)	(190)	137
	6,033	**5,029**	**(1,004)**	**(975)**	**5,943**
Capital expenditure					
Renewals	3,930	3,993	63	(70)	4,204
Enhancements	2,267	2,223	(44)	14	2,089
	6,197	**6,216**	**19**	**(56)**	**6,293**
Risk expenditure					
Risk (Centrally-held)	-	305	305	-	-
Risk (Route-controlled)	-	303	303	-	-
Risk (Contingent asset management funding)	-	292	292	-	-
	-	**900**	**900**	**-**	**-**
Other expenditure					
Financing costs	2,583	2,220	(363)	-	4,296
Corporation tax	-	91	91	-	(52)
	2,583	**2,311**	**(272)**	**-**	**4,244**
Total expenditure	**14,813**	**14,456**	**(357)**	**(1,031)**	**16,480**
Total Financial Out/(under) performance				**(926)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	34,208	34,694	(486)	-
Franchised track access charges	13,570	14,256	(686)	(275)
Other Single Till Income	3,856	3,540	316	(210)
Total Income	**51,634**	**52,490**	**(856)**	**(485)**
Operating expenditure				
Network operations	3,616	3,380	(236)	(239)
Support costs	4,762	4,467	(295)	60
Traction electricity, industry costs and rates	4,585	5,153	568	(6)
Maintenance	9,955	8,772	(1,183)	(1,063)
Schedule 4	2,112	1,619	(493)	(501)
Schedule 8	(88)	332	420	420
	24,942	**23,723**	**(1,219)**	**(1,329)**
Capital expenditure				
Renewals	18,742	18,475	(267)	(804)
Enhancements	9,508	9,127	(381)	(172)
	28,250	**27,602**	**(648)**	**(976)**
Risk expenditure				
Risk (Centrally-held)	-	837	837	-
Risk (Route-controlled)	-	880	880	-
Risk (Contingent asset management funding)	-	912	912	-
	-	**2,629**	**2,629**	**-**
Other expenditure				
Financing costs	13,302	11,177	(2,125)	-
Corporation tax	2	272	270	-
	13,304	**11,449**	**(1,855)**	**-**
Total expenditure	**66,496**	**65,403**	**(1,093)**	**(2,305)**
Total Financial Out/(under) performance				**(2,790)**

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.5bn lower than the regulatory baseline for this year as higher revenue grants and risk funds in the baseline have been partly offset by additional interest costs and maintenance. Across the control period net expenditure is around £1.95bn higher than expected with financing costs £2.1bn higher.

(2) This statement also shows that Network Rail has recognised financial underperformance of around £0.9bn this year and £2.8bn across the control period. Underperformance this year includes: additional maintenance activity, inflationary pressures and higher payments under the train performance regime. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, industrial action in 2022/23, inflationary pressures and costs of completing legacy CP5 enhancements.

(3) Income – Grant income is higher than the regulatory baseline this year, but lower across the control period. Grants are only paid as required and so lower interest and corporation tax costs have meant Network Rail has not required as much government grants across CP6. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

(4) Income – Franchised track access charges income is greater than the regulatory baseline this year largely due to higher-than-expected inflation resulting in increased payments by operators under track access charges. This inflation benefit is more than offset by inflationary increases Network Rail has been subject to across it's cost base. Income in the control period is lower than the regulatory baseline mainly due to a combination of reduced services ran during Covid and subsequent structural changes to the industry and lower traction electricity charges as market prices have not risen as quickly as the regulatory baseline assumed. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is higher than the previous year. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Increases in market electricity prices also increased income charged to operators. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is higher than the regulatory baseline mostly due to increased levels of property sales this year. Income is higher across the control period as property disposals, including part of the network in Wales, more than offset reduced property rental income which arose from the Covid-19 pandemic. To support retail and commercial estate tenants during the pandemic Network Rail cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is higher than the previous year, mainly due to higher property sales. As noted in previous years' Regulatory Financial Statements, property sales can be variable year by year given their nature. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure which have been partly offset by additional efficiencies in Centrally-managed activities. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator’s assumption in the current year due to savings on Business rates. Costs across the control period were lower than the regulatory baseline due to savings on Traction electricity and Business rates. Whilst market electricity prices have increased significantly in recent years following Russia aggression in Eastern Europe, many of the operators had pre-purchased requirements, which limited the impact of market rises. These savings are offset by lower traction electricity income charged to operators (refer to Statement 2). Costs have increased compared to the previous year mainly due to higher market electricity prices. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year mainly due to additional activity was delivered on the network. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the regions. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is broadly in line with the regulatory baseline this year. Across the control period investment has been higher as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period. Renewals investment is discussed in more detail in Statement 3.6.

Statement 1: Summary of regulatory financial performance, Great Britain – continued

In £m cash prices unless stated

(13)Capital expenditure – Enhancements are undertaken at the directions of funders (Department for Transport (DfT) and Transport Scotland (TS)) who specify outputs and funding for each programme. Expenditure this year and across the control period is broadly in line with the regulatory baseline. Financial underperformance this control period has been mainly against legacy CP5 programmes that were completed early in CP6. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). Enhancement investment is set out in more detail in Statement 3.7.

(14)Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15)Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16) Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,478	1,361	117	-	1,368
Variable usage charge	259	308	(49)	(49)	228
Electrification asset usage charge	23	30	(7)	(7)	21
Capacity charge	-	-	-	-	-
Open access income	33	32	1	1	32
Managed stations long term charge	85	77	8	8	81
Franchised stations long term charge	207	192	15	15	193
Traction electricity charges	707	700	7	-	581
Schedule 4 access charge supplement	246	226	20	20	250
	3,038	**2,926**	**112**	**(12)**	**2,754**
Other single till income					
Freight income					
Freight variable usage charge	66	77	(11)	(11)	61
Freight other income	3	4	(1)	(1)	3
	69	**81**	**(12)**	**(12)**	**64**
Stations income					
Managed stations qualifying expenditure	115	110	5	5	104
Franchised stations lease income	60	55	5	5	62
	175	**165**	**10**	**10**	**166**
Facility and financing charges					
Facility charges	67	67	-	-	65
	67	**67**	**-**	**-**	**65**
Property income					
Property rental	236	285	(49)	(49)	214
Property sales	41	24	17	17	14
	277	**309**	**(32)**	**(32)**	**228**
Depots Income	**145**	**100**	**45**	**45**	**120**
Other income	**3**	**5**	**(2)**	**(2)**	**9**
Freight traction electricity charges	**12**	**9**	**3**	**-**	**19**
Total other single till income	**748**	**736**	**12**	**9**	**671**
Total Regionally-managed income	**3,786**	**3,662**	**124**	**(3)**	**3,425**
Centrally-managed income					
Network grant	6,816	6,015	801	-	6,453
Internal financing grant	725	990	(265)	-	668
External financing grant	685	502	183	-	573
BTP grant	105	107	(2)	-	112
Corporation tax grant	-	91	(91)	-	(52)
Infrastructure cost charges	57	52	5	-	57
Schedule 4 access charge supplement	63	57	6	6	69
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	8,451	**7,814**	**637**	**6**	**7,880**
Other single till income					
Property income					
Property rental	13	14	(1)	(1)	12
Property sales	120	18	102	103	19
	133	**32**	**101**	**102**	**31**
Total other single till income	**133**	**32**	**101**	**102**	**31**
Total centrally-managed income	**8,584**	**7,846**	**738**	**108**	**7,911**
Total income	**12,370**	**11,508**	**862**	**105**	**11,336**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	6,467	6,419	48	-
Variable usage charge	1,150	1,425	(275)	(275)
Electrification asset usage charge	105	133	(28)	(28)
Capacity charge	2	-	2	2
Open access income	148	151	(3)	(3)
Managed stations long term charge	381	373	8	8
Franchised stations long term charge	922	920	2	2
Traction electricity charges	1,737	1,989	(252)	-
Schedule 4 access charge supplement	1,230	1,217	13	13
	12,142	**12,627**	**(485)**	**(281)**
Other single till income				
Freight income				
Freight variable usage charge	289	309	(20)	(20)
Freight other income	9	9	-	-
	298	**318**	**(20)**	**(20)**
Stations income				
Managed stations qualifying expenditure	492	513	(21)	(21)
Franchised stations lease income	284	268	16	16
	776	**781**	**(5)**	**(5)**
Facility and financing charges				
Facility charges	311	315	(4)	(4)
	311	**315**	**(4)**	**(4)**
Property income				
Property rental	678	1,044	(366)	(366)
Property sales	136	82	54	21
	814	**1,126**	**(312)**	**(345)**
Depots Income	**563**	**475**	**88**	**88**
Other income	**32**	**24**	**8**	**8**
Freight traction electricity charges	**40**	**26**	**14**	**-**
Total other single till income	**2,834**	**3,065**	**(231)**	**(278)**
Total Regionally-managed income	**14,976**	**15,692**	**(716)**	**(559)**
Centrally-managed income				
Network grant	27,194	26,546	648	-
Internal financing grant	3,334	4,367	(1,033)	-
External financing grant	3,175	3,010	165	-
BTP grant	503	499	4	-
Corporation tax grant	2	272	(270)	-
Infrastructure cost charges	266	261	5	-
Schedule 4 access charge supplement	303	299	4	6
Traction electricity charges	859	1,069	(210)	-
Freight traction electricity charges	14	14	-	-
	35,650	**36,337**	**(687)**	**6**
Other single till income				
Property income				
Property rental	301	309	(8)	(7)
Property sales	707	152	555	75
	1,008	**461**	**547**	**68**
Total other single till income	**1,008**	**461**	**547**	**68**
Total centrally-managed income	**36,658**	**36,798**	**(140)**	**74**
Total income	**51,634**	**52,490**	**(856)**	**(485)**

Statement 2: Analysis of income, Great Britain

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is slightly higher than the regulatory baseline this year mainly due to higher property sales and infrastructure cost charges which have been partly offset by lower grant income from funders. Income across the control period is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity, variable track access and property rental income, with the Covid-19 pandemic driving the financial underperformance in the latter two categories. These income shortfalls have been partly offset by increased property disposals. Income is higher than the previous year mainly due to higher regionally-managed income, including higher track access and electricity charges.

Regionally-managed income

(1) Total Regionally-managed income is higher than the CP6 baseline this year, as higher inflation rates have resulted in higher income earned through track access contracts and higher energy prices resulting in higher electricity income. Across CP6, Regionally-managed income has been lower than expected as Covid and industrial action reduced variable track access income, Covid impacted property income and overall lower average electricity prices. Regionally-managed income is higher than last year mainly due to increased inflation uplift to track access contracts and higher electricity costs.

(2) Infrastructure cost charges - fixed charge income was higher than the regulatory expectation this year and is now higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year. This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the control period shortfall. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower income across the control period reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Electrical Asset Usage – this income stream is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As noted above, fewer trains ran this year than the regulatory baseline expected meaning less EAU income was received leading to financial underperformance. The underperformance across the control period is due to reduced services this control period owing to the aforementioned impacts of Covid-19 and industrial action.

(5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

(6) Managed stations long term charge – income this year is higher than the regulatory baseline mainly due to higher cumulative inflation this year compared to the regulatory expectation when the baselines were set. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

(7) Franchised stations long term charge – income this year is higher than the regulatory baseline mainly due to higher cumulative inflation this year compared to the regulatory expectation when the baselines were set. Income is higher than the previous year. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(8) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, revenue for the control period is lower than the regulator’s expectation as expected price increases earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(9) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income is slightly lower than the previous year reflecting planned reductions in Schedule 4 costs as reflected in the regulatory baseline for this year.

(10) Freight Income – income is lower than the regulatory baseline this year, as demand growth assumed in the baseline has not fully materialised. The disruptive impact of weather has also increased cancellations this year. Income is lower across the control period due to the aforementioned performance this year, along with shortfalls in 2022/23 as a result of industrial action, limiting the number of services that Network Rail was able to run to satisfy demand from freight operators. Income is higher than the previous year, This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by freight operators are contractually uplifted by the previous year’s November CPI (i.e. November 2022) which was exceptionally high.

(11) Managed stations qualifying expenditure – income is higher than the regulatory assumption this year, which partially offset reduced income in the earlier years of the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail’s managed stations estate. The control period deficit is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them. The increase in income compared to the prior year is largely due to the higher inflation used in many of the agreements with operators compared to the inflationary uplift applied to the 2022/23 income, which uses the November 2023 CPI per the Regulatory Accounting guidelines (December 2019).

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(12) Franchised stations lease income – income is higher than the regulatory assumption this year, adding to the higher underlying income throughout the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail's franchised stations estate.

(13) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

(14) Property sales – sales are higher than the regulatory baseline this year and across the control period as additional opportunities have been identified to offset property income shortfalls elsewhere. The current year is higher than the previous year reflecting the erratic nature of this income with sales only made when value can be unlocked.

(15) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period due to additional services offered to operators. The higher income this year also benefits from higher than expected inflation used to uplift contracts. Income is higher than the previous year which is partly due to inflationary benefits from many agreements with operators being linked to the previous year's March RPI (i.e. March 2022) which was exceptionally high, whereas the 2022/23 income has been uplifted using the November 2023 CPI, in line with the Regulatory Accounting guidelines (December 2019).

(16) Freight traction electricity charges – income is higher than the regulatory baseline this year and in the control period. This is mainly due to the well-publicised higher market electricity prices this in recent year following Russian aggression in Ukraine and the impact this has had on global energy prices. Freight operators were disproportionately impacted compared to franchised train operating companies this control period, as many franchised train operators had chosen to pre-purchase expected electricity requirements when market prices were lower. Network Rail passes on the cost to operators and so this extra income is offset by higher traction electricity costs as reported in Statement 3.4. This also accounts for the increase compared to the previous year.

Centrally-managed income

(1) Aggregate Centrally-managed income is broadly in slightly higher than the regulatory baseline this year as higher property sales income has been partly offset by lower grants received from funders. Income for the control period in total is lower than the regulatory baseline as lower interest costs have reduced the amount of grants required, which has been partly offset by additional property disposal income. Income is broadly in line with the previous year as lower grant income received from funders has been mostly offset by higher property disposals income.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT and Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT and Transport Scotland for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which reverses some of the reduced income in earlier years. The extra income this year represented a different phasing of activity being undertaken than anticipated in the regulatory baseline and extra expenditure agreed with DfT. Overall income was higher than the baseline assumed due to funding arrangement changes agreed after the baselines were set in 2019.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower.

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) British Transport Police grant – these grants are used to pay the costs of the core British Transport Police, included in Statement 3.4. Income is broadly in line with the regulatory baseline for the current year and the control period in total. Income is lower than the prior year, reflecting lower costs this year from British Transport Police as shown in Statement 3.4.

(7) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

(8) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Fixed charge income was higher than the regulatory expectation this year and is now higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is in line with the previous year.

(9) Schedule 4 access charge supplement – income is higher than the regulatory baseline, reflecting higher inflation across the control period than the regulator expected when setting charges. This extra income is offset by higher Schedule 4 compensation costs payable to operators under track access contracts, as the rates payable also increase with inflation. Income is lower than the previous year, reflecting planned reductions in Schedule 4 costs for 2023/24 assumed at the time of the CP6 determination.

(10) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(11) Property rental – income was broadly in line with the regulatory baseline and the previous year. Income for the control period is noticeably lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.

(12) Property sales – income in the current year is higher than the regulatory baseline following disposal of sites to support High Speed 2 construction, which also accounts for the higher income this year compared to 2022/23. Income across the control period is significantly higher than the regulatory baseline due to the disposal of part of the network in Wales as reported in 2019/20. This disposal was treated as neutral when assessing financial performance. When assessing financial performance this control period, the proceeds from disposal of part of the network in Eastern have also been treated as neutral.

Great Britain
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	786	677	(109)	(109)	721
Maintenance	2,217	1,753	(464)	(433)	2,044
Support costs	521	243	(278)	(197)	326
Traction electricity, industry costs and rates	1,060	1,159	99	(3)	974
Schedule 4	407	256	(151)	(135)	813
Schedule 8	253	58	(195)	(195)	128
	5,244	**4,146**	**(1,098)**	**(1,072)**	**5,006**
Capital expenditure					
Renewals	3,276	2,893	(383)	(63)	3,695
Enhancements	2,255	2,223	(32)	14	2,053
	5,531	**5,116**	**(415)**	**(49)**	**5,748**
Total Regionally-managed expenditure	**10,775**	**9,262**	**(1,513)**	**(1,121)**	**10,754**
Centrally-managed expenditure					
Operating expenditure					
Network operations	26	24	(2)	(2)	23
Maintenance	73	59	(14)	(10)	126
Support costs	636	696	60	53	733
Traction electricity, industry costs and rates	43	37	(6)	-	43
Schedule 4	5	56	51	51	3
Schedule 8	6	11	5	5	9
	789	**883**	**94**	**97**	**937**
Capital expenditure					
Renewals	654	1,100	446	(7)	509
Enhancements	12	-	(12)	-	36
	666	**1,100**	**434**	**(7)**	**545**
Risk Expenditure	**-**	**900**	**900**	**-**	**-**
Other					
Financing costs	2,583	2,220	(363)	-	4,296
Taxation	-	91	91	-	(52)
	2,583	**2,311**	**(272)**	**-**	**4,244**
Total centrally-managed expenditure	**4,038**	**5,194**	**1,156**	**90**	**5,726**
Total expenditure	**14,813**	**14,456**	**(357)**	**(1,031)**	**16,480**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	3,501	3,261	(240)	(240)
Maintenance	9,570	8,445	(1,125)	(1,005)
Support costs	1,752	1,140	(612)	(532)
Traction electricity, industry costs and rates	2,831	3,248	417	(14)
Schedule 4	2,112	1,354	(758)	(765)
Schedule 8	(74)	279	353	353
	19,692	**17,727**	**(1,965)**	**(2,203)**
Capital expenditure				
Renewals	16,087	15,169	(918)	(879)
Enhancements	9,096	9,114	18	(209)
	25,183	**24,283**	**(900)**	**(1,088)**
Total Regionally-managed expenditure	**44,875**	**42,010**	**(2,865)**	**(3,291)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	115	119	4	1
Maintenance	385	327	(58)	(58)
Support costs	3,010	3,327	317	592
Traction electricity, industry costs and rates	1,754	1,905	151	8
Schedule 4	-	265	265	264
Schedule 8	(14)	53	67	67
	5,250	**5,996**	**746**	**874**
Capital expenditure				
Renewals	2,655	3,306	651	75
Enhancements	412	13	(399)	37
	3,067	**3,319**	**252**	**112**
Risk Expenditure	**-**	**2,629**	**2,629**	**-**
Other				
Financing costs	13,302	11,177	(2,125)	-
Taxation	2	272	270	-
	13,304	**11,449**	**(1,855)**	**-**
Total centrally-managed expenditure	**21,621**	**23,393**	**1,772**	**986**
Total expenditure	**66,496**	**65,403**	**(1,093)**	**(2,305)**

Statement 3: Analysis of expenditure, Great Britain

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, additional maintenance activity and performance regime costs more than offsetting the risk funds included in the baseline. Expenditure has been higher across the control period for similar reasons. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across in the control period are higher with additional capital investment and operating costs. Expenses are broadly similar to the previous year as higher Schedule 4 costs from industrial action in 2022/23 has been partly offset by higher maintenance and traction electricity costs. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally-managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail's index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Great Britain
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	326	290	(36)	(36)	302
Operations Management	111	76	(35)	(35)	94
Controllers	80	66	(14)	(14)	74
Electrical control room operators	26	19	(7)	(7)	24
	543	**451**	**(92)**	**(92)**	**494**
Non signaller expenditure					
Mobile operations managers	57	42	(15)	(15)	53
Managed stations	95	85	(10)	(10)	92
Performance	10	14	4	4	10
Other	81	85	4	4	72
Total Regionally-managed Operations expenditure	**786**	**677**	**(109)**	**(109)**	**721**
Centrally-managed Operations expenditure					
Network Services	26	24	(2)	(2)	23
Total centrally-managed Operations expenditure	**26**	**24**	**(2)**	**(2)**	**23**
Total operations expenditure	**812**	**701**	**(111)**	**(111)**	**744**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	1,473	1,409	(64)	(64)
Operations Management	436	364	(72)	(72)
Controllers	350	328	(22)	(22)
Electrical control room operators	108	94	(14)	(14)
	2,367	**2,195**	**(172)**	**(172)**
Non signaller expenditure				
Mobile operations managers	246	204	(42)	(42)
Managed stations	440	406	(34)	(34)
Performance	49	70	21	21
Other	399	386	(13)	(13)
Total Regionally-managed Operations expenditure	**3,501**	**3,261**	**(240)**	**(240)**
Centrally-managed Operations expenditure				
Network Services	115	119	4	1
Total centrally-managed Operations expenditure	**115**	**119**	**4**	**1**
Total operations expenditure	**3,616**	**3,380**	**(236)**	**(239)**

Statement 3.1: Analysis of operations expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. The higher costs for the control period incorporates the above but also includes increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

(3) Operations management – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

Statement 3.1: Analysis of operations expenditure, Great Britain - continued

In £m cash prices unless stated

(4) Controllers – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules.

(5) Mobile operation managers – costs across the control period are higher than the regulatory baseline. This is largely from additional recruitment to improve incident response times and support timetable resilience across the network. In addition, many of the costs incurred to bolster train performance have been recognised in this heading, rather than the Performance category within this statement.

(6) Managed stations – once again, costs are higher than the regulatory baseline. This includes extra staff at stations to offer a better service to the travelling public and higher costs of running stations as inflation has risen faster than expected. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are higher than the previous year reflecting rising market prices for some services, such as cleaning and a reduced tertiary income received from services provided at Managed stations.

(7) Performance – costs are lower than the regulatory baseline this year continuing the trend of earlier years of the control period. This is due to some of the performance initiatives being reported against other categories in this statement. The underspend in this category is offset by overspends in other headings. The savings across the control period are largely driven by the same factors. Costs are broadly consistent with the previous year.

(8) Other – costs are lower than the regulatory target for this year, which helps offset some of the underperformance reported in earlier years of the control period. This is partly due to restructuring as a result of the Putting Passenger First Programme. Responsibilities and activities that are included in the regulatory baseline in this category have been delivered by other categories in this statement. The savings in this category also help offset higher costs reported elsewhere in Operations this year. The higher costs across the control period is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period. Savings from workforce reform initiatives including restrained pay, performance-related pay reductions and management modernisation reorganisation have been offset by higher inflationary pressures, reflecting price movements in the wider economy. Financial outperformance recognised in the current year includes removing timing differences reported in the 2019/20 Regulatory Financial Statements to accurately report the total control period position.

Great Britain
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	921	756	(165)	(154)	830
Signalling & Telecoms	336	296	(40)	(40)	325
Civils	292	228	(64)	(98)	276
Buildings	141	95	(46)	(5)	126
Electrical power and fixed plant	146	141	(5)	(5)	147
Other network operations	381	237	(144)	(131)	340
	2,217	**1,753**	**(464)**	**(433)**	**2,044**
Centrally-managed maintenance expenditure					
Telecoms	33	36	3	3	28
Route Services - Asset Information	40	35	(5)	(5)	32
STE Maintenance	3	2	(1)	(1)	3
Property	-	-	-	-	-
Route Services - Other	(5)	(14)	(9)	(6)	52
Other	2	-	(2)	(1)	11
	73	**59**	**(14)**	**(10)**	**126**
Total maintenance expenditure	**2,290**	**1,812**	**(478)**	**(443)**	**2,170**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	3,991	3,660	(331)	(281)
Signalling & Telecoms	1,563	1,423	(140)	(141)
Civils	1,181	1,086	(95)	(150)
Buildings	562	475	(87)	(6)
Electrical power and fixed plant	680	672	(8)	(8)
Other network operations	1,593	1,129	(464)	(419)
	9,570	**8,445**	**(1,125)**	**(1,005)**
Centrally-managed maintenance expenditure				
Telecoms	121	159	38	37
Route Services - Asset Information	171	169	(2)	(9)
STE Maintenance	21	22	1	1
Property	10	6	(4)	(4)
Route Services - Other	53	(29)	(82)	(83)
Other	9	-	(9)	-
	385	**327**	**(58)**	**(58)**
Total maintenance expenditure	**9,955**	**8,772**	**(1,183)**	**(1,063)**

Statement 3.2: Analysis of maintenance expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year mainly due to greater costs in the Regionally-managed category, as additional activity was delivered on the network as described below. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken in the Regions as set out below.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across all categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF and extra costs to comply with track worker safety standards. Costs across the control period are 13 per cent higher than the regulatory baseline assumed which has included the delivery of approximately 14 per cent more maintenance activity on reportable weighted volume measures. Higher costs have also arisen from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs are 8 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 6 per cent compared to the previous year.

Statement 3.2: Analysis of maintenance expenditure, Great Britain - continued

In £m cash prices unless stated

(2) Track – track costs are the largest component of Network Rail's overall maintenance expenditure. Given the circa 20,000 miles of track that requires inspection and remediation this is perhaps unsurprising. This year costs are, once again, higher than the regulatory baseline which includes additional reportable volumes being undertaken, specific performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance in the current year and across the control period. The overspend across the control period is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Expenses are higher than the previous year arising from additional work undertaken the network and from greater than inflation materials and contractor costs increases.

(3) Signalling & telecoms – this year, costs are higher than the regulatory baseline, continuing the trend across the control period. The changing of organisational and staffing structures have predominantly increased the costs compared to the regulatory assumption for the year as have costs to develop additional skills to provide improved asset performance. Spend across the control period is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs incurred in response to Covid-19 such as additional staffing to cover absences and separate vehicles to comply with social distancing rules. Expenses have increased slightly compared to the previous year, including higher than inflation materials costs increases.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain Network Rail's operating license. In 2021/22, the contracting strategy in this area was reviewed and changed leading to short term increases in cost but with much improved delivery on meeting examination requirements. Costs have also increased due to an increased vegetation workbank. These costs have been partly mitigated by reduced reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline due to the aforementioned reasons. Costs are higher than the previous as there have been increased visual and detailed inspections this year in Eastern.

Statement 3.2: Analysis of maintenance expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher reactive maintenance activity. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline which is almost all due to reactive maintenance activity variances.

(6) Other network operations – costs are higher than the regulatory baseline this year, continuing the trend across the control period. These extra costs include: inheritance of property through Putting Passengers First programme with perceived insufficient funding, increases in costs were realised from asset management compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance this year and across the control period. In addition, extra depots have been set up across the network to be closer to the infrastructure and allow quicker response times to mitigate faults, but this comes with an increase in these indirect costs. Spend across the control period is higher than the regulatory baseline, primarily due to the additional aforementioned causes as well as the costs occurred in response to Covid-19. Costs are higher than the prior year comparative, reflecting higher than inflation cost rises in the supply chain and increased devegetation works and reduced capital delivery works undertaken by maintenance time reflecting restricted funds this year.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and across the Control Period, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims. Costs are higher than the previous year due to a catch up of projects this year.

(3) Route Services – Asset information – expenditure in the year is higher than regulatory assumption, bringing the total control period costs in line with the regulatory baseline. Savings made from workforce reform initiatives, including performance related pay, management modernisation, lower pay awards and headcount restraint have been offset by inflationary pressures in the supply chain, particularly materials for which market prices have risen sharply in recent years. Costs are higher than previous year reflecting the aforementioned materials inflationary pressures.

Statement 3.2: Analysis of maintenance expenditure, Great Britain – continued

In £m cash prices unless stated

(4) Route services – other – costs are higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

(5) Other – whilst there are minimal costs in the current year, costs have been higher than the £nil regulatory baseline across the control period. This is mostly due to variances on reactive maintenance projects compared to the neutral regulatory baseline. In line with the guidance agreed with ORR for assessing financial performance, variances on these activities are not included. The marginal positive financial performance across the control period is mostly due to benefits earlier in the control period from notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories in the Regions). Costs are lower than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 included the reversal of some of the benefits reported in 2021/22.

Great Britain
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	30	23	(7)	(7)	27
Finance	22	17	(5)	(5)	22
Accommodation	90	71	(19)	(19)	90
Utilities	194	74	(120)	(120)	95
Other	185	58	(127)	(46)	92
	521	**243**	**(278)**	**(197)**	**326**
Centrally-managed Support costs					
Finance & Legal	49	61	12	12	36
Communications	17	20	3	3	17
Human Resources	30	5	(25)	(25)	22
System Operator	62	78	16	16	52
Property	8	19	11	11	10
Telecoms	65	57	(8)	(8)	75
Network Services	-	-	-	-	-
Safety Technical and Engineering	46	50	4	5	42
RS - IT and Business Services	136	128	(8)	(8)	128
RS - Asset Information	20	37	17	(22)	19
RS - Directorate	35	33	(2)	(2)	3
Other corporate functions	3	7	4	3	1
Insurance	30	58	28	28	(11)
OPEX/CAPEX Adjustment	111	79	(32)	-	223
Group costs	24	64	40	40	116
	636	**696**	**60**	**53**	**733**
Total support costs	**1,157**	**939**	**(218)**	**(144)**	**1,059**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	133	109	(24)	(23)
Finance	98	80	(18)	(18)
Accommodation	424	353	(71)	(70)
Utilities	507	363	(144)	(145)
Other	590	235	(355)	(276)
	1,752	**1,140**	**(612)**	**(532)**
Centrally-managed Support costs				
Finance & Legal	206	273	67	66
Communications	83	98	15	14
Human Resources	129	118	(11)	(10)
System Operator	232	320	88	88
Property	30	57	27	26
Telecoms	342	328	(14)	(20)
Network Services	40	64	24	24
Safety Technical and Engineering	205	221	16	28
RS - IT and Business Services	618	620	2	2
RS - Asset Information	82	150	68	12
RS - Directorate	134	133	(1)	(2)
Other corporate functions	62	79	17	17
Insurance	105	247	142	143
OPEX/CAPEX Adjustment	713	372	(341)	-
Group costs	29	247	218	204
	3,010	**3,327**	**317**	**592**
Total support costs	**4,762**	**4,467**	**(295)**	**60**

Statement 3.3: Analysis of support costs, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated to reflect organisational change.

Comments:

(1) Support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure which have been partly offset by additional efficiencies in Centrally-managed activities. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs.

(2) Human resources – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human resources staff to support this initiative.

(3) Finance – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(4) Accommodation – costs are significantly higher than the baseline expectation this year continuing the trend of the control period. This has been primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements, inflationary pressures in the second half of the control period and additional expenditure to ensure Covid-19 compliance at Network Rail sites during the pandemic earlier in the control period. Costs are consistent with the previous year.

(5) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs across the control period are higher due to higher utility costs incurred in the final two years from rising market prices. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

(6) Other – costs were higher than the regulatory baseline this year. This is mostly due to a reclassification of projects undertaken to accommodate the new planned High Speed 2 network. Following government announcements to curtail the programme at Birmingham, the costs of these projects have been transferred from Renewals (see Statement 3.6) to this statement. As agreed with the regulator this has been treated as neutral when assessing financial performance in both Support and Renewals. Across the control period costs in this area have been higher which includes: the aforementioned accounting reclassification, the implementation of the PPF programme, inflationary pressures and Covid-19 related expenditure, such as PPE purchases and additional vehicle hire. Costs are higher than the previous year mainly due to the aforementioned accounting reclassification of certain High Speed 2-related projects.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are favourable to the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been more than offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are lower than the previous year mainly due to fewer projects classified as opex rather than capex in this category and lower reorganisation costs.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(3) Communications – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(4) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings, as well as from extra training costs this year.

(5) System Operator – costs are lower than the regulatory baseline this year and across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings across the control period also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(6) Property – costs are lower than the regulatory baseline this year and across the control period in total. These savings include savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes as well as benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(7) Telecoms – costs are higher than the regulatory target this year and across the control period in total. Whilst savings have been made through reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, inflationary pressures have been present in the supply chain, forcing costs up. Savings have been made compared to the previous year, including a reduction in the number and extent of opex projects carried out.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(10) Route Services – IT and Business Services – whilst costs are higher than the regulatory baseline this year, they are broadly in line across the control period. Savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in travel and accommodation during Covid-19 have been achieved but have been offset by one-off costs during Covid-19 as this function supported a transition to back-office staff working from home and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(12) Route Services – Directorate – costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(13) Other Corporate Functions – costs are lower than the regulatory expectation this year and across the control period. As noted in the 2022/23 Regulatory Financial Statements savings in the control period include the Putting Passenger First reorganisation costs which have been reported in the Group line this control period in this statement.

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(15) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

Statement 3.3: Analysis of support costs, Great Britain – continued

In £m cash prices unless stated

(16) Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year.

Great Britain
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	735	709	(26)	(3)	596
Business rates	218	343	125	-	266
British transport police costs	107	107	-	-	112
	1,060	**1,159**	**99**	**(3)**	**974**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	25	19	(6)	-	26
RDG membership costs	3	3	-	-	3
RSSB costs	14	14	-	-	13
Reporters fees	1	-	(1)	-	1
Other industry costs	-	1	1	-	-
	43	**37 -**	**6**	**-**	**43**
Total traction electricity, industry costs and rates	**1,103**	**1,196**	**93 -**	**3**	**1,017**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
British transport police costs	1,786	2,016	230	(3)
Business rates	720	917	197	-
British transport police costs	325	315	(10)	(11)
	2,831	**3,248**	**417**	**(14)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	865	1,083	218	3
Business rates	518	460	(58)	-
British transport police costs	180	185	5	5
ORR licence fee and railway safety levy	109	96	(13)	-
RDG membership costs	15	15	-	-
RSSB costs	62	63	1	-
Reporters fees	5	-	(5)	-
Other industry costs	-	3	3	-
	1,754	**1,905**	**151**	**8**
Total traction electricity, industry costs and rates	**4,585**	**5,153**	**568 -**	**6**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year as higher traction electricity costs have been more than offset by lower business rates expenses. Costs in the control period are lower than the baseline as increases in electricity costs (offset by reduced income – refer to Statement 2) and business rates costs have been lower than anticipated. Costs are higher than the previous year as higher traction electricity costs have been more partly offset by lower business rates expenses.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, costs for the control period are lower than the regulator's expectation as expected price rises earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These cost savings are broadly balanced by reduced income from recharging electricity to operators (as shown in Statement 2). Costs were higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Great Britain – continued

In £m cash prices unless stated

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period. Costs charged to Network Rail are lower than the previous year due to year-on-year savings made by British Transport Police for the services provided.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the overall control period. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Great Britain – continued

In £m cash prices unless stated

(7) Reporters' fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	407	256	(151)	(135)	813
Access charge supplement Income	(246)	(228)	18	20	(250)
Net (income)/cost	**161**	**28**	**(133)**	**(115)**	**563**
Schedule 8					
Performance element income	253	-	(253)	(253)	128
Performance element costs	-	58	58	58	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**253**	**58**	**(195)**	**(195)**	**128**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	5	56	51	51	3
Access charge supplement Income	(63)	(57)	6	-	(69)
Net (income)/cost	**(58)**	**(1)**	**57**	**51**	**(66)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	6	11	5	5	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**6**	**11**	**5**	**5**	**9**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	412	312	(100)	(84)	816
Access charge supplement Income	(309)	(285)	24	20	(319)
Net (income)/cost	**103**	**27**	**(76)**	**(64)**	**497**
Schedule 8					
Performance element income	253	-	(253)	(253)	128
Performance element costs	6	69	63	63	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**259**	**69**	**(190)**	**(190)**	**137**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	2,112	1,354	(758)	(765)
Access charge supplement Income	(1,230)	(1,219)	11	13
Net (income)/cost	**882**	**135**	**(747)**	**(752)**
Schedule 8				
Performance element income	(282)	-	282	282
Performance element costs	208	279	71	71
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(74)**	**279**	**353**	**353**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	-	265	265	264
Access charge supplement Income	(303)	(299)	4	-
Net (income)/cost	**(303)**	**(34)**	**269**	**264**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(14)	53	67	67
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(14)**	**53**	**67**	**67**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	2,112	1,619	(493)	(501)
Access charge supplement Income	(1,533)	(1,518)	15	13
Net (income)/cost	**579**	**101**	**(478)**	**(488)**
Schedule 8				
Performance element income	(282)	-	282	282
Performance element costs	194	332	138	138
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(88)**	**332**	**420**	**420**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the regions. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). The Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Any benefit is offset by higher compensation payments rates, which are also subject to contractual annual inflationary increases. Income is slightly lower than the previous year, reflecting planned reductions in the regulatory baseline partly offset by some inflationary benefit. The prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events, including weather and the highly-publicised closing of part of the network in Wales & Western where a bridge near Nuneham required corrective intervention after being considered unsafe to support trains. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Also, about one-third of the financial underperformance this year has been due to higher inflation increasing the compensation rates paid to operators to higher than the regulatory baseline for 2023/24. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Great Britain – continued

In £m cash prices unless stated

(2) Schedule 4 – Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Across the control period, the income is broadly in line with expectation. Income is slightly lower than the previous year, reflecting planned reductions in the regulatory baseline partly offset by some inflationary benefit. The prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, such as the aforementioned Nuneham bridge closure, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed cost. Costs are higher than the prior year due reflecting a change in the number of incidents that qualify as insurable events.

(3) Schedule 8 – this year's cost is lower than the regulatory baseline, with fewer incidents than expected eligible for inclusion in this category, instead remaining in the Regionally-managed section. Schedule 8 costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Great Britain
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	286	244	(42)	-	284
PL Replace Partial	210	133	(77)	-	213
PL High Output	112	132	20	-	122
PL Refurbishment	61	70	9	-	63
PL Track Slab Track	10	2	(8)	-	14
Switches & Crossing - Replace	191	197	6	-	202
Switches & Crossing - Other	57	42	(15)	-	70
Off Track	92	82	(10)	-	116
Track Other	65	10	(55)	-	49
	1,084	**912**	**(172)**	**(25)**	**1,133**
Signalling					
Signalling Full	268	243	(25)	-	355
Signalling Partial	128	89	(39)	-	141
Signalling Refurb	151	174	23	-	134
Level crossings	96	95	(1)	-	109
Minor works	94	257	163	-	208
Other	3	10	7	-	1
	740	**868**	**128**	**(23)**	**948**
Civils					
Underbridges	176	230	54	-	233
Overbridges	69	39	(30)	-	73
Major structures	32	35	3	-	21
Tunnels	22	14	(8)	-	26
Minor works	97	83	(14)	-	95
Other	40	28	(12)	-	45
	436	**429**	**(7)**	**20**	**493**
Earthworks					
Earthworks - Embankments	100	66	(34)	-	91
Earthworks - Soil Cuttings	103	55	(48)	-	97
Earthworks - Rock Cuttings	23	16	(7)	-	40
Earthworks - Other	15	12	(3)	-	16
	241	**149**	**(92)**	**(8)**	**244**
Buildings					
Managed stations	55	14	(41)	-	55
Franchised stations	150	81	(69)	-	174
Light maint depots	15	10	(5)	-	22
Depot plant	11	8	(3)	-	7
Lineside buildings	14	8	(6)	-	20
MDU buildings	39	19	(20)	-	51
Other	1	5	4	-	2
	285	**145**	**(140)**	**(21)**	**331**
Electrical power and fixed plant					
AC distribution	20	24	4	-	19
Overhead Line	79	59	(20)	-	117
DC distribution	37	33	(4)	-	73
Conductor rail	22	15	(7)	-	24
Signalling Power Supplies	120	53	(67)	-	59
Other	20	18	(2)	-	20
Fixed plant	27	18	(9)	-	43
	325	**220**	**(105)**	**7**	**355**
Drainage					
Drainage (Track)	69	36	(33)	-	80
Drainage (Earthworks)	8	21	13	-	22
Drainage (Resilience)	14	5	(9)	-	6
	91	**62**	**(29)**	**(13)**	**108**
Property					
Property	74	108	34	-	83
	74	**108**	**34**	**-**	**83**
Total Regionally-managed renewals expenditure	**3,276**	**2,893**	**(383)**	**(63)**	**3,695**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	21
	-	**-**	**-**	**-**	**21**
Telecoms					
Operational communications	28	30	2	-	17
Network	39	12	(27)	-	19
SISS	59	16	(43)	-	44
Projects and other	4	3	(1)	-	4
Non-route capital expenditure	47	52	5	-	64
	177	**113**	**(64)**	**(19)**	**148**
Wheeled plant and machinery					
High output	13	24	11	-	12
Incident response	1	-	(1)	-	-
Infrastructure monitoring	3	19	16	-	3
Intervention	7	17	10	-	5
Materials delivery	14	24	10	-	12
On track plant	20	15	(5)	-	8
Seasonal	7	16	9	-	6
Other	27	56	29	-	25
	92	**171**	**79**	**-**	**71**
Route Services					
Business Improvement	45	1	(44)	-	46
IT Renewals	19	81	62	-	22
Asset Information	8	-	(8)	-	8
Other	3	18	15	-	7
	75	**100**	**25**	**-**	**83**
STE Renewals					
Intelligent infrastructure	59	38	(21)	-	70
Faster Isolations	53	38	(15)	-	53
Centrally Managed Signalling Costs	7	12	5	-	6
Research and development	68	90	22	-	49
Integrated Management System (Incl. BCR)	-	23	23	-	-
Other National SCADA Programmes	23	7	(16)	-	4
Small plant	13	9	(4)	-	10
Other	92	20	(72)	-	102
	315	**237**	**(78)**	**-**	**294**
Property					
Property	27	3	(24)	-	3
	27	**3**	**(24)**	**-**	**3**
Other renewals					
ETCS	(1)	3	4	-	10
Digital Railway	10	24	14	-	23
Civils & Drainage - Insurance Fund	19	29	10	14	6
Buildings - Insurance Fund	2	17	15	-	5
OPEX/CAPEX Adjustment	(111)	(79)	32	-	(222)
Phasing overlay	-	448	448	-	-
System Operator	23	29	6	-	30
Other renewals	26	5	(21)	(2)	37
	(32)	**476**	**508**	**12**	**(111)**
Total centrally-managed renewals expenditure	**654**	**1,100**	**446**	**(7)**	**509**
TOTAL RENEWALS EXPENDITURE	**3,930**	**3,993**	**63**	**(70)**	**4,204**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	1,390	1,244	(146)	-
PL Replace Partial	983	754	(229)	-
PL High Output	647	723	76	-
PL Refurbishment	301	321	20	-
PL Track Slab Track	50	20	(30)	-
Switches & Crossing - Replace	950	985	35	-
Switches & Crossing - Other	308	216	(92)	-
Off Track	473	351	(122)	-
Track Other	266	71	(195)	-
	5,368	**4,685**	**(683)**	**(250)**
Signalling				
Signalling Full	1,430	1,591	161	-
Signalling Partial	483	375	(108)	-
Signalling Refurb	572	867	295	-
Level crossings	385	495	110	-
Minor works	825	1,002	177	-
Other	7	32	25	-
	3,702	**4,362**	**660**	**(214)**
Civils				
Underbridges	973	1,200	227	-
Overbridges	263	262	(1)	-
Major structures	130	116	(14)	-
Tunnels	118	132	14	-
Minor works	415	328	(87)	-
Other	227	209	(18)	-
	2,126	**2,247**	**121**	**(40)**
Earthworks				
Earthworks - Embankments	557	346	(211)	-
Earthworks - Soil Cuttings	488	351	(137)	-
Earthworks - Rock Cuttings	191	106	(85)	-
Earthworks - Other	62	49	(13)	-
	1,298	**852**	**(446)**	**(130)**
Buildings				
Managed stations	229	240	11	-
Franchised stations	812	637	(175)	-
Light maint depots	89	65	(24)	-
Depot plant	36	37	1	-
Lineside buildings	97	38	(59)	-
MDU buildings	178	116	(62)	-
Other	8	5	(3)	-
	1,449	**1,138**	**(311)**	**(104)**
Electrical power and fixed plant				
AC distribution	73	115	42	-
Overhead Line	512	335	(177)	-
DC distribution	229	186	(43)	-
Conductor rail	104	68	(36)	-
Signalling Power Supplies	291	313	22	-
Other	94	132	38	-
Fixed plant	155	108	(47)	-
	1,458	**1,257**	**(201)**	**(72)**
Drainage				
Drainage (Track)	323	263	(60)	-
Drainage (Earthworks)	78	85	7	-
Drainage (Resilience)	35	33	(2)	-
	436	**381**	**(55)**	**(69)**
Property				
Property	250	247	(3)	-
	250	**247**	**(3)**	**-**
Total Regionally-managed renewals expenditure	**16,087**	**15,169**	**(918)**	**(879)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	38	-	(38)	-
	38	**-**	**(38)**	**(21)**
Telecoms				
Operational communications	73	119	46	-
Network	85	68	(17)	-
SISS	140	174	34	-
Projects and other	21	14	(7)	-
Non-route capital expenditure	339	335	(4)	-
	658	**710**	**52**	**(48)**
Wheeled plant and machinery				
High output	90	110	20	-
Incident response	2	-	(2)	-
Infrastructure monitoring	16	79	63	-
Intervention	48	114	66	-
Materials delivery	45	149	104	-
On track plant	38	70	32	-
Seasonal	24	69	45	-
Other	118	123	5	-
	381	**714**	**333**	**-**
Route Services				
Business Improvement	313	137	(176)	-
IT Renewals	147	336	189	-
Asset Information	35	30	(5)	-
Other	32	44	12	-
	527	**547**	**20**	**-**
STE Renewals				
Intelligent infrastructure	307	224	(83)	-
Faster Isolations	258	285	27	-
Centrally Managed Signalling Costs	29	52	23	-
Research and development	238	271	33	-
Integrated Management System (Incl. BCR)	-	75	75	-
Other National SCADA Programmes	93	76	(17)	-
Small plant	42	44	2	-
Other	374	75	(299)	-
	1,341	**1,102**	**(239)**	**-**
Property				
Property	65	138	73	-
	65	**138**	**73**	**-**
Other renewals				
ETCS	75	102	27	(2)
Digital Railway	54	10	(44)	-
Civils & Drainage - Insurance Fund	41	140	99	105
Buildings - Insurance Fund	7	83	76	-
OPEX/CAPEX Adjustment	(692)	(372)	320	-
Phasing overlay	-	-	-	-
System Operator	95	106	11	-
Other renewals	65	26	(39)	41
	(355)	**95**	**450**	**144**
Total centrally-managed renewals expenditure	**2,655**	**3,306**	**651**	**75**
TOTAL RENEWALS EXPENDITURE	**18,742**	**18,475**	**(267)**	**(804)**

Statement 3.6: Analysis of renewals expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year. Across the control period investment has been higher as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year adding to the additional investment across the control period as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(2) Track – investment is higher than the regulatory baseline this year, continuing the pattern of the earlier years of the control period. The additional spend this control period has been funded from the risk funds included in the regulatory baselines. As part of ORR's Periodic Review 2018 (PR18), some of Network Rail's renewals funding was ring-fenced as a risk fund, which could be used to invest more in renewals if other risks did not materialise. Across the portfolio, higher materials expenses have increased costs. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost in the current year due to industrial action and the Queen's funeral whilst access from operators across the control period has also impacted ability to deliver planned workbanks. High output has spent less this control period which is due to a significantly reduced workbank. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Financial underperformance in the current year also arose from reductions in planned volumes due to funding constraints meaning fixed costs were spread across fewer outputs, sunk costs were incurred on cancelled projects and prolongation costs on deferred projects. Reduced activity this year also led to loss of discounts previously secured on bulk material purchases allied to higher market prices for construction materials The Track worker safety programme has also increased costs in this control period, although these have been treated neutral when assessing financial performance. The Track worker safety programme is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. Additional wheel timber investment to improve asset reliability around bridges and work at Carstairs in Scotland have driven the extra spend in Off track. Track other is higher due to underutilisation of teams delivering track portfolios which has been treated as financial underperformance.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(3) Signalling – expenditure is lower than the regulatory baseline this year and across the control period, mainly due to slower progress on large projects. The regulatory baseline included an ambitious increase in the level of Signalling to be delivered on the network which has not proved possible. Cash constraints at the end of CP5 limited development works that could be undertaken before the start of CP6. These delays have been exacerbated by Covid-19, industrial action, inflation and industry structural changes which all led to the workbank needing to be reprioritised and long-term decisions and plans reconsidered. Financial underperformance has been recognised across the control period. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham Resignalling have all contributed to the underperformance. In addition, higher tender prices necessitating design changes, the added complexity of certain schemes, such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales, have hindered progress and resulted in project prolongation costs. Delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project and higher component market prices have also furthered underperformance. Earlier in the control period Covid-19 impacted the signalling portfolio, with prolongation in programmes along with the associated claims leading to projects incurring extra costs. Investment has decreased from the peak levels of investment in 2022/23. Reductions in the year include reduced delivery at major programmes including Port Talbot, Cambridge interlocking and Balham & Clapham area resignalling as these projects move through their life cycle. These have been partly offset by a step up in activity on other schemes such as Farncombe to Petersfield, Basford Hall and Devon & Cornwall.

(4) Civils – overall expenditure was broadly in line with the regulatory baseline this year across the portfolio with savings on Underbridges offsetting additional investment elsewhere. For the control period, expenditure is lower than the regulatory expectation mainly due to lower Underbridges spend, which reflected a similar proportionate reduction in the volumes delivered this control period compared to the plan. The reduction in spend and activity has mainly been due to decisions made in the Regions on their asset management approach, prioritising investment elsewhere in the renewals portfolio, the such as Track and Earthworks. This has helped drive an increase in Minor works expenditure compares with decreases in the other categories, which have associated volumes as cheaper interventions are undertaken to enable appropriate safety and performance levels to be achieved. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates. This includes industrial action and the Queen’s funeral along with Covid-19 impact earlier in the control period exacerbated by issues on access. These type of incidents and circumstances generally lead to project prolongation, abortive costs or fewer units to spread fixed costs over, all of which increase like-for-like project expenses. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Costs are lower than the previous year as expected in the regulatory baseline trajectory across the control period.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Earthworks – investment in the year and across control period was notably higher than the regulatory baseline. The Stonehaven derailment early in the control period led to increased focus on Network Rail's management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. The higher investment also included adverse weather impacts following storms, particularly in the Southern region, flooding during Christmas 2020 and February 2022 which have been reported in this category with reduced spend reported against the Centrally-managed Insurance categories. Continued environmental turbulence, more extreme weather and a better understanding of the assets has resulted in significantly more volumes being delivered so far this control period compared to the regulatory expectation. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates for the projects that have been delivered. This includes industrial action and the Queen's funeral along with Covid-19 impact earlier in the control period. These type of incidents and circumstances generally lead to project prolongation or abortive costs. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Expenditure is broadly in line with the previous year.

(6) Buildings – investment was higher than the regulatory baseline this year and across the control period as regions have drawn down from the risk funds to deliver additional works with the overspend here being funded by the savings in risk fund expenditure as set out in Statement 1. Across the control period, additional investment has been seen in almost all categories. The extra spend at Franchised stations includes fitting tactile paving to make the passenger experience more inclusive and increasing platform lengths to accommodate longer trains,. Lineside buildings & maintenance depots were upgraded this control period including work at Holbeck and Leicester (both Eastern), Ebbw and Didcot (both Wales & Western), Stoke (North West & Central) and safety improvements at GTR depots (Southern). The position across the control period also included the impact of Covid, when regions used available resources and increased access opportunities to stations to increase investment. Financial underperformance was experienced this control period due to a number of factors including: scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, increased project complexity, discovery of asbestos which led to higher design and delivery costs, the impact of Covid-19 disruption and necessary changes to working practices, inaccurate asset designs and cancellation of jobs in light of funding constraints.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year, continuing the trend across the control period. Extra spend in the control period was most noticeable on overhead line works. Major projects delivered in CP6 include: a major refurbishment campaign in Anglia, work around Kings Cross to support the new signalling programme and track layout reconfiguration, investment in North West & Central's improvement performance plan (Project Alpha) and work in Scotland to help deliver Scottish government's environmental targets. Financial underperformance has been recognised this control period due to higher net like-for-like costs across the portfolio. This includes delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia along with volume reductions arising from constrained funding losing anticipated economies of scale on the programme and reduced access requirements during a Christmas period in Stratford. In addition, late changes in scope, higher than anticipated supply chain prices and retendering of jobs due to unacceptable performance from contractors all resulted in higher costs. Covid-19 disruption, sickness and social distancing measures also increased average unit rates. Expenditure is lower than the previous year, as a higher proportion of the workbank had been delivered earlier in the control period.

(8) Drainage – expenditure is higher than the regulatory baseline this year and across the control period. The extra costs are mainly due to the financial underperformance recognised in the control period with many of the issues in the Southern region. A high level of emergency works in response to Stonehaven tragedy, inclement weather or deteriorated asset condition were required, with these reactive projects incurring a higher level of average cost. Few of these incidents qualified as insurable events and so the adverse financial performance recognised in the regions is partly offset by the outperformance recognised in centrally-managed costs. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on, difficulty obtaining access to worksites and contractor performance. Underperformance arose earlier in the control period due to Covid-19 associates costs. Expenditure is lower than the previous year, as a higher proportion of the workbank had been delivered earlier in the control period.

(9) Property – whilst expenditure in the current year is lower than the regulatory assumption this year it has broadly been in line with expectation across the control period. Significant projects this year included digital advertising displays, works at Euston station and setting up local occupational health centres to support staff health and wellbeing.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the regions. Investment is higher than the previous year with the largest contributor being the variability in the opex/ capex adjustment category in the table, reflecting the nature of the overall renewals portfolio delivered this year.

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

(3) Telecoms – investment is higher than the regulatory baseline in the year but remains lower across the control period. Although activity has ramped up in recent years the regulatory baselines assumed a greater delivery in early years of the control period. Slippage on operational communications and SISS are the primary reasons for the lower spend this control period. As noted in previous years Regulatory financial statements, SISS-CCTV rephasing is one of the main reasons for the different profile of spend as activity has been delivered later, which accounts for most of the step up in spend compared to the previous year. The overall lower investment in the control period is also due to Regional decisions to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Financial underperformance has been reported this year. This is mainly driven by stock purchased for programmes that have subsequently been cancelled and the suitability of this stock for future projects is questionable. Financial underperformance for the control period also includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

a. High output – investment was lower than the regulatory baseline this year and across the control period as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. In particular, concerns over the suitability of High output plant as a delivery solution have resulted in a more cautious approach to investment.

b. Infrastructure monitoring – costs are lower than the regulatory baseline this year and across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year compared to the regulatory baseline, expenditure across the control period was lower. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend across the control period. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – the regulatory baselines included an overlay reduction to reflect an expectation of the phasing of the overall Wheeled plant & machinery portfolio. Consequently, there has been lower expenditure in this category than the regulatory baseline this year, but across the control period expenditure has been broadly in line with the regulatory expectation.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

(5) Route Services – expenditure this year is lower than the regulatory baseline but is broadly in line with the regulatory expectation across the control period. Spend was slightly lower than the previous year, including reduced IT spend as projects had been completed earlier in the control period.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year as more of the programme outputs having been delivered by the end of 2022/23. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline this year but lower across the control period. Delays in identifying suitable programmes has resulted in slippage across the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Spend is consistent with the previous year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline once more this year but broadly in line with last year's outturn. The savings across the control period reflects a higher proportion of activity being undertaken in the regions compared to the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. Investment is higher than the prior year reflecting progress across a range of different projects. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – investment is higher than the regulatory baseline this year which also accounts for the greater spend across the control period. The programme has required higher investment across the control period due to delays in delivering the CP5 outputs. Expenditure is higher than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 is lower as a number of projects were classified as opex.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

g. Small Plant – investment is higher than the regulatory baseline this year but broadly consistent with the regulatory baseline across the control period as Network Rail undertook a different profile of activity compared with the original CP6 phasing assumptions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Cost is broadly in line with the prior year.

(7) Property – expenditure is higher than the regulatory baseline this year which offsets some of the savings from earlier in the control period. Notable schemes this year include investment adjacent to Cardiff and Leeds stations as well as in East London as part of wider regeneration programmes for the areas. Despite the additional investment this year, across the control period expenditure has been lower than the regulatory baseline. This control period, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. Investment is higher than the previous year, due to the aforementioned acquisitions undertaken this year.

(8) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. Costs are lower than the previous year as the programme reorganises ahead of CP7 delivery.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

g. System Operator – expenditure this year and across the control period is slightly lower than the regulatory baseline as funding has been reprioritised throughout the organisation and fewer opportunities with compelling business cases in this category have been identified. Costs are lower than the previous year due to differences in the phasing delivery assumed in the regulatory baseline compared to the actual profile of activity. As agreed with the regulator, no financial outperformance has been recognised from this cost saving, as the full outputs associated with the regulatory baselines have not been fully delivered.

Statement 3.6: Analysis of renewals expenditure, Great Britain – continued

In £m cash prices unless stated

h. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. This category also includes various workforce safety schemes, including installation of new walkways and crossings. Investment in these areas are also the main driver behind the higher spend across the control period as they were not included in the original CP6 baselines.

Great Britain
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	7	6	(9)	172	174	(1)
Great Western Electrification	-	1	-	252	252	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	-	(1)	-	74	74	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	192	196	-	871	879	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	14	-
Trans Pennine Route Upgrade	699	697	1	2,189	2,185	20
Hope Valley Capacity	60	50	(10)	135	134	(11)
Cambridge South Station Dvpt 2	71	72	-	101	102	-
Critical Stations Improvement Fund	27	17	4	57	60	5
Gatwick Station	33	33	21	199	201	-
East West Rail Phase 2	119	112	(1)	860	867	(1)
Oxford Corridor Capacity Phase 2	53	53	(10)	105	104	(10)
GWEP Distribution Network Operators clearance work	-	-	-	(6)	(7)	-
East Coast Main Line Enhancements Programme	69	55	23	628	633	(6)
Manchester Improvements	22	30	7	77	100	7
Reading Independent Feeder (Power Supply)	11	11	1	59	58	(2)
Bristol East Junction	-	-	1	92	93	27
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	29	31	(4)	163	163	(14)
St Albans Station Capacity	-	-	-	7	6	-
London Euston (in support of High Speed Rail Group scheme)	18	7	-	67	57	-
SFN-Freight Forecasts project	1	-	-	24	23	2
Access for All	128	85	-	275	280	-
Thameslink Resilience Programme	3	(3)	(3)	24	21	-
Midlands Hub - Continued Design and Early Development	8	8	-	19	20	-
Western Rail Access to Heathrow	-	-	-	15	16	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	-	(2)	(2)	194	195	(148)
Integrated Crewe Hub - HS2	-	1	-	6	7	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Dr Days to Filton Abbey Wood Capacity	-	(1)	-	9	9	-
Portfolio Contingency (including T-12)	-	-	-	10	13	37
Depots & Stabling Fund	-	1	-	31	36	-
Northern Hub	-	2	(1)	48	51	(1)
Thames Valley EMU Capability	-	-	-	10	11	-
West Coast PSU	1	5	-	9	11	-
IEP Western Capability	-	(3)	-	17	17	-
West of England Plat Length	-	-	-	4	4	-
Feltham	-	-	-	9	10	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	3	6	(4)	13	19	(15)
Access to Assets	-	1	-	11	14	-
Restoring Your Railway	51	82	3	153	187	2
University Station	-	-	-	12	12	-
Energy Coast Rail Upgrade Project	-	-	-	6	6	-
GWML W10-W12 Gauge Enhancement	-	-	-	11	11	-
NWEP Phase 7 Lostock - Wigan	30	38	(3)	48	57	(3)
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	-	1	6	5	1
Anglia Traction PSU	-	1	(1)	9	5	(1)
EC Digital	284	283	-	591	590	-
Ely Area Capacity Enh	-	-	1	10	12	1
Ashford to Ramsgate	-	-	-	3	3	-
Clapham Junction Short-term	9	9	-	16	17	-
Darlington Station Improvements	17	15	-	25	29	-
Denmark Hill Congestion Relief	-	-	-	3	7	-
Tactile Paving Installation	35	34	-	60	57	-
New Stations Fund	-	1	-	3	15	-
River Irwell Fl Resil	-	-	-	3	5	-
W Mid New Stations	18	12	-	57	59	-
LNWS623 Bushey PSU	9	10	(5)	19	20	(5)
IRP Portfolio	25	20	-	50	52	-
Other	69	111	5	267	159	4
Total	**2,101**	**2,086**	**15**	**8,261**	**8,280**	**(169)**

	-	-	-	-	-	-

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	56	53	(1)
Aberdeen to Inverness	-	-	-	70	70	4
Kintore Station	-	-	-	14	14	(1)
Rolling Programme of Electrification	-	-	-	15	14	(5)
East Kilbride Barrhead	20	20	-	47	47	-
New Down Platform Dunbar	-	-	-	7	8	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	4	4	-	9	9	-
Cadder HST Depot	-	-	-	33	33	(3)
Hairmyres Land Purchase	-	-	-	14	14	-
Feeder St/Power Mod Ele	22	12	-	103	102	-
Edinburgh Waverley Western Approaches	-	(1)	-	6	4	-
Reston Station	5	1	-	22	21	-
North Hanover Street Development	-	-	-	5	6	-
West of Fife Enhancements	-	-	-	5	6	-
A9 Interface- Lynebeg Bridge	-	-	-	10	9	1
Far North Line Route Enhanceme	-	1	-	13	14	-
East Linton Station	(1)	2	1	18	17	-
Busby Jn to Barrhead Ele	25	26	-	63	63	-
Dalcross New Station	-	-	1	41	41	-
Levenmouth	57	57	-	104	104	-
GLAB Currie Feeder St	2	2	-	18	18	-
Cadder Buildings	-	-	-	6	8	(1)
Fife Decarbonisation	3	2	-	18	18	-
Millerhill Interventions	-	-	-	4	4	-
Barrhead Kilmarnock Ele	-	-	-	-	1	-
Aberdeen Cent Belt Elec	8	8	-	32	32	-
Portobello Junction	-	(13)	-	10	10	-
Aberdeen Cen Journey	5	-	-	11	12	-
Other	4	16	(3)	85	88	(3)
Total	**154**	**137**	**(1)**	**845**	**847**	**(3)**
	-	-	-	-	-	-
Other Capital Expenditure	12	-	-	402	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	154	-	-	998	-	-
Other third Party	280	-	-	1,108	-	-
Total	434	-	-	2,106	-	-
Total enhancements	**2,701**	**2,223**	**14**	**11,614**	**9,127**	**(172)**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**2,267**	**2,223**	**14**	**9,508**	**9,127**	**(172)**

Statement 3.7: Analysis of enhancement expenditure, Great Britain

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funders (DfT and TS). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the core Network Rail funders of DfT and TS.

(3) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (either Department for Transport or Transport Scotland). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with funders (DfT and TS).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders (DfT and Transport Scotland) was £2,264m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,698m) less the PAYGO schemes funded by other third parties (£435m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised across the control period, mainly due to completion of legacy CP5 schemes, such as Crossrail and Great Western Electrification Programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS).

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year and across the control period is broadly consistent with the regulatory baseline. Some notable variances at programme level include:

a. Thameslink – the programme has delivered new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Financial underperformance has been recognised this year which has negated financial outperformance reported in early years of the control period. Whilst expenditure is broadly consistent with the regulatory baseline this control period the programme of works is now expected to complete in control period 7, incurring greater costs, particularly with difficulties around designing and introducing new Automatic Route Setting (ARS) technology.

b. Great Western Electrification – this was a major and complex project that extended the electrification of the Great Western Main Line (GWML) from Maidenhead. Financial underperformance has been recognised this control period adding to the extra costs recognised in the previous control period. The financial underperformance this control period resulted from programme delays, various costs pressures to close out the programme and substantiation of disputed costs.

c. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Expenditure across the control period is broadly in line with the funding provided by DfT.

d. Transpennine Route Upgrade – this is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure across the control period is broadly in line with the funding provided by DfT. Financial out performance has been reported this control period on Leeds Intermediate Interventions aspect of the programme due to efficient contractor delivery of works and risk management.

e. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. The main improvements include a new track, platform and accessible footbridge with lifts at Dore & Totley station, a passing loop between Bamford and Hathersage, a new footbridge at Hathersage West, an extended ‘south curve’ at Dore to increase freight standage, as well as signalling improvements along the line to improve reliability and optimise headways. In year, works have progressed faster than anticipated which has bought the investment across the control period in line with the funding available. Financial underperformance has been recognised as overall project costs have increased due to: prolongation installation of Dore South and Bamford Loop activities, additional embankment stability works due to unforeseen ground conditions, inflationary pressures, redesign of station to meet fire safety standards and discovery of unchartered aviation fuel pipe requiring project re-works to avoid.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

f. Critical station improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Work includes station improvements at Surbiton, Peckham Rye, London Liverpool Street and Victoria. Phasing of portfolio delivery means the extra spend this year has bought investment across the control period broadly into line with the funding available. Financial outperformance has been recognised this control period as woks at London Victoria have been delivered more effectively.

g. Gatwick Airport Station – the project has provided a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Expenditure across the control period is broadly in line with the funding provided by DfT. Adverse financial performance recognised in last year's Regulatory Financial Statements has been mitigated this year following agreements with DfT to deliver extra scope to improve physical security at the station.

h. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company. Expenditure across the control period is broadly in line with the funding provided by DfT.

i. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Whilst overall expenditure so far has been in line with the regulatory baseline there is financial underperformance arising from additional costs associated with Botley Road Complexities of inverted arch and associated utility diversion works.

j. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress has been greater than anticipated this year which brings the investment across the control period broadly into line with the funding available. Financial underperformance has been recognised across the control period. This has arisen from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

k. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Expenditure for the control period is lower than the regulatory baseline due to cost savings and cancellation of certain projects, such as Rochdale electrification, on affordability grounds and delays to platform length extension programmes to accommodate longer trains. Financial outperformance has been recognised through efficiencies made through competitive procurement and collaboration with design services framework contractors.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

l. Bristol East Junction – this project has delivered upgrade works to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised this control period as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the baseline for the control period.

m. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance reported this control period is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation works.

n. London Euston (in support of High Speed Rail Group scheme) – this project helps support the High Speed 2 programme being undertaken by DfT. Spend is higher in the current year than the baseline as progress on the programme has been quicker than expected.

o. SFN-Freight – this programme aims to deliver improvements on a variety of schemes across the network to improve gauging, train lengthening and other capacity & capability advances. Activity across the control period has been broadly in line with the funding DfT have made available.

p. Access for All – the Access for All (AfA) programme aims to provide an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline which has brought the control period investment in line with the funding available.

q. Crossrail – this project has delivered a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the South East. The programme has recognised adverse financial performance this control period as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

r. Portfolio contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance is more than offset by financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

s. West Coast PSU – progress has been slower than DfT anticipated this year, which has resulted in a minor underspend across the control period.

t. IEP Western Capability – this year, the baseline has been reduced, reflecting changes in the outputs and funding made available by DfT. Expenditure across the control period is in line with the funding DfT have provided.

u. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Across the control period financial underperformance has been reported resulting from remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

v. Restoring your Railway – this programme aims to reinstate lines and stations that had previously been closed. Notable programmes this control period include the Northumberland and Dartmoor lines. Expenditure this year and so across the control period has been lower than the funding available as fewer suitable projects with robust cases have been identified and progressed.

w. NWEP Phase 7 Lostock to Wigan – this programme aims to electrify the line between Bolton and Wigan so that CO2 emitting diesel trains are replaced by electric rolling stock. Platforms will also be lengthened to accommodate longer electric trains to boost capacity. Expenditure this year and so across the control period has been lower than the funding available due to project delays primarily due to the principal contractor entering administration and a new tender process being required. These delays have contributed to the financial underperformance on the project.

x. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. Expenditure across the control period is in line with the funding DfT have provided.

y. New Stations fund – expenditure on this portfolio is lower than the funding available across the control period as fewer projects than expected have been identified and progressed.

z. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is higher than the baseline which has brought the position across the control period broadly into line with the funding available.

aa. Bushey PSU – this programme aims to improve power supply on the West Coast Main Line between Borne end and London Euston. Whilst spend is broadly in line with the regulatory baselines, financial underperformance has been recognised due to by emerging scope following early designs and industrial action prolongation as well as inflationary pressures.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

bb. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Transport Scotland funded schemes – enhancement expenditure this year and across the portfolio is in line with the regulatory baseline. Project specifications and approved change controls for funding with Transport Scotland has been reflected throughout the control period. Project outputs have generally been delivered in line with funding, meaning minimal financial underperformance reported this control period. Some notable programmes include:

a. Edinburgh to Glasgow Improvement Programme (EGIP) – the key outputs of EGIP included reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Expenditure across the control period is broadly in line with the funding Transport Scotland have provided. The marginal financial underperformance recognised this control period is a result of Covid-19 impacting working practices.

b. Aberdeen to Inverness – this project upgraded the railway structure and provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consisted of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Financial outperformance has been recognised during the control period as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.

c. Rolling Programme of Electrification – this project electrified the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Financial underperformance reported this control period includes final compensation settlements on completed programme.

d. New Down platform Dunbar – project provided a new platform constructed on the Down Line (northbound) at Dunbar to increase capacity and improve operational flexibility on the East Coast Main Line. The project was substantially complete in 2019-20 and the financial outperformance recognised in earlier years of the control period was as a result of finalisation of contractor costs and management of programme contingencies.

e. Dunblane to Perth – this project is part of the wider Seven Cities Connectivity programme to improve links between some of the major urban areas in Scotland which aims to reduce passenger journey times. Expenditure across the control period is in line with the funding Transport Scotland have provided

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

f. Feeder Station/Power Modelling Electrification – projects are part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Delivery in the current year is ahead of the funding expectation which brings the investment across the control period into line baselines. Progress in earlier years of the control period had been slower than anticipated due to Covid-19 impact and delays in Transport Scotland approving funding for various stages.

g. Edinburgh Waverley Western Approaches – this project delivered preliminary work to significantly improve the rail network on the approaches to Edinburgh Waverley Station. The investment enables options for the Edinburgh Waverley Western Approaches (EWWA) project to be taken forward to Outline Business Case. This will explore three infrastructure options for delivering capacity and performance improvements in this section of the railway. Investment across the control period is broadly in line with the funding available.

h. Reston station – this project involved creating a new station on the East Coast Main Line to improve connectivity for the rural communities it serves in the Scottish Borders area. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought investment across the control period broadly in line with the funding available.

i. North Hanover Street development – this programme included improvement to Glasgow Queen Street facilities, such as retail, and increased connectivity and access from/ to the station to the surrounding area. Expenditure across the control period is in line with the funding Transport Scotland have provided.

j. A9 interface Lynebeg bridge – this programme is part of supporting work ahead of dualling of the A9 road between Tomatin and Moy on the Highland mainline part of the network. Expenditure across the control period is in line with the funding Transport Scotland have provided.

k. Far North Line route enhancement – this programme upgraded the radio communications network on the Highland rail network and services it enables for passengers at stations as well as improved the safe movement of train services across the Far North line. Expenditure across the control period is in line with the funding Transport Scotland have provided.

l. East Linton station – this project involved creating a new station which opened this year on the East Coast Main Line to improve connectivity for the rural communities it serves. Expenditure across the control period is in line with the funding Transport Scotland have provided.

m. Bushey Junction to Barrhead electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. Expenditure across the control period is in line with the funding Transport Scotland have provided.

n. Dalcross new station – this project delivered a new station which opened in February 2023. Expenditure across the control period is in line with the funding Transport Scotland have provided.

Statement 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

o. Levenmouth – this project involved reinstating and electrifying 19 single track kilometres of railway for the people of Scotland along with two new stations, with was officially opened in May 2024. Expenditure across the control period is in line with the funding Transport Scotland have provided.

p. Fife decarbonisation – this programme supports the removal of diesel-powered units through the introduction of Battery Electric Multiple Unit (BEMU) services, via partial electrification, with the potential for full electrification of the line and move to full electric services in the future. Expenditure across the control period is in line with the funding Transport Scotland have provided.

q. Barrhead Kilmarnock electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been minimal activity on this project this control period as Transport Scotland have reviewed its priorities.

r. Aberdeen Central Belt – this programme is part of an ongoing investment to reduce rail journey times from Aberdeen to Glasgow, Edinburgh and Dundee, and to improve connectivity and enhance capacity for both passenger and freight trains. Expenditure across the control period is in line with the funding Transport Scotland have provided.

s. Other – this heading captures investment activity on numerous smaller programmes. Expenditure this year was lower than the regulatory baseline which brings the investment across the control period in line with the funding made available by Transport Scotland.

(5) Other capital expenditure – this year, this category is mostly expenditure on certain Crossrail schemes which are reported here to match funding agreements. Spend across the control period also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(6) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate High Speed 2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include: construction of a new station at Beaulieu near Chelmsford, development of a freight network interchange site at Northampton to increase capacity, Headbolt Lane rail interchange in Liverpool and Ebbw Vale integration to increase the number of services, including new lines, infrastructure and platforms.

Great Britain
Statement 3.8: Analysis of renewals unit costs
Cash prices

		Unit	FY24 AFC	FY24 AFV	FY24 Unit Costs	FY23 AFC	FY23 AFV	FY23 Unit Costs
Track	PL Replace Full	km	289	172	1,680	380	239	1,590
	PL Replace Partial	km	363	736	493	386	825	468
	PL High Output	km	96	54	1,778	136	82	1,659
	PL Refurbishment	km	110	709	155	105	713	147
	PL Track Slab Track	km	4	-	-	4	-	-
	Switches & Crossing - Replace	point ends	129	269	480	148	272	544
	Switches & Crossing - Other	point ends	134	774	173	90	909	99
	Off Track	km/No.	147	2,124	69	165	2,404	69
	Track Other		-	-	-	-	-	-
	Total		**1,272**	**-**	**-**	**1,414**	**-**	**-**
Signalling	Signalling Full	SEU	370	700	529	392	700	560
	Signalling Partial	SEU	136	377	361	145	377	385
	Signalling Refurb	SEU	158	575	275	168	359	468
	Level crossings	No.	122	236	517	145	343	423
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**786**	**-**	**-**	**850**	**-**	**-**
Civils	Underbridges	m2	248	75,017	3	332	101,560	3
	Overbridges (incl BG3)	m2	94	14,517	6	76	23,524	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	28	45,299	1	40	155,555	0
	Culverts	m2	12	3,834	3	16	4,272	4
	Footbridges	m2	7	1,495	5	11	1,893	6
	Coastal & Estuarial Defences	m2	16	1,735	9	9	3,083	3
	Retaining Walls	m2	14	5,705	2	21	7,375	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**419**	**-**	**-**	**505**	**-**	**-**
Earthworks	Earthworks - Embankments	No.	134	2,371	57	148	2,867	52
	Earthworks - Soil Cuttings	No.	149	2,493	60	183	3,627	50
	Earthworks - Rock Cuttings	No.	53	687	77	67	726	92
	Earthworks - Other	No.	-	4	-	8	254	31
	Drainage - Earthworks	m	23	87,717	0	30	110,470	0
	Drainage - Other	m	163	203,723	1	164	219,599	1
	TOTAL		**522**	**-**	**-**	**600**	**-**	**-**
Buildings	Buildings (MS)	m2	10	29,201	0	3	40,257	0
	Platforms (MS)	m2	-	-	-	1	1,104	1
	Canopies (MS)	m2	33	12,712	3	-	-	-
	Train sheds (MS)	m2	25	6,102	4	-	2,655	-
	Footbridges (MS)	m2	-	-	-	1	240	4
	Other (MS)	m2	36	78,330	0	6	50,934	0
	Buildings (FS)	m2	16	15,069	1	31	59,945	1
	Platforms (FS)	m2	20	16,325	1	26	26,592	1
	Canopies (FS)	m2	26	16,307	2	24	28,568	1
	Train sheds (FS)	m2	1	650	2	9	12,668	1
	Footbridges (FS)	m2	22	3,310	7	23	5,549	4
	Lifts & Escalators (FS)	m2	1	2	500	2	46	43
	Other (FS)	m2	27	205,454	0	48	309,983	0
	Light Maintenance Depots	m2	7	75,575	0	11	63,736	0
	Depot Plant	m2	10	18	556	4	14	286
	Lineside Buildings	m2	14	16,189	1	33	56,449	1
	MDU Buildings	m2	55	71,516	1	47	69,928	1
	NDS Depot	m2	-	-	-	1	22,935	0
	Other	m2	-	-	-	-	-	-
	Total		**303**	**-**	**-**	**270**	**-**	**-**

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	41	108	380	19	70	271
	mid-life refurbishment	Wire runs	78	73	1,068	89	79	1,127
	structure renewals	No.	55	529	104	36	639	56
	other OLE		3	86	35	2	139	14
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	32	101	317	34	100	340
	HV Switchgear Renewal AC	No.	11	37	297	5	71	70
	HV Cables AC	No.	-	2	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	37	595	39	59	661
	HV cables DC	km	67	84	798	53	56	946
	LV cables DC	km	9	12	750	14	39	359
	Transformer Rectifiers DC	No.	10	6	1,667	6	4	1,500
	LV switchgear renewal DC	No.	21	92	228	9	35	257
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	15	448	33	3	115	26
	SCADA	RTU	4	58	69	5	62	81
	UPS (#)	No.	11	67	164	12	120	100
	Generator (#)	No.	1	2	500	-	-	-
	Auxillary Transformer (#)	No.	-	1	-	-	-	-
	Points Heaters	point end	5	71	70	12	156	77
	Signalling Power Cables	km	146	669	218	57	312	183
	Signalling Supply Points	point end	19	36	528	-	3	-
	NSCD / Track Feeder Switch (#)		12	751	16	12	563	21
	Total		**562**	**-**	**-**	**407**	**-**	**-**
Telecoms	Customer Information Systems	No.	41	2,349	17	31	1,856	17
	Public Address	No.	26	6,117	4	6	3,459	2
	CCTV	No.	69	10,072	7	32	5,289	6
	Other Surveillance	No.	5	389	13	1	100	10
	PABX Concentrator	No.	6	2,175	3	7	7,766	1
	Processor Controlled Concentrator	No.	2	695	3	-	-	-
	DOO CCTV	No.	-	-	-	1	1	1,000
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	10	-	-	-	-
	HMI Large	No.	4	65	62	-	29	-
	Radio		1	14	71	-	-	-
	Power		15	1,052	14	6	334	18
	Other comms		-	-	-	-	-	-
	Network		11	235	47	6	56	107
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**180**	**-**	**-**	**90**	**-**	**-**

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – Track unit rates across most key cost lines are broadly in line with the prior year value. The unit rate of Switches and Crossings Other increased due to a more complex work bank compared to 2022/23. Furthermore, Switches and Crossing Other unit cost has increased due to the Phase 2 of the Port Talbot West Resignalling project which has incurred additional costs. This was caused by the failure of the main contractor to meet the original programme schedule thus, the project has incurred prolongation costs as the project has been extended to 2025. This also provoked additional costs in other projects, such as the Llanelli refurb works.

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

(3) Signalling- Signalling unit rates across most key cost lines are broadly in line with the prior year value. Signalling Refurb unit rate decreased across the year due to the different work bank mix that was delivered in the year. This was driven by a significant change in unit cost across Wales and Western region, related to the Newport to Shrewsbury Life Extension project because of additional costs declared by the project deliverer following completion of works. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. The unit rate of Level Crossings increased primarily due to a change in the work bank mix and supply chain prices rising faster than inflation.

(4) Civils – Overbridges unit rate increased primarily due to expensive replace work in North West and Central and delays on the Wilbury Road and Eccleston Overbridge projects increasing costs in Southern. The unit cost of Tunnels increased with a key factor being that fiscal restraints led to activity reprioritisation, ultimately reducing volumes delivered on the 2023/24 Tunnels portfolio. Coastal & Estuarial Defences unit rate has increased as a different work bank mix has been delivered in the year, this includes projects such as Coastal Planned Preventative Maintenance Phase 2. Location as well as complexity of the job can have a strong influence on unit rate when the sample size is so small, with only five Coastal & Estuarial Defences projects delivering volumes in 2023/24.

(5) Earthworks & Drainage – The unit rate of Rock Cuttings has decreased compared to the previous year's Regulatory Financial Statements because of a change to the work bank mix. There is a smaller proportion of Renew and Refurb compared to Maintain, which are inherently more expensive given the nature of the intervention. Southern recorded a significantly lower unit cost as the work bank mix no longer includes the CP6 Sussex Earthworks & Drainage Minor Works and Wessex CP6 Monitoring Installation and Maintenance. Both projects had attracted project cost increases in 2022/23 caused by reactive volumes and additional monitoring visits which were not present this year to the same extent. Soil Cuttings unit cost has increased which can be attributed to the Hointon Tunnel project in Southern region. The Hointon Tunnel project costs increased due to contractors increasing spend to lift speed restrictions on the project, delays in securing land access to complete enabling works and emergency works had to be carried out to clear materials from the track because of heavy rain. The unit rate for Earthworks Others has decreased which can be attributed to the small sample size of the key cost line which means unit rates can be influenced easier, with only the Dearham Bridge Cutting project delivering volumes in 2023/24.

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

(6) Buildings – Depot plant unit rate has nearly doubled from last year's Regulatory Financial Statements however this can be attributed to the small sample sizes which means unit rates can be influenced far easier. During 2022/23, Package B Light Maintenance Depot Plant Renewals project made up 12 of the 14 projects nonetheless this year's Regulatory Financial Statements includes a higher volume of projects, such as St Phillips Marsh Depot project and Plymouth Laira Depot project. MS Building unit costs have increased significantly since projects have been subject to delays due to the end of the control period and the Birmingham New Street Concrete Repair Works project has experienced a drop in volumes as the asset has been found to be in better condition than originally thought, as well as additional access being required for the project. The unit rate of Other MS also increased however there were very few projects meaning the sample is too trivial to produce any meaningful analysis. The unit rate of Lifts and Escalators has increased significantly due to an increase in passenger numbers and usage of stations across Eastern causing a rise in project costs following lockdown, where stations were used less, and fault numbers decreased. Light Maintenance Depots unit rate decreased as a result of an increase in volumes in North West & Central without additional costs. This is due to key schemes such as Allerton Light Maintenance Depot and Newton Heath roof renewal & refurbishment projects. Platforms FS unit cost has increased, primarily due to the Milton Keynes Station Platform project. Worsening ground conditions had caused work on the project to be aborted thus, the abortive costs, plus inefficiency of designs which have been shelved, have increased the projects costs for 2023/24. FS Canopies and FS Buildings unit costs increased as both key cost lines incurred additional costs due to the CP6 Station Refurbishment Works Kent project with no additional volumes. This is a result of additional gutter work at Maidstone West, descoping of Dover Priory incurring mobilisation costs and extra work at Faversham, producing further costs with no additional volumes. FS Footbridges unit cost has increased because of additional funds being required on Claygate Bridge to make safe and install a temporary footbridge during an emergency closure of the asset. Lineside Buildings unit cost has increased which can be attributed to a significant drop in volumes in Eastern, because of a volumes remeasurement on the Littleport project.

(7) Electrification & Plant – LV Cables DC unit rate has increased which can be attributed to inflationary pressures in the supply chain. Track feeder switch unit rate has decreased although there was only one project in 2022/23 so meaningful data analysis cannot be done with such a small sample size. Wiring unit rate has increased despite a higher proportion of cheaper refurb work being completed in North West and Central. Nevertheless, the increase can be attributed to factors such as inflationary pressures relating to materials and the cost of third-party contractors. The unit cost of Structural Renewals increased significantly as the Acton Lane 11 Kilovolt Cable Crossing project was paused with design/further development and physical construction works deferred to CP8. This meant that there were no volumes for the project, causing the increase to unit cost across the portfolio. UPS unit cost has increased as the UPS South project experienced increased project costs however, investment in the activity that improved the asset did not result in recognition of any extra volumes under the Network Rail Cost & Volume Handbook definitions.

8) Telecoms – There was a decrease in the unit cost of Network which can be attributed to last years' complex Macclesfield Resignalling project which featured the reassigning of control from Macclesfield to Manchester Route Operating Centre. Whilst Public Address unit cost has risen which can be attributed to unexpected cost pressures in the supply chain and re-prioritisation of the work bank to meet funding availability.

Great Britain
Statement 3.9: Analysis of staff costs
Cash prices

Workforce information

(Headcount)	Male Permanent Full time	Male Permanent Part time	Female Permanent Full time	Female Permanent Part time	Total
66 and over	579	29	49	6	**663**
61-65	2,252	34	211	14	**2,511**
56-60	4,008	23	529	26	**4,586**
51-55	4,855	9	799	34	**5,697**
46-50	3,785	10	864	67	**4,726**
41-45	3,692	18	1,015	96	**4,821**
36-40	4,138	20	1,064	108	**5,330**
31-35	4,053	6	1,176	60	**5,295**
26-30	3,340	7	1,069	27	**4,443**
21-25	1,685	3	505	5	**2,198**
20 and under	230	-	63	-	**293**
Total staff employed (Headcount)	**32,617**	**159**	**7,344**	**443**	**40,563**
of which:					
train drivers	-	-	-	-	**-**
apprentices	866	-	118	-	**984**
Agency staff / Contingent Labour	700	-	150	-	**850**
of which apprentices	-	-	-	-	**-**

(FTE)	Headcount Male	Headcount Female	Headcount Total	Full time equivalent Male	Full time equivalent Female	Full time equivalent Total
Board executive	16	7	23	16	7	23
Executive director / director	60	16	76	60	16	76
Bands 1	432	117	549	431	116	547
Bands 2	1,500	577	2,077	1,498	573	2,071
Bands 3	3,037	1,355	4,392	3,030	1,337	4,367
Bands 4	3,598	1,847	5,445	3,590	1,825	5,415
Signallers	4,435	546	4,981	4,426	544	4,970
Electrical control operators	211	4	215	211	4	215
Maintenance	14,581	261	14,842	14,577	257	14,834
Controllers	433	79	512	430	79	509
Bands 5-8	3,473	2,868	6,341	3,459	2,808	6,267
Other	999	112	1,111	997	111	1,108
Total permanent staff	**32,775**	**7,789**	**40,564**	**32,725**	**7,677**	**40,402**
Agency staff / Contingent Labour	700	150	850	700	150	850
Total staff (FTE)	**33,475**	**7,939**	**41,414**	**33,425**	**7,827**	**41,252**

Statement 3.9: Analysis of staff costs - Continued

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	**1**	-	-	**1**
Executive director / director	15	-	4	-	1	2	**22**	-	-	**22**
Bands 1	61	5	9	-	5	9	**89**	-	-	**89**
Bands 2	166	16	12	-	13	23	**230**	-	-	**230**
Bands 3	249	12	11	2	19	31	**324**	-	-	**324**
Bands 4	242	13	5	3	17	28	**308**	-	-	**308**
Signallers	232	11	-	73	15	36	**367**	-	-	**367**
Electrical control operators	16	-	-	8	1	3	**28**	-	-	**28**
Maintenance	598	53	5	213	39	100	**1,008**	-	-	**1,008**
Controllers	35	1	-	10	3	5	**54**	-	-	**54**
Bands 5-8	199	9	4	13	12	21	**258**	-	-	**258**
Other	72	3	-	25	5	12	**117**	-	-	**117**
Total Paybill	**1,886**	**123**	**50**	**347**	**130**	**270**	**2,806**	**-**	**-**	**2,806**
Agency staff / Contingent Labour	109						**109**	**-**		**109**
Total Staff Costs	**1,995**	**123**	**50**	**347**	**130**	**270**	**2,915**	**-**	**-**	**2,915**

Staff costs information

	Male	Female	Total
Salary	1,547	340	1,887
Allowances	108	17	125
Performance related pay	38	13	51
Overtime	332	13	345
Employer pension contribution	106	24	130
Employer NI contribution	230	41	271
Total Paybill	**2,361**	**448**	**2,809**
Agency staff / Contingent Labour	94	15	109
Total Staff Costs	**2,455**	**463**	**2,918**

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	591,000	12
Number of employees paid in excess of highest paid director	0	
Median remuneration of workforce	49,215	

Remuneration ranged from £0 to £591,000 (2022-23 £0 to £593,000)

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Statement 3.9: Analysis of staff costs, Great Britain

In £m cash prices unless stated

Notes:

(1) The format of the headcount information is determined by ORR through their Regulatory Accounting guidelines (December 2019). This requires Network Rail to include data split between “Male” and “Female”. Reporting data in this binary manner is not particularly inclusive or representative of the diverse nature of the individuals employed by Network Rail.

(2) The payroll amounts included in this statement are taken from Network Rail’s payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting guidelines (December 2019). Therefore, the values in this statement may not be exactly the same as the staff costs disclosed in Network Rail’s Annual Report and Accounts for the year ended 31 March 2024 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities and performance related pay.

(3) Headcount information is based on average headcount throughout the year.

Comments:

(1) The first part of this statement sets out the proportion of the workforce based on the binary Male/ Female classification mandated by ORR. This shows that the proportion of Female staff is slightly higher than last year. The proportion of females in managerial roles has also increased and is now at 31% whilst maintenance roles remain overwhelmingly male. The age profile chart shows a comparatively higher level of female representation among younger staff, particularly those under 50, compared to the older employees. Network Rail’s commitment to improving diversity and inclusion, along with the various programmes it is undertaking are set out in more detail on its website.

(2) The age profile of employees has not significantly changed since the previous year, with strategic workforce plans in place to replenish an ageing workforce.

(3) The statement also shows a decrease in overall permanent full time equivalent staff employed by Network Rail of 1.5% compared to the previous year’s published Regulatory Financial Statements as a result of restructuring programmes undertaken in response to the financial position of the industry and wider government fiscal pressures, particularly in maintenance. This is on top of the reduction of 5.6% reported in the 2022/23 Regulatory Financial Statements.

(4) The highest paid director remuneration as a multiple of median remuneration reduced this year compared to last year (12 in 2023/24 compared to 13.3 in 2022/23). This is mainly due to pay awards and performance-related pay for most of the staff whilst the highest paid director did not receive a pay award and declined performance-related pay entitlement this year. The table below is taken from the Annual Report and Accounts which states the median pay of staff at the 25th, 50th and 75th percentiles which has have all increased compared to the previous year reflecting the aforementioned pay awards and performance-related pay this year.

	Total pay & benefits	
Percentile	**2023/24**	**2022/23**
25th Percentile	£38,068	£36,831
50th Percentile	£49,215	£44,548
75th Percentile	£61,045	£70,003

(5) Whilst the tables in this statement continue to show a gap between the average paybill for male and female full time equivalent staff, this year, once again, there has been some further move towards parity.

Great Britain

Statement 3.10: Analysis of amounts payable to auditors and independent reporter

Cash prices

Reporter information

	2023-24	2022-23
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.55	0.53
Fees payable to the company's auditors for other audit related services:		
The audit of the company's subsidiaries	0.07	0.07
Regulatory accounts audit and interim review	0.08	0.07
Total amounts payable to auditors	**0.70**	**0.67**

In addition to the audit information fee given in the table the group pays £0.3m for the audit of subsidiaries that are not performed by the group auditor

Independent Reporters	2023-24	
Expenditure with Independent Reporters	Independent Reporter Expenditure (in year)*	Total in Year Expenditure
Asset Management Consulting Ltd	0.1	0.2
Ove Arup & Partners Ltd	0.8	7.9
Oxera Consulting LLP	0.1	0.3
Gutteridge Haskins & Davey Ltd	0.2	0.8
Total Expenditure with Independent Reporters	**1.2**	**9.2**

Statement 3.10: Analysis of amounts payable to auditors and independent reporter, Great Britain

In £m cash prices unless stated

Notes:

1) The information in this statement is similar to the information Network Rail Limited includes in its annual report and accounts but also applies to amounts paid to Independent Reporters for services rendered as well as amounts paid to the auditors.

2) In line with the Regulatory Accounting guidelines (December 2019) and to be consistent with Network Rail's Annual Report & Accounts, the data is disclosed to the nearest £10,000 for the Reporter Information section and £100,000 for Independent Reporters section.

3) In line with the Regulatory Accounting guidelines (December 2019), no inflationary uplift is applied to the prior year comparative, unlike most of the other statements in these Regulatory Financial Statements.

Great Britain
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 actual prices)	**84,446**
Indexation to 2023-24 prices	87,738
RAB additions	
Renewals expenditure	3,930
Enhancements expenditure	-
Less amortisation	(3,930)
Property Sales	(161)
Closing RAB	**87,577**

Net debt

	£m
Opening net debt	**58,249**
Income	(12,370)
Expenditure	9,963
Financing Costs - Government borrowing	851
Financing Costs - index linked debt	1,646
Financing Costs - Other	86
Corporation tax	0
Working capital	1,040
Closing net debt	**59,465**

Statement 4: Regulatory financial position, Great Britain

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of Network Rail and how it has moved in the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £3.9bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT, Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt** of Network Rail and how it has moved during the year. Note that Regulatory debt is calculated using the rules set out in the Regulatory Accounting guidelines (December 2019) and is different to the net debt presented in Network Rail's annual report and accounts. A reconciliation is included in the Appendices to these financial statements.

(8) Network Rail's closing debt is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Great Britain – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

England & Wales
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	7,735	7,059	676	-	7,128
Franchised track access charges	2,638	2,558	80	(9)	2,431
Other Single Till Income	825	716	109	107	651
Total Income	**11,198**	**10,333**	**865**	**98**	**10,210**
Operating expenditure					
Network operations	737	647	(90)	(90)	678
Support costs	1,033	854	(179)	(106)	955
Traction electricity, industry costs and rates	1,004	1,095	91	(4)	923
Maintenance	2,076	1,643	(433)	(395)	1,972
Schedule 4	397	282	(115)	(101)	746
Schedule 8	240	69	(171)	(171)	111
	5,487	**4,590**	**(897)**	**(867)**	**5,385**
Capital expenditure					
Renewals	3,464	3,575	111	(49)	3,766
Enhancements	2,113	2,086	(27)	15	1,903
	5,577	**5,661**	**84**	**(34)**	**5,669**
Risk expenditure					
Risk (Centrally-held)	-	305	305	-	-
Risk (Route-controlled)	-	195	195	-	-
Risk (Contingent asset management	-	292	292	-	-
	-	**792**	**792**	**-**	**-**
Other expenditure					
Financing costs	2,321	1,998	(323)	-	3,864
Corporation tax	-	82	82	-	(45)
	2,321	**2,080**	**(241)**	**-**	**3,819**
Total expenditure	**13,385**	**13,123**	**(262)**	**(901)**	**14,873**
Total Financial Out/(under) performance				**(803)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	31,263	31,642	(379)	-
Franchised track access charges	11,484	12,149	(665)	(244)
Other Single Till Income	3,640	3,305	335	(192)
Total Income	**46,387**	**47,096**	**(709)**	**(436)**
Operating expenditure				
Network operations	3,298	3,118	(180)	(186)
Support costs	4,255	4,050	(205)	130
Traction electricity, industry costs and rates	4,184	4,717	533	(7)
Maintenance	9,015	7,943	(1,072)	(939)
Schedule 4	1,956	1,530	(426)	(433)
Schedule 8	(151)	309	460	461
	22,557	**21,667**	**(890)**	**(974)**
Capital expenditure				
Renewals	16,560	16,218	(342)	(736)
Enhancements	8,650	8,280	(370)	(169)
	25,210	**24,498**	**(712)**	**(905)**
Risk expenditure				
Risk (Centrally-held)	-	837	837	-
Risk (Route-controlled)	-	574	574	-
Risk (Contingent asset management	-	912	912	-
	-	**2,323**	**2,323**	**-**
Other expenditure				
Financing costs	11,962	10,060	(1,902)	-
Corporation tax	2	244	242	-
	11,964	**10,304**	**(1,660)**	**-**
Total expenditure	**59,731**	**58,792**	**(939)**	**(1,879)**
Total Financial Out/(under) performance				**(2,315)**

Statement 1: Summary of regulatory financial performance, England & Wales

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of England & Wales' income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that shows that England & Wales region's net expenditure (Total income less Total expenditure) was around £0.6bn lower than the regulatory baseline for this year as higher revenue grants and risk funds in the baseline have been partly offset by additional interest costs and maintenance. Across the control period net expenditure is around £1.65bn higher than expected with financing costs £1.9bn higher.

(2) This statement also shows that England & Wales region's recognised financial underperformance of around £0.8bn this year and £2.3bn across the control period. Underperformance this year includes: additional maintenance activity, inflationary pressures and higher payments under the train performance regime. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, industrial action in 2022/23, inflationary pressures and costs of completing legacy CP5 enhancements.

(3) Income – Grant income is higher than the regulatory baseline this year, but lower across the control period. Grants are only paid as required and so lower interest and corporation tax costs have meant Network Rail has not required as much government grants across CP6. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, England & Wales – continued

In £m cash prices unless stated

(4) Income – Franchised track access charges income is greater than the regulatory baseline this year largely due to higher-than-expected inflation resulting in increased payments by operators under track access charges. This inflation benefit is more than offset by inflationary increases Network Rail has been subject to across it's cost base. Income in the control period is lower than the regulatory baseline mainly due to a combination of reduced services ran during Covid and subsequent structural changes to the industry and lower traction electricity charges as market prices have not risen as quickly as the regulatory baseline assumed. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is higher than the previous year. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Increases in market electricity prices also increased income charged to operators. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is higher than the regulatory baseline mostly due to increased levels of property sales this year. Income is higher across the control period as property disposals, including part of the network in Wales, more than offset reduced property rental income which arose from the Covid-19 pandemic. To support retail and commercial estate tenants during the pandemic Network Rail cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is higher than the previous year, mainly due to higher property sales. As noted in previous years' Regulatory Financial Statements, property sales can be variable year by year given their nature. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure - Network operations costs were higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure which have been partly offset by additional efficiencies in Centrally-managed activities. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, England & Wales – continued

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year due to savings on Business rates. Costs across the control period were lower than the regulatory baseline due to savings on Traction electricity and Business rates. Whilst market electricity prices have increased significantly in recent years following Russia aggression in Eastern Europe, many of the operators had pre-purchased requirements, which limited the impact of market rises. These savings are offset by lower traction electricity income charged to operators (refer to Statement 2). Costs have increased compared to the previous year mainly due to higher market electricity prices. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year mainly due to additional activity was delivered on the network as. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the regions. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is broadly in line with the regulatory baseline this year. Across the control period investment has been higher as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period. Renewals investment is discussed in more detail in Statement 3.6.

Statement 1: Summary of regulatory financial performance, England & Wales – continued

In £m cash prices unless stated

(13) Capital expenditure – Enhancements are undertaken at the directions of the funder (Department for Transport (DfT)) who specify outputs and funding for each programme. Expenditure this year and across the control period is broadly in line with the regulatory baseline. Financial underperformance this control period has been mainly against legacy CP5 programmes that were completed early in CP6. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16) Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

England & Wales
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,128	1,040	88	-	1,051
Variable usage charge	233	278	(45)	(45)	207
Electrification asset usage charge	21	28	(7)	(7)	19
Capacity charge	-	-	-	-	-
Open access income	32	32	-	-	32
Managed stations long term charge	76	69	7	7	73
Franchised stations long term charge	182	169	13	13	170
Traction electricity charges	648	650	(2)	-	532
Schedule 4 access charge supplement	220	202	18	18	239
	2,540	**2,468**	**72**	**(14)**	**2,323**
Other single till income					
Freight income					
Freight variable usage charge	63	73	(10)	(10)	58
Freight other income	3	4	(1)	(1)	3
	66	**77**	**(11)**	**(11)**	**61**
Stations income					
Managed stations qualifying expenditure	106	100	6	6	96
Franchised stations lease income	57	53	4	4	60
	163	**153**	**10**	**10**	**156**
Facility and financing charges					
Facility charges	67	66	1	1	64
	67	**66**	**1**	**1**	**64**
Property income					
Property rental	220	265	(45)	(45)	199
Property sales	41	24	17	17	14
	261	**289**	**(28)**	**(28)**	**213**
Depots Income	**123**	**92**	**31**	**31**	**101**
Other income	**3**	**5**	**(2)**	**(2)**	**8**
Freight traction electricity charges	**11**	**8**	**3**	**-**	**19**
Total other single till income	**694**	**690**	**4**	**1**	**622**
Total Regionally-managed income	**3,234**	**3,158**	**76**	**(13)**	**2,945**
Centrally-managed income					
Network grant	6,375	5,536	839	-	5,957
Internal financing grant	651	891	(240)	-	599
External financing grant	613	452	161	-	515
BTP grant	96	98	(2)	-	103
Corporation tax grant	-	82	(82)	-	(46)
Infrastructure cost charges	42	39	3	-	42
Schedule 4 access charge supplement	56	51	5	5	66
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	7,833	**7,149**	**684**	**5**	**7,236**
Other single till income					
Property income					
Property rental	12	11	1	1	10
Property sales	119	15	104	105	19
	131	**26**	**105**	**106**	**29**
Total other single till income	**131**	**26**	**105**	**106**	**29**
Total centrally-managed income	**7,964**	**7,175**	**789**	**111**	**7,265**
Total income	**11,198**	**10,333**	**865**	**98**	**10,210**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	5,008	4,985	23	-
Variable usage charge	1,043	1,284	(241)	(241)
Electrification asset usage charge	95	122	(27)	(27)
Capacity charge	2	-	2	2
Open access income	146	150	(4)	(4)
Managed stations long term charge	343	334	9	10
Franchised stations long term charge	811	811	-	-
Traction electricity charges	1,597	1,846	(249)	-
Schedule 4 access charge supplement	1,158	1,147	11	11
	10,203	**10,679**	**(476)**	**(249)**
Other single till income				
Freight income				
Freight variable usage charge	275	294	(19)	(19)
Freight other income	9	9	-	-
	284	**303**	**(19)**	**(19)**
Stations income				
Managed stations qualifying expenditure	454	466	(12)	(12)
Franchised stations lease income	273	259	14	15
	727	**725**	**2**	**3**
Facility and financing charges				
Facility charges	307	310	(3)	(4)
	307	**310**	**(3)**	**(4)**
Property income				
Property rental	633	970	(337)	(337)
Property sales	135	81	54	22
	768	**1,051**	**(283)**	**(315)**
Depots Income	**491**	**436**	**55**	**55**
Other income	**28**	**23**	**5**	**4**
Freight traction electricity charges	**38**	**23**	**15**	**-**
Total other single till income	**2,643**	**2,871**	**(228)**	**(276)**
Total Regionally-managed income	**12,846**	**13,550**	**(704)**	**(525)**
Centrally-managed income				
Network grant	24,948	24,301	647	-
Internal financing grant	2,998	3,931	(933)	-
External financing grant	2,855	2,709	146	-
BTP grant	460	456	4	-
Corporation tax grant	2	245	(243)	-
Infrastructure cost charges	201	199	2	-
Schedule 4 access charge supplement	285	282	3	5
Traction electricity charges	795	989	(194)	-
Freight traction electricity charges	13	13	-	-
	32,557	**33,125**	**(568)**	**5**
Other single till income				
Property income				
Property rental	280	278	2	4
Property sales	704	143	561	80
	984	**421**	**563**	**84**
Total other single till income	**984**	**421**	**563**	**84**
Total centrally-managed income	**33,541**	**33,546**	**(5)**	**89**
Total income	**46,387**	**47,096**	**(709)**	**(436)**

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is slightly higher than the regulatory baseline this year mainly due to higher property sales and infrastructure cost charges which have been partly offset by lower grant income from funders. Income across the control period is lower than the regulatory baseline as a result of lower grant income received plus lower than anticipated traction electricity, variable track access and property rental income, with the Covid-19 pandemic driving the financial underperformance in the latter two categories. These income shortfalls have been partly offset by increased property disposals. Income is higher than the previous year mainly due to higher regionally-managed income, including higher track access and electricity charges.

Regionally-managed income

(1) Total Regionally-managed income is higher than the CP6 baseline this year, as higher inflation rates have resulted in higher income earned through track access contracts. Across CP6, Regionally-managed income has been lower than expected as Covid and industrial action reduced variable track access income, Covid impacted property income and overall lower average electricity prices. Regionally-managed income is higher than last year mainly due to increased inflation uplift to track access contracts and higher electricity costs.

(2) Infrastructure cost charges – fixed charge income was higher than the regulatory expectation this year and is now slightly higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year. This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the control period shortfall. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower income across the control period reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Electric Asset Usage – this income stream is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As noted above, fewer trains ran this year than the regulatory baseline expected meaning less EAU income was received leading to financial underperformance. The underperformance across the control period is due to reduced services this control period owing to the aforementioned impacts of Covid-19 and industrial action.

(5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

(6) Managed stations long term charge – income this year is higher than the regulatory baseline mainly due to higher cumulative inflation this year compared to the regulatory expectation when the baselines were set. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

(7) Franchised stations long term charge – income this year is higher than the regulatory baseline mainly due to higher cumulative inflation this year compared to the regulatory expectation when the baselines were set. Income is higher than the previous year. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(8) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, revenue for the control period is lower than the regulator's expectation as expected price increases earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(9) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income is slightly lower than the previous year reflecting planned reductions in Schedule 4 costs as reflected in the regulatory baseline for this year.

(10) Freight Income – income is lower than the regulatory baseline this year, as demand growth assumed in the baseline has not fully materialised. The disruptive impact of weather has also increased cancellations this year. Income is lower across the control period due to the aforementioned performance this year, along with shortfalls in 2022/23 as a result of industrial action, limiting the number of services that Network Rail was able to run to satisfy demand from freight operators. Income is higher than the previous year, This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by freight operators are contractually uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

(11) Managed stations qualifying expenditure – income is higher than the regulatory assumption this year, which partially offset reduced income in the earlier years of the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail's managed stations estate. The control period deficit is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them. The increase in income compared to the prior year is largely due to the higher inflation used in many of the agreements with operators compared to the inflationary uplift applied to the 2022/23 income, which uses the November 2023 CPI per the Regulatory Accounting guidelines (December 2019) along with extra services provided to operators this year.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(12) Franchised stations lease income – income is higher than the regulatory assumption this year, adding to the higher underlying income throughout the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail's franchised stations estate.

(13) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

(14) Property sales – sales are higher than the regulatory baseline this year and across the control period as additional opportunities have been identified to offset property income shortfalls elsewhere. The current year is higher than the previous year reflecting the erratic nature of this income with sales only made when value can be unlocked.

(15) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period due to additional services offered to operators. The higher income this year also benefits from higher than expected inflation used to uplift contracts. Income is higher than the previous year which is partly due to inflationary benefits from many agreements with operators being linked to the previous year's March RPI (i.e. March 2022) which was exceptionally high, whereas the 2022/23 income has been uplifted using the November 2023 CPI, in line with the Regulatory Accounting guidelines (December 2019).

(16) Freight traction electricity charges – income is higher than the regulatory baseline this year and in the control period. This is mainly due to the well-publicised higher market electricity prices this in recent year following Russian aggression in Ukraine and the impact this has had on global energy prices. Freight operators were disproportionately impacted compared to franchised train operating companies this control period, as many franchised train operators had chosen to pre-purchase expected electricity requirements when market prices were lower. Network Rail passes on the cost to operators and so this extra income is offset by higher traction electricity costs as reported in Statement 3.4. This also accounts for the increase compared to the previous year.

Centrally-managed income

(1) Aggregate Centrally-managed income is broadly in slightly higher than the regulatory baseline this year as higher property sales income has been partly offset by lower grants received from DfT. Income for the control period in total is lower than the regulatory baseline as lower interest costs have reduced the amount of grants required, which has been partly offset by additional property disposal income. Income is broadly in line with the previous year as lower grant income received from DfT has been mostly offset by higher property disposals income.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which reverses some of the reduced income in earlier years of the control period, putting the full control period broadly in line with the regulatory baseline. The extra income this year represented a different phasing of activity being undertaken than anticipated in the regulatory baseline and extra expenditure agreed with DfT.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) British Transport Police grant – these grants are used to pay the costs of the core British Transport Police, included in Statement 3.4. Income is broadly in line with the regulatory baseline for the current year and the control period in total. Income is lower than the prior year, reflecting lower costs this year from British Transport Police as shown in Statement 3.4.

(7) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

Statement 2: Analysis of income, England & Wales – continued

In £m cash prices unless stated

(8) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Fixed charge income was higher than the regulatory expectation this year and is now higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is in line with the previous year.

(9) Schedule 4 access charge supplement – income is higher than the regulatory baseline, reflecting higher inflation across the control period than the regulator expected when setting charges. This extra income is offset by higher Schedule 4 compensation costs payable to operators under track access contracts, as the rates payable also increase with inflation. Income is lower than the previous year, reflecting planned reductions in Schedule 4 costs for 2023/24 assumed at the time of the CP6 determination.

(10) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(11) Property rental – income was broadly in line with the regulatory baseline and the previous year. Income for the control period is noticeably lower than the regulatory baseline as a result of the aforementioned Covid-19 consequences.

(12) Property sales – income in the current year is higher than the regulatory baseline following disposal of sites to support High Speed 2 construction, which also accounts for the higher income this year compared to 2022/23. Income across the control period is significantly higher than the regulatory baseline due to the disposal of part of the network in Wales as reported in 2019/20. This disposal was treated as neutral when assessing financial performance. When assessing financial performance this control period, the proceeds from disposal of part of the network in Eastern have also been treated as neutral.

England & Wales
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	713	625	(88)	(88)	657
Maintenance	2,010	1,591	(419)	(385)	1,860
Support costs	476	223	(253)	(172)	296
Traction electricity, industry costs and rates	966	1,062	96	(4)	885
Schedule 4	392	228	(164)	(150)	743
Schedule 8	234	58	(176)	(176)	102
	4,791	**3,787**	**(1,004)**	**(975)**	**4,543**
Capital expenditure					
Renewals	2,885	2,591	(294)	(42)	3,301
Enhancements	2,101	2,086	(15)	15	1,867
	4,986	**4,677**	**(309)**	**(27)**	**5,168**
Total Regionally-managed expenditure	**9,777**	**8,464**	**(1,313)**	**(1,002)**	**9,711**
Centrally-managed expenditure					
Operating expenditure					
Network operations	24	22	(2)	(2)	21
Maintenance	66	52	(14)	(10)	112
Support costs	557	631	74	66	659
Traction electricity, industry costs and rates	38	33	(5)	-	38
Schedule 4	5	54	49	49	3
Schedule 8	6	11	5	5	9
	696	**803**	**107**	**108**	**842**
Capital expenditure					
Renewals	579	984	405	(7)	465
Enhancements	12	-	(12)	-	36
	591	**984**	**393**	**(7)**	**501**
Risk Expenditure	**-**	**792**	**792**	**-**	**-**
Other					
Financing costs	2,321	1,998	(323)	-	3,864
Taxation	-	82	82	-	(45)
	2,321	**2,080**	**(241)**	**-**	**3,819**
Total centrally-managed expenditure	**3,608**	**4,659**	**1,051**	**101**	**5,162**
Total expenditure	**13,385**	**13,123**	**(262)**	**(901)**	**14,873**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	3,193	3,009	(184)	(186)
Maintenance	8,670	7,653	(1,017)	(885)
Support costs	1,573	1,039	(534)	(454)
Traction electricity, industry costs and rates	2,582	2,977	395	(15)
Schedule 4	1,957	1,275	(682)	(688)
Schedule 8	(145)	258	403	403
	17,830	**16,211**	**(1,619)**	**(1,825)**
Capital expenditure				
Renewals	14,171	13,244	(927)	(802)
Enhancements	8,251	8,267	16	(206)
	22,422	**21,511**	**(911)**	**(1,008)**
Total Regionally-managed expenditure	**40,252**	**37,722**	**(2,530)**	**(2,833)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	105	109	4	-
Maintenance	345	290	(55)	(54)
Support costs	2,682	3,011	329	584
Traction electricity, industry costs and rates	1,602	1,740	138	8
Schedule 4	(1)	255	256	255
Schedule 8	(6)	51	57	58
	4,727	**5,456**	**729**	**851**
Capital expenditure				
Renewals	2,389	2,974	585	66
Enhancements	399	13	(386)	37
Other	-	-	-	-
	2,788	**2,987**	**199**	**103**
Risk Expenditure	**-**	**2,323**	**2,323**	**-**
Other				
Financing costs	11,962	10,060	(1,902)	-
Taxation	2	244	242	-
	11,964	**10,304**	**(1,660)**	**-**
Total centrally-managed expenditure	**19,479**	**21,070**	**1,591**	**954**
Total expenditure	**59,731**	**58,792**	**(939)**	**(1,879)**

Statement 3: Analysis of expenditure, England & Wales

In £m cash prices unless stated

Comments:

1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, additional maintenance activity and performance regime costs more than offsetting the risk funds included in the baseline. Expenditure has been higher across the control period for similar reasons. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across in the control period are higher with additional capital investment and operating costs. Expenses are broadly similar to the previous year as higher Schedule 4 costs from industrial action in 2022/23 has been partly offset by higher maintenance and traction electricity costs. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally- managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail's index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

England & Wales
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	290	260	(30)	(30)	268
Operations Management	107	73	(34)	(34)	90
Controllers	75	61	(14)	(14)	69
Electrical control room operators	24	18	(6)	(6)	22
	496	**412**	**(84)**	**(84)**	**449**
Non signaller expenditure					
Mobile operations managers	52	39	(13)	(13)	49
Managed stations	87	79	(8)	(8)	86
Performance	-	12	12	12	3
Other	78	83	5	5	70
Total Regionally-managed Operations expenditure	**713**	**625**	**(88)**	**(88)**	**657**
Centrally-managed Operations expenditure					
Network Services	24	22	(2)	(2)	21
Total centrally-managed Operations expenditure	**24**	**22**	**(2)**	**(2)**	**21**
Total operations expenditure	**737**	**647**	**(90)**	**(90)**	**678**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	1,310	1,260	(50)	(50)
Operations Management	417	351	(66)	(66)
Controllers	326	304	(22)	(22)
Electrical control room operators	98	89	(9)	(9)
	2,151	**2,004**	**(147)**	**(147)**
Non signaller expenditure				
Mobile operations managers	227	189	(38)	(38)
Managed stations	406	376	(30)	(30)
Performance	21	61	40	40
Other	388	379	(9)	(11)
Total Regionally-managed Operations expenditure	**3,193**	**3,009**	**(184)**	**(186)**
Centrally-managed Operations expenditure				
Network Services	105	109	4	-
Total centrally-managed Operations expenditure	**105**	**109**	**4**	**-**
Total operations expenditure	**3,298**	**3,118**	**(180)**	**(186)**

Statement 3.1: Analysis of operations expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. The higher costs for the control period incorporates the above but also includes increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

(3) Operations management – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

Statement 3.1: Analysis of operations expenditure, England & Wales - continued

In £m cash prices unless stated

(4) Controllers – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules.

(5) Mobile operation managers – costs across the control period are higher than the regulatory baseline. This is largely from additional recruitment to improve incident response times and support timetable resilience across the network. In addition, many of the costs incurred to bolster train performance have been recognised in this heading, rather than the Performance category within this statement.

(6) Managed stations – once again, costs are higher than the regulatory baseline. This includes extra staff at stations to offer a better service to the travelling public and higher costs of running stations as inflation has risen faster than expected. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are higher than the previous year reflecting rising market prices for some services, such as cleaning and a reduced tertiary income received from services provided at Managed stations.

(7) Performance – costs are lower than the regulatory baseline this year continuing the trend of earlier years of the control period. This is due to some of the performance initiatives being reported against other categories in this statement. The underspend in this category is offset by overspends in other headings. The savings across the control period are largely driven by the same factors. Costs are broadly consistent with the previous year.

(8) Other – costs are lower than the regulatory target for this year, which helps offset some of the underperformance reported in earlier years of the control period. This is partly due to restructuring as a result of the Putting Passenger First Programme. Responsibilities and activities that are included in the regulatory baseline in this category have been delivered by other categories in this statement. The savings in this category also help offset higher costs reported elsewhere in Operations this year. The higher costs across the control period is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period. Savings from workforce reform initiatives including restrained pay, performance-related pay reductions and management modernisation reorganisation have been offset by higher inflationary pressures, reflecting price movements in the wider economy. Financial outperformance recognised in the current year includes removing timing differences reported in the 2019/20 Regulatory Financial Statements to accurately report the total control period position.

England & Wales
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	820	676	(144)	(134)	740
Signalling & Telecoms	307	276	(31)	(31)	297
Civils	263	199	(64)	(86)	251
Buildings	125	89	(36)	(3)	111
Electrical power and fixed plant	132	131	(1)	(1)	133
Other network operations	363	220	(143)	(130)	328
	2,010	**1,591**	**(419)**	**(385)**	**1,860**
Centrally-managed maintenance expenditure					
Telecoms	29	32	3	3	25
Route Services - Asset Information	36	31	(5)	(5)	28
STE Maintenance	3	2	(1)	(1)	3
Property	-	-	-	-	-
Route Services - Other	(4)	(13)	(9)	(6)	46
Other	2	-	(2)	(1)	10
	66	**52**	**(14)**	**(10)**	**112**
Total maintenance expenditure	**2,076**	**1,643**	**(433)**	**(395)**	**1,972**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	3,550	3,262	(288)	(241)
Signalling & Telecoms	1,432	1,324	(108)	(110)
Civils	1,046	947	(99)	(124)
Buildings	511	446	(65)	1
Electrical power and fixed plant	617	624	7	7
Other network operations	1,514	1,050	(464)	(418)
	8,670	**7,653**	**(1,017)**	**(885)**
Centrally-managed maintenance expenditure				
Telecoms	108	141	33	32
Route Services - Asset Information	152	150	(2)	(8)
STE Maintenance	19	20	1	2
Property	10	6	(4)	(4)
Route Services - Other	48	(27)	(75)	(76)
Other	8	-	(8)	-
	345	**290**	**(55)**	**(54)**
Total maintenance expenditure	**9,015**	**7,943**	**(1,072)**	**(939)**

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year mainly due to greater costs in the Regionally-managed category, as additional activity was delivered on the network as described below. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken in the Regions as set out below.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across all categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF and extra costs to comply with track worker safety standards. Costs across the control period are 13 per cent higher than the regulatory baseline assumed which has included the delivery of approximately 10 per cent more maintenance activity on reportable weighted volume measures. Higher costs have also arisen from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs are 7 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 7 per cent compared to the previous year.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(2) Track – track costs are the largest component of England & Wales' maintenance expenditure. This year costs are, once again, higher than the regulatory baseline which includes additional reportable volumes being undertaken, specific performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance in the current year and across the control period. The overspend across the control period is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Expenses are higher than the previous year arising from additional work undertaken the network and from greater than inflation materials and contractor costs increases.

(3) Signalling & telecoms this year, costs are higher than the regulatory baseline, continuing the trend across the control period. The changing of organisational and staffing structures have predominantly increased the costs compared to the regulatory assumption for the year as have costs to develop additional skills to provide improved asset performance. Spend across the control period is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs incurred in response to Covid-19 such as additional staffing to cover absences and separate vehicles to comply with social distancing rules. Expenses have increased slightly compared to the previous year, including higher than inflation materials costs increases.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain Network Rail's operating license. In 2021/22, the contracting strategy in this area was reviewed and changed leading to short term increases in cost but with much improved delivery on meeting examination requirements. Costs have also increased due to an increased vegetation workbank. These costs have been partly mitigated by reduced reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline due to the aforementioned reasons. Costs are higher than the previous as there have been increased visual and detailed inspections this year in Eastern.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher reactive maintenance activity. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline which is almost all due to reactive maintenance activity variances.

(6) Electrical power and fixed plant – costs are broadly in line with the regulatory baseline this year and across the control period. Costs are in line with the prior year comparative.

(7) Other network operations – costs are higher than the regulatory baseline this year, continuing the trend across the control period. These extra costs include: inheritance of property through Putting Passengers First programme with perceived insufficient funding, increases in costs were realised from asset management compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance this year and across the control period. In addition, extra depots have been set up across the network to be closer to the infrastructure and allow quicker response times to mitigate faults, but this comes with an increase in these indirect costs. Spend across the control period is higher than the regulatory baseline, primarily due to the additional aforementioned causes as well as the costs occurred in response to Covid-19. Costs are higher than the prior year comparative, reflecting higher than inflation cost rises in the supply chain and increased devegetation works and reduced capital delivery works undertaken by maintenance time reflecting restricted funds this year.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and across the Control Period, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims. Costs are higher than the previous year due to a catch up of projects this year.

Statement 3.2: Analysis of maintenance expenditure, England & Wales - continued

In £m cash prices unless stated

(3) Route services – Asset information – expenditure in the year is higher than regulatory assumption, bringing the total control period costs in line with the regulatory baseline. Savings made from workforce reform initiatives, including performance related pay, management modernisation, lower pay awards and headcount restraint have been offset by inflationary pressures in the supply chain, particularly materials for which market prices have risen sharply in recent years. Costs are higher than previous year reflecting the aforementioned materials inflationary pressures.

(4) Route services – other – costs are higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

(5) Other – whilst there are minimal costs in the current year, costs have been higher than the £nil regulatory baseline across the control period. This is mostly due to variances on reactive maintenance projects compared to the neutral regulatory baseline. In line with the guidance agreed with ORR for assessing financial performance, variances on these activities are not included. The marginal positive financial performance across the control period is mostly due to benefits earlier in the control period from notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories in the Regions). Costs are lower than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 included the reversal of some of the benefits reported in 2021/22.

England & Wales
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	25	20	(5)	(5)	23
Finance	15	15	-	-	17
Accommodation	81	61	(20)	(20)	82
Utilities	177	70	(107)	(107)	86
Other	178	57	(121)	(40)	88
	476	**223**	**(253)**	**(172)**	**296**
Centrally-managed Support costs					
Finance & Legal	44	56	12	12	32
Communications	15	18	3	3	15
Human Resources	27	5	(22)	(22)	20
System Operator	55	69	14	14	46
Property	7	17	10	10	8
Telecoms	58	51	(7)	(7)	67
Network Services	-	-	-	-	-
Safety Technical and Engineering	40	44	4	4	37
RS - IT and Business Services	122	116	(6)	(6)	113
RS - Asset Information	18	34	16	(20)	17
RS - Directorate	31	32	1	1	3
Other corporate functions	3	6	3	3	1
Insurance	27	52	25	25	(11)
OPEX/CAPEX Adjustment	101	72	(29)	-	201
Group costs	9	59	50	49	110
	557	**631**	**74**	**66**	**659**
Total support costs	**1,033**	**854**	**(179)**	**(106)**	**955**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	112	96	(16)	(16)
Finance	80	70	(10)	(10)
Accommodation	372	298	(74)	(73)
Utilities	459	343	(116)	(117)
Other	550	232	(318)	(238)
	1,573	**1,039**	**(534)**	**(454)**
Centrally-managed Support costs				
Finance & Legal	185	248	63	62
Communications	74	89	15	14
Human Resources	116	107	(9)	(7)
System Operator	206	281	75	75
Property	23	52	29	28
Telecoms	307	292	(15)	(20)
Network Services	36	58	22	22
Safety Technical and Engineering	179	193	14	24
RS - IT and Business Services	555	562	7	6
RS - Asset Information	73	133	60	15
RS - Directorate	120	122	2	2
Other corporate functions	56	72	16	17
Insurance	93	223	130	130
OPEX/CAPEX Adjustment	643	336	(307)	-
Group costs	16	243	227	216
	2,682	**3,011**	**329**	**584**
Total support costs	**4,255**	**4,050**	**(205)**	**130**

Statement 3.3: Analysis of support costs, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure which have been partly offset by additional efficiencies in Centrally-managed activities. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year mainly due to greater Utilities costs as electricity prices have risen and the reclassification of certain projects from Renewals (refer to Statement 3.6) to Support. Costs have been higher across the control period reflecting the above factors along with the impact of the PPF re-organisation programme necessitating additional resources, inflationary pressures in the second half of the control period and Covid-19 related expenditure. Costs are higher than the previous year mainly due to the reclassification of project costs from Renewals and increased Utilities costs.

(2) Human resources – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human resources staff to support this initiative.

(3) Finance – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.

(4) Accommodation – costs are significantly higher than the baseline expectation this year continuing the trend of the control period. This has been primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements, inflationary pressures in the second half of the control period and additional expenditure to ensure Covid-19 compliance at Network Rail sites during the pandemic earlier in the control period. Costs are consistent with the previous year.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(5) Utilities – costs are higher than the baseline reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices this year in the wake of geopolitical disruption and uncertainty. Costs across the control period are higher due to higher utility costs incurred in the final two years from rising market prices. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

(6) Other – costs were higher than the regulatory baseline this year. This is mostly due to a reclassification of projects undertaken to accommodate the new planned High Speed 2 network. Following government announcements to curtail the programme at Birmingham, the costs of these projects have been transferred from Renewals (see Statement 3.6) to this statement. As agreed with the regulator this has been treated as neutral when assessing financial performance in both Support and Renewals. Across the control period costs in this area have been higher which includes: the aforementioned accounting reclassification, the implementation of the PPF programme, inflationary pressures and Covid-19 related expenditure, such as PPE purchases and additional vehicle hire. Costs are higher than the previous year mainly due to the aforementioned accounting reclassification of certain High Speed 2-related projects.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are favourable to the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been more than offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are lower than the previous year mainly due to fewer projects classified as opex rather than capex in this category and lower reorganisation costs.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(3) Communications – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings, as well as from extra training costs this year.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(5) System Operator – costs are lower than the regulatory baseline this year and across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings across the control period also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(6) Property – costs are lower than the regulatory baseline this year and across the control period in total. These savings include savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes as well as benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(7) Telecoms – costs are higher than the regulatory target this year and across the control period in total. Whilst savings have been made through reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, inflationary pressures have been present in the supply chain, forcing costs up. Savings have been made compared to the previous year, including a reduction in the number and extent of opex projects carried out.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(10) Route Services – IT and Business Services – whilst costs are higher than the regulatory baseline this year, they are slightly lower across the control period. Savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in travel and accommodation during Covid-19 have been achieved but have been offset by one-off costs during Covid-19 as this function supported a transition to back-office staff working from home and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, England & Wales - continued

In £m cash prices unless stated

(12) Route Services – Directorate – costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(13) Other Corporate Functions – costs are lower than the regulatory expectation this year and across the control period. As noted in the 2022/23 Regulatory Financial Statements savings in the control period include the Putting Passenger First reorganisation costs which have been reported in the Group line this control period in this statement.

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(15) Opex/ capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

Statement 3.3: Analysis of support costs, England & Wales – continued

In £m cash prices unless stated

(16) Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year. As noted in the 2022/23 Regulatory Financial Statements, Group costs in that year included workforce reform credits given to the regions and functions.

England & Wales
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	678	658	(20)	(3)	545
Business rates	189	306	117	-	237
British transport police costs	99	98	(1)	(1)	103
	966	**1,062**	**96**	**(4)**	**885**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	22	17	(5)	-	23
RDG membership costs	2	2	-	-	2
RSSB costs	13	13	-	-	12
Reporters fees	1	-	(1)	-	1
Other industry costs	-	1	1	-	-
	38	**33 -**	**5**	**-**	**38**
Total traction electricity, industry costs and rates	**1,004**	**1,095**	**91 -**	**4**	**923**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	1,645	1,871	226	(3)
Business rates	638	818	180	-
British transport police costs	299	288	(11)	(12)
	2,582	**2,977**	**395**	**(15)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	800	1,002	202	3
Business rates	470	411	(59)	-
British transport police costs	164	169	5	5
ORR licence fee and railway safety levy	95	84	(11)	-
RDG membership costs	12	13	1	-
RSSB costs	56	58	2	-
Reporters fees	5	-	(5)	-
Other industry costs	-	3	3	-
	1,602	**1,740**	**138**	**8**
Total traction electricity, industry costs and rates	**4,184**	**4,717**	**533 -**	**7**

Statement 3.4: Analysis of traction electricity, industry costs and rates, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year as higher traction electricity costs have been more than offset by lower business rates expenses. Costs in the control period are lower than the baseline as increases in electricity costs (offset by reduced income – refer to Statement 2) and business rates costs have been lower than anticipated. Costs are higher than the previous year as higher traction electricity costs have been more partly offset by lower business rates expenses.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, costs for the control period are lower than the regulator's expectation as expected price rises earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These cost savings are broadly balanced by reduced income from recharging electricity to operators (as shown in Statement 2). Costs were higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, England & Wales – continued

In £m cash prices unless stated

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were broadly in line with the regulatory baseline for the current year and control period. Costs charged to Network Rail are lower than the previous year due to year-on-year savings made by British Transport Police for the services provided.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the overall control period. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, England & Wales – continued

In £m cash prices unless stated

(7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

England & Wales
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	392	228	(164)	(150)	743
Access charge supplement Income	(220)	(204)	16	18	(239)
Net (income)/cost	**172**	**24**	**(148)**	**(132)**	**504**
Schedule 8					
Performance element income	234	-	(234)	(234)	102
Performance element costs	-	58	58	58	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**234**	**58**	**(176)**	**(176)**	**102**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	5	54	49	49	3
Access charge supplement Income	(56)	(51)	5	-	(66)
Net (income)/cost	**(51)**	**3**	**54**	**49**	**(63)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	6	11	5	5	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**6**	**11**	**5**	**5**	**9**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	397	282	(115)	(101)	746
Access charge supplement Income	(276)	(255)	21	18	(305)
Net (income)/cost	**121**	**27**	**(94)**	**(83)**	**441**
Schedule 8					
Performance element income	234	-	(234)	(234)	102
Performance element costs	6	69	63	63	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**240**	**69**	**(171)**	**(171)**	**111**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,957	1,275	(682)	(688)
Access charge supplement Income	(1,158)	(1,149)	9	11
Net (income)/cost	**799**	**126**	**(673)**	**(677)**
Schedule 8				
Performance element income	(328)	-	328	328
Performance element costs	183	258	75	75
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(145)**	**258**	**403**	**403**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(1)	255	256	255
Access charge supplement Income	(285)	(282)	3	-
Net (income)/cost	**(286)**	**(27)**	**259**	**255**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(6)	51	57	58
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(6)**	**51**	**57**	**58**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1,956	1,530	(426)	(433)
Access charge supplement Income	(1,443)	(1,431)	12	11
Net (income)/cost	**513**	**99**	**(414)**	**(422)**
Schedule 8				
Performance element income	(328)	-	328	328
Performance element costs	177	309	132	133
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(151)**	**309**	**460**	**461**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are higher than the regulatory baseline this year mostly reflecting financial underperformance in the regions. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). The Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Any benefit is offset by higher compensation payments rates, which are also subject to contractual annual inflationary increases. Income is slightly lower than the previous year, reflecting planned reductions in the regulatory baseline partly offset by some inflationary benefit. The prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events, including weather and the highly-publicised closing of part of the network in Wales & Western where a bridge near Nuneham required corrective intervention after being considered unsafe to support trains. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Also, about one-third of the financial underperformance this year has been due to higher inflation increasing the compensation rates paid to operators to higher than the regulatory baseline for 2023/24. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

(2) Schedule 8 costs were higher than the regulatory baseline this year. Whilst train performance, as measure by On-Time, has improved this control period across the network as a whole, performance this year did not meet targets. Issues this year included a higher number of asset failures across the infrastructure, continued issues in Wales & Western and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, England & Wales – continued

In £m cash prices unless stated

(2) Schedule 4 – Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Across the control period, the income is broadly in line with expectation. Income is slightly lower than the previous year, reflecting planned reductions in the regulatory baseline partly offset by some inflationary benefit. The prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, such as the aforementioned Nuneham bridge closure, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed cost. Costs are higher than the prior year due reflecting a change in the number of incidents that qualify as insurable events.

(3) Schedule 8 – this year's cost is lower than the regulatory baseline, with fewer incidents than expected eligible for inclusion in this category, instead remaining in the Regionally-managed section. Schedule 8 costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

England & Wales
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	254	208	(46)	-	255
PL Replace Partial	173	118	(55)	-	185
PL High Output	97	132	35	-	103
PL Refurbishment	54	67	13	-	58
PL Track Slab Track	2	2	-	-	7
Switches & Crossing - Replace	176	177	1	-	187
Switches & Crossing - Other	47	29	(18)	-	62
Off Track	82	72	(10)	-	93
Track Other	47	(8)	(55)	-	31
	932	**797**	**(135)**	**(14)**	**981**
Signalling					
Signalling Full	251	240	(11)	0	344
Signalling Partial	101	87	(14)	0	107
Signalling Refurb	122	167	45	0	113
Level crossings	92	82	(10)	0	107
Minor works	78	240	162	0	192
Other	3	10	7	0	1
	647	**826**	**179**	**(22)**	**864**
Civils					
Underbridges	156	198	42	-	195
Overbridges	59	26	(33)	-	70
Major structures	31	34	3	-	19
Tunnels	17	12	(5)	-	21
Minor works	81	63	(18)	-	86
Other	32	21	(11)	-	42
	376	**354**	**(22)**	**20**	**433**
Earthworks					
Earthworks - Embankments	97	62	(35)	-	87
Earthworks - Soil Cuttings	88	37	(51)	-	76
Earthworks - Rock Cuttings	15	11	(4)	-	33
Earthworks - Other	14	7	(7)	-	11
	214	**117**	**(97)**	**(7)**	**207**
Buildings					
Managed stations	54	13	(41)	-	55
Franchised stations	140	73	(67)	-	162
Light maint depots	13	9	(4)	-	21
Depot plant	11	4	(7)	-	7
Lineside buildings	13	8	(5)	-	19
MDU buildings	39	19	(20)	-	50
Other	2	5	3	-	1
	272	**131**	**(141)**	**(17)**	**315**
Electrical power and fixed plant					
AC distribution	18	21	3	-	18
Overhead Line	73	55	(18)	-	109
DC distribution	37	33	(4)	-	73
Conductor rail	22	15	(7)	-	24
Signalling Power Supplies	111	49	(62)	-	54
Other	15	18	3	-	9
Fixed plant	26	16	(10)	-	42
	302	**207**	**(95)**	**8**	**329**
Drainage					
Drainage (Track)	61	34	(27)	-	71
Drainage (Earthworks)	9	19	10	-	17
Drainage (Resilience)	4	4	-	-	4
	74	**57**	**(17)**	**(10)**	**92**
Property					
Property	68	102	34	-	80
	68	**102**	**34**	**-**	**80**
Total Regionally-managed renewals expenditure	**2,885**	**2,591**	**(294)**	**(42)**	**3,301**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	18
	-	**-**	**-**	**-**	**18**
Telecoms					
Operational communications	27	29	2	-	17
Network	37	11	(26)	-	18
SISS	49	16	(33)	-	42
Projects and other	3	3	-	-	4
Non-route capital expenditure	41	46	5	-	57
	157	**105**	**(52)**	**(18)**	**138**
Wheeled plant and machinery					
High output	12	21	9	-	11
Incident response	1	-	(1)	-	-
Infrastructure monitoring	3	17	14	-	3
Intervention	6	15	9	-	4
Materials delivery	13	22	9	-	11
On track plant	10	11	1	-	3
Seasonal	6	14	8	-	5
Other	24	56	32	-	23
	75	**156**	**81**	**-**	**60**
Route Services					
Business Improvement	40	1	(39)	-	41
IT Renewals	17	73	56	-	20
Asset Information	7	-	(7)	-	7
Other	3	16	13	-	7
	67	**90**	**23**	**-**	**75**
STE Renewals					
Intelligent infrastructure	53	34	(19)	-	63
Faster Isolations	45	38	(7)	-	51
Centrally Managed Signalling Costs	6	11	5	-	5
Research and development	61	80	19	-	44
Integrated Management System (Incl. BCR)	-	20	20	-	-
Other National SCADA Programmes	20	6	(14)	-	4
Small plant	12	8	(4)	-	9
Other	85	20	(65)	-	97
	282	**217**	**(65)**	**-**	**273**
Property					
Property	27	2	(25)	-	3
	27	**2**	**(25)**	**-**	**3**
Other renewals					
ETCS	(1)	3	4	-	10
Digital Railway	9	21	12	-	21
Civils & Drainage - Insurance Fund	17	26	9	13	5
Buildings - Insurance Fund	2	15	13	-	4
OPEX/CAPEX Adjustment	(101)	(72)	29	-	(201)
Phasing overlay	-	391	391	-	-
System Operator	20	26	6	-	27
Other renewals	25	4	(21)	(2)	32
	(29)	**414**	**443**	**11**	**(102)**
Total centrally-managed renewals expenditure	**579**	**984**	**405**	**(7)**	**465**
TOTAL RENEWALS EXPENDITURE	**3,464**	**3,575**	**111**	**(49)**	**3,766**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	1,191	1,024	(167)	-
PL Replace Partial	828	641	(187)	-
PL High Output	567	615	48	-
PL Refurbishment	273	307	34	-
PL Track Slab Track	18	7	(11)	-
Switches & Crossing - Replace	853	881	28	-
Switches & Crossing - Other	271	168	(103)	-
Off Track	412	302	(110)	-
Track Other	186	(13)	(199)	-
	4,599	**3,932**	**(667)**	**(226)**
Signalling				
Signalling Full	1,390	1,500	110	-
Signalling Partial	346	285	(61)	-
Signalling Refurb	491	774	283	-
Level crossings	362	447	85	-
Minor works	761	921	160	-
Other	7	32	25	-
	3,357	**3,959**	**602**	**(194)**
Civils				
Underbridges	812	1,039	227	-
Overbridges	223	196	(27)	-
Major structures	101	93	(8)	-
Tunnels	100	117	17	-
Minor works	358	254	(104)	-
Other	186	171	(15)	-
	1,780	**1,870**	**90**	**(45)**
Earthworks				
Earthworks - Embankments	522	320	(202)	-
Earthworks - Soil Cuttings	396	267	(129)	-
Earthworks - Rock Cuttings	154	80	(74)	-
Earthworks - Other	53	34	(19)	-
	1,125	**701**	**(424)**	**(123)**
Buildings				
Managed stations	224	230	6	-
Franchised stations	737	557	(180)	-
Light maint depots	81	58	(23)	-
Depot plant	36	32	(4)	-
Lineside buildings	89	37	(52)	-
MDU buildings	175	116	(59)	-
Other	7	5	(2)	-
	1,349	**1,035**	**(314)**	**(94)**
Electrical power and fixed plant				
AC distribution	66	107	41	-
Overhead Line	473	320	(153)	-
DC distribution	229	186	(43)	-
Conductor rail	104	68	(36)	-
Signalling Power Supplies	269	287	18	-
Other	71	127	56	-
Fixed plant	144	97	(47)	-
	1,356	**1,192**	**(164)**	**(66)**
Drainage				
Drainage (Track)	287	228	(59)	-
Drainage (Earthworks)	58	74	16	-
Drainage (Resilience)	23	28	5	-
	368	**330**	**(38)**	**(54)**
Property				
Property	237	225	(12)	-
	237	**225**	**(12)**	**-**
Total Regionally-managed renewals expenditure	**14,171**	**13,244**	**(927)**	**(802)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	33	-	(33)	-
	33	**-**	**(33)**	**(18)**
Telecoms				
Operational communications	68	107	39	-
Network	79	57	(22)	-
SISS	123	159	36	-
Projects and other	18	14	(4)	-
Non-route capital expenditure	302	298	(4)	-
	590	**635**	**45**	**(44)**
Wheeled plant and machinery				
High output	80	97	17	-
Incident response	2	-	(2)	-
Infrastructure monitoring	16	71	55	-
Intervention	43	102	59	-
Materials delivery	41	133	92	-
On track plant	17	50	33	-
Seasonal	21	59	38	-
Other	108	122	14	-
	328	**634**	**306**	**-**
Route Services				
Business Improvement	281	122	(159)	-
IT Renewals	132	304	172	-
Asset Information	31	27	(4)	-
Other	30	39	9	-
	474	**492**	**18**	**-**
STE Renewals				
Intelligent infrastructure	276	200	(76)	-
Faster Isolations	241	268	27	-
Centrally Managed Signalling Costs	25	48	23	-
Research and development	213	241	28	-
Integrated Management System (Incl. BCR)	-	66	66	-
Other National SCADA Programmes	82	67	(15)	-
Small plant	39	39	-	-
Other	347	70	(277)	-
	1,223	**999**	**(224)**	**-**
Property				
Property	62	134	72	-
	62	**134**	**72**	**-**
Other renewals				
ETCS	71	91	20	(2)
Digital Railway	49	9	(40)	-
Civils & Drainage - Insurance Fund	36	127	91	96
Buildings - Insurance Fund	6	73	67	-
OPEX/CAPEX Adjustment	(623)	(336)	287	-
Phasing overlay	-	-	-	-
System Operator	85	94	9	-
Other renewals	55	22	(33)	34
	(321)	**80**	**401**	**128**
Total centrally-managed renewals expenditure	**2,389**	**2,974**	**585**	**66**
TOTAL RENEWALS EXPENDITURE	**16,560**	**16,218**	**(342)**	**(736)**

Statement 3.6: Analysis of renewals expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is broadly in line with the regulatory baseline this year. Across the control period investment has been higher as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year adding to the additional investment across the control period as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(2) Track – investment is higher than the regulatory baseline this year, continuing the pattern of the earlier years of the control period. The additional spend this control period has been funded from the risk funds included in the regulatory baselines. As part of ORR's Periodic Review 2018 (PR18), some of Network Rail's renewals funding was ring-fenced as a risk fund, which could be used to invest more in renewals if other risks did not materialise. Across the portfolio, higher materials expenses have increased costs. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost in the current year due to industrial action and the Queen's funeral whilst access from operators across the control period has also impacted ability to deliver planned workbanks. High output has spent less this control period which is due to a significantly reduced workbank. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Financial underperformance in the current year also arose from reductions in planned volumes due to funding constraints meaning fixed costs were spread across fewer outputs, sunk costs were incurred on cancelled projects and prolongation costs on deferred projects. Reduced activity this year also led to loss of discounts previously secured on bulk material purchases allied to higher market prices for construction materials. The Track worker safety programme has also increased costs in this control period, although these have been treated neutral when assessing financial performance. The Track worker safety programme is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. Track other is higher due to underutilisation of teams delivering track portfolios which has been treated as financial underperformance.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(3) Signalling – expenditure is lower than the regulatory baseline this year and across the control period, mainly due to slower progress on large projects. The regulatory baseline included an ambitious increase in the level of Signalling to be delivered on the network which has not proved possible. Cash constraints at the end of CP5 limited development works that could be undertaken before the start of CP6. These delays have been exacerbated by Covid-19, industrial action, inflation and industry structural changes which all led to the workbank needing to be reprioritised and long-term decisions and plans reconsidered. Financial underperformance has been recognised across the control period. Higher input prices, contractor claims, Covid-19 prolongation costs and increased delivery costs for Feltham Resignalling have all contributed to the underperformance. In addition, higher tender prices necessitating design changes, the added complexity of certain schemes, such as ECTS in Eastern and the move to a low cost digital ready signalling system in Wales, have hindered progress and resulted in project prolongation costs. Delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project and higher component market prices have also furthered underperformance. Earlier in the control period Covid-19 impacted the signalling portfolio, with prolongation in programmes along with the associated claims leading to projects incurring extra costs. Investment has decreased from the peak levels of investment in 2022/23. Reductions in the year include reduced delivery at major programmes including Port Talbot, Cambridge interlocking and Balham & Clapham area resignalling as these projects move through their life cycle. These have been partly offset by a step up in activity on other schemes such as Farncombe to Petersfield, Basford Hall and Devon & Cornwall.

(4) Civils – overall expenditure was broadly in line with the regulatory baseline this year across the portfolio with savings on Underbridges offsetting additional investment elsewhere. For the control period, expenditure is lower than the regulatory expectation mainly due to lower Underbridges spend, which reflected a similar proportionate reduction in the volumes delivered this control period compared to the plan. The reduction in spend and activity has mainly been due to decisions made in the Regions on their asset management approach, prioritising investment elsewhere in the renewals portfolio, the such as Track and Earthworks. This has helped drive an increase in Minor works expenditure compares with decreases in the other categories, which have associated volumes as cheaper interventions are undertaken to enable appropriate safety and performance levels to be achieved. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates. This includes industrial action and the Queen's funeral along with Covid-19 impact earlier in the control period exacerbated by issues on access. These type of incidents and circumstances generally lead to project prolongation, abortive costs or fewer units to spread fixed costs over, all of which increase like-for-like project expenses. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Costs are lower than the previous year as expected in the regulatory baseline trajectory across the control period.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(5) Earthworks investment in the year and across control period was notably higher than the regulatory baseline. The Stonehaven derailment early in the control period led to increased focus on Network Rail's management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. The higher investment also included adverse weather impacts following storms, particularly in the Southern region, flooding during Christmas 2020 and February 2022 which have been reported in this category with reduced spend reported against the Centrally-managed Insurance categories. Continued environmental turbulence, more extreme weather and a better understanding of the assets has resulted in significantly more volumes being delivered so far this control period compared to the regulatory expectation. Financial underperformance has been experienced this control period for numerous reasons. This includes higher inflation levels impacting materials and contractor prices, reflecting some of the rising prices across the economy as a whole. Volumes have been lost which has helped increase unit rates for the projects that have been delivered. This includes industrial action and the Queen's funeral along with Covid-19 impact earlier in the control period. These type of incidents and circumstances generally lead to project prolongation or abortive costs. Higher project costs have also been experienced on emergency works, such as those required from inclement weather. Whilst there are funding available centrally in certain circumstances, not all schemes have been eligible to claim against this, leaving the extra costs in the Region financial underperformance, albeit offset by savings in the Centrally-managed category. Expenditure is broadly in line with the previous year.

(6) Buildings – investment was higher than the regulatory baseline this year and across the control period as regions have drawn down from the risk funds to deliver additional works with the overspend here being funded by the savings in risk fund expenditure as set out in Statement 1. Across the control period, additional investment has been seen in almost all categories. The extra spend at Franchised stations includes fitting tactile paving to make the passenger experience more inclusive and increasing platform lengths to accommodate longer trains,. Lineside buildings & maintenance depots were upgraded this control period including work at Holbeck and Leicester (both Eastern), Ebbw and Didcot (both Wales & Western), Stoke (North West & Central) and safety improvements at GTR depots (Southern). The position across the control period also included the impact of Covid, when regions used available resources and increased access opportunities to stations to increase investment. Financial underperformance was experienced this control period due to a number of factors including: scope creep due to inspection reports underrepresenting the work required and extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, increased project complexity, discovery of asbestos which led to higher design and delivery costs, the impact of Covid-19 disruption and necessary changes to working practices, inaccurate asset designs and cancellation of jobs in light of funding constraints.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year, continuing the trend across the control period. Extra spend in the control period was most noticeable on overhead line works. Major projects delivered in CP6 include: a major refurbishment campaign in Anglia, work around Kings Cross to support the new signalling programme and track layout reconfiguration and investment in North West & Central's improvement performance plan (Project Alpha). Financial underperformance has been recognised this control period due to higher net like-for-like costs across the portfolio. This includes delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia along with volume reductions arising from constrained funding losing anticipated economies of scale on the programme and reduced access requirements during a Christmas period in Stratford. In addition, late changes in scope, higher than anticipated supply chain prices and retendering of jobs due to unacceptable performance from contractors all resulted in higher costs. Covid-19 disruption, sickness and social distancing measures also increased average unit rates. Expenditure is lower than the previous year, as a higher proportion of the workbank had been delivered earlier in the control period.

(8) Drainage – expenditure is higher than the regulatory baseline this year and across the control period. The extra costs are mainly due to the financial underperformance recognised in the control period with many of the issues in the Southern region. A high level of emergency works in response to Stonehaven tragedy, inclement weather or deteriorated asset condition were required, with these reactive projects incurring a higher level of average cost. Few of these incidents qualified as insurable events and so the adverse financial performance recognised in the regions is partly offset by the outperformance recognised in centrally-managed costs. Financial underperformance was experienced due to site investigations works carried out, as well as increased complexity of the sites worked on, difficulty obtaining access to worksites and contractor performance. Underperformance arose earlier in the control period due to Covid-19 associates costs. Expenditure is lower than the previous year, as a higher proportion of the workbank had been delivered earlier in the control period.

(9) Property – whilst expenditure in the current year is lower than the regulatory assumption this year it has broadly been in line with expectation across the control period. Significant projects this year included digital advertising displays, works at Euston station and setting up local occupational health centres to support staff health and wellbeing.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the regions. Investment is higher than the previous year with the largest contributor being the variability in the opex/ capex adjustment category in the table, reflecting the nature of the overall renewals portfolio delivered this year.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

(3) Telecoms – investment is higher than the regulatory baseline in the year but remains lower across the control period. Although activity has ramped up in recent years the regulatory baselines assumed a greater delivery in early years of the control period. Slippage on operational communications and SISS are the primary reasons for the lower spend this control period. As noted in previous years Regulatory financial statements, SISS-CCTV rephasing is one of the main reasons for the different profile of spend as activity has been delivered later, which accounts for most of the step up in spend compared to the previous year. The overall lower investment in the control period is also due to Regional decisions to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Financial underperformance has been reported this year. This is mainly driven by stock purchased for programmes that have subsequently been cancelled and the suitability of this stock for future projects is questionable. Financial underperformance for the control period also includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

a. High output – investment was lower than the regulatory baseline this year and across the control period as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. In particular, concerns over the suitability of High output plant as a delivery solution have resulted in a more cautious approach to investment.

b. Infrastructure monitoring – costs are lower than the regulatory baseline this year and across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year compared to the regulatory baseline, expenditure across the control period was lower. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year is lower than the regulatory baseline, continuing the trend across the control period. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – the regulatory baselines included an overlay reduction to reflect an expectation of the phasing of the overall Wheeled plant & machinery portfolio. Consequently, there has been lower expenditure in this category than the regulatory baseline this year, but across the control period expenditure has been broadly in line with the regulatory expectation.

(5) Route Services – expenditure this year is lower than the regulatory baseline but is broadly in line with the regulatory expectation across the control period. Spend was slightly lower than the previous year, including reduced IT spend as projects had been completed earlier in the control period.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year as more of the programme outputs having been delivered by the end of 2022/23. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline this year but lower across the control period. Delays in identifying suitable programmes has resulted in slippage across the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Spend is consistent with the previous year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline once more this year but broadly in line with last year's outturn. The savings across the control period reflects a higher proportion of activity being undertaken in the regions compared to the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. Investment is higher than the prior year reflecting progress across a range of different projects. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – investment is higher than the regulatory baseline this year which also accounts for the greater spend across the control period. The programme has required higher investment across the control period due to delays in delivering the CP5 outputs. Expenditure is higher than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 is lower as a number of projects were classified as opex.

g. Small Plant – investment is higher than the regulatory baseline this year but broadly consistent with the regulatory baseline across the control period as Network Rail undertook a different profile of activity compared with the original CP6 phasing assumptions. Due to the lack of defined outputs expenditure variances on this fund are outside the scope of financial performance.

h. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Cost is broadly in line with the prior year.

(7) Property – expenditure is higher than the regulatory baseline this year which offsets some of the savings from earlier in the control period. Notable schemes this year include investment adjacent to Cardiff and Leeds stations as well as in East London as part of wider regeneration programmes for the areas. Despite the additional investment this year, across the control period expenditure has been lower than the regulatory baseline. This control period, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. Investment is higher than the previous year, due to the aforementioned acquisitions undertaken this year.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

(8) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration. Costs are lower than the previous year as the programme reorganises ahead of CP7 delivery.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period

d. has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this year, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required.

Statement 3.6: Analysis of renewals expenditure, England & Wales – continued

In £m cash prices unless stated

f. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

g. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

h. System Operator – expenditure this year and across the control period is slightly lower than the regulatory baseline as funding has been reprioritised throughout the organisation and fewer opportunities with compelling business cases in this category have been identified. Costs are lower than the previous year due to differences in the phasing delivery assumed in the regulatory baseline compared to the actual profile of activity. As agreed with the regulator, no financial outperformance has been recognised from this cost saving, as the full outputs associated with the regulatory baselines have not been fully delivered.

i. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. This category also includes various workforce safety schemes, including installation of new walkways and crossings. Investment in these areas are also the main driver behind the higher spend across the control period as they were not included in the original CP6 baselines.

England & Wales
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	7	6	(9)	172	174	(1)
Great Western Electrification	-	1	-	252	252	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	-	(1)	-	74	74	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	192	196	-	871	879	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	14	-
Trans Pennine Route Upgrade	699	697	1	2,189	2,185	20
Hope Valley Capacity	60	50	(10)	135	134	(11)
Cambridge South Station Dvpt 2	71	72	-	101	102	-
Critical Stations Improvement Fund	27	17	4	57	60	5
Gatwick Station	33	33	21	199	201	-
East West Rail Phase 2	119	112	(1)	860	867	(1)
Oxford Corridor Capacity Phase 2	53	53	(10)	105	104	(10)
GWEP Distribution Network Operators clearance work	-	-	-	(6)	(7)	-
East Coast Main Line Enhancements Programme	69	55	23	628	633	(6)
Manchester Improvements	22	30	7	77	100	7
Reading Independent Feeder (Power Supply)	11	11	1	59	58	(2)
Bristol East Junction	-	-	1	92	93	27
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	29	31	(4)	163	163	(14)
St Albans Station Capacity	-	-	-	7	6	-
London Euston (in support of High Speed Rail Group scheme)	18	7	-	67	57	-
SFN-Freight Forecasts project	1	-	-	24	23	2
Access for All	128	85	-	275	280	-
Thameslink Resilience Programme	3	(3)	(3)	24	21	-
Midlands Hub - Continued Design and Early Development	8	8	-	19	20	-
Western Rail Access to Heathrow	-	-	-	15	16	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	-	(2)	(2)	194	195	(148)
Integrated Crewe Hub - HS2	-	1	-	6	7	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Dr Days to Filton Abbey Wood Capacity	-	(1)	-	9	9	-
Portfolio Contingency (including T-12)	-	-	-	10	13	37
Depots & Stabling Fund	-	1	-	31	36	-
Northern Hub	-	2	(1)	48	51	(1)
Thames Valley EMU Capability	-	-	-	10	11	-
West Coast PSU	1	5	-	9	11	-
IEP Western Capability	-	(3)	-	17	17	-
West of England Plat Length	-	-	-	4	4	-
Feltham	-	-	-	9	10	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	3	6	(4)	13	19	(15)
Access to Assets	-	1	-	11	14	-
Restoring Your Railway	51	82	3	153	187	2
University Station	-	-	-	12	12	-
Energy Coast Rail Upgrade Project	-	-	-	6	6	-
GWML W10-W12 Gauge Enhancement	-	-	-	11	11	-
NWEP Phase 7 Lostock - Wigan	30	38	(3)	48	57	(3)
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	-	1	6	5	1
Anglia Traction PSU	-	1	(1)	9	5	(1)
EC Digital	284	283	-	591	590	-
Ely Area Capacity Enh	-	-	1	10	12	1
Ashford to Ramsgate	-	-	-	3	3	-
Clapham Junction Short-term	9	9	-	16	17	-
Darlington Station Improvements	17	15	-	25	29	-
Denmark Hill Congestion Relief	-	-	-	3	7	-
Tactile Paving Installation	35	34	-	60	57	-
New Stations Fund	-	1	-	3	15	-
River Irwell Fl Resil	-	-	-	3	5	-
W Mid New Stations	18	12	-	57	59	-
LNWS623 Bushey PSU	9	10	(5)	19	20	(5)
IRP Portfolio	25	20	-	50	52	-
Other	69	111	5	267	159	4
Total	**2,101**	**2,086**	**15**	**8,261**	**8,280**	**(169)**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	-	-	-
Aberdeen to Inverness	-	-	-	-	-	-
Kintore Station	-	-	-	-	-	-
Rolling Programme of Electrification	-	-	-	-	-	-
East Kilbride Barrhead	-	-	-	-	-	-
New Down Platform Dunbar	-	-	-	-	-	-
Highland ML JTI Ph 2	-	-	-	-	-	-
Dunblane to Perth	-	-	-	-	-	-
Cadder HST Depot	-	-	-	-	-	-
Hairmyres Land Purchase	-	-	-	-	-	-
Feeder St/Power Mod Ele	-	-	-	-	-	-
Edinburgh Waverley Western Approaches	-	-	-	-	-	-
Reston Station	-	-	-	-	-	-
North Hanover Street Development	-	-	-	-	-	-
West of Fife Enhancements	-	-	-	-	-	-
A9 Interface- Lynebeg Bridge	-	-	-	-	-	-
Far North Line Route Enhanceme	-	-	-	-	-	-
East Linton Station	-	-	-	-	-	-
Busby Jn to Barrhead Ele	-	-	-	-	-	-
Dalcross New Station	-	-	-	-	-	-
Levenmouth	-	-	-	-	-	-
GLAB Currie Feeder St	-	-	-	-	-	-
Cadder Buildings	-	-	-	-	-	-
Fife Decarbonisation	-	-	-	-	-	-
Millerhill Interventions	-	-	-	-	-	-
Barrhead Kilmarnock Ele	-	-	-	-	-	-
Aberdeen Cent Belt Elec	-	-	-	-	-	-
Portobello Junction	-	-	-	-	-	-
Aberdeen Cen Journey	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
	-	-	-	-	-	-
Other Capital Expenditure	12	-	-	389	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	154	-	-	998	-	-
Other third Party	262	-	-	1,075	-	-
Total	416	-	-	2,073	-	-
Total enhancements	**2,529**	**2,086**	**15**	**10,723**	**8,280**	**(169)**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**2,113**	**2,086**	**15**	**8,650**	**8,280**	**(169)**

Statement 3.7: Analysis of enhancement expenditure, England & Wales

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies other than the England & Wales' core funder (DfT).

(3) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). This organisation plays an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with England and Wales's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core England & Wales funder (DfT) was £2,111m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,528m) less the PAYGO schemes funded by other third parties (£417m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised across the control period, mainly due to completion of legacy CP5 schemes, such as Crossrail and Great Western Electrification Programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of the funder (DfT).

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes expenditure this year and across the control period is broadly consistent with the regulatory baseline. Some notable variances at programme level include:

a. Thameslink – the programme has delivered new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Financial underperformance has been recognised this year which has negated financial outperformance reported in early years of the control period. Whilst expenditure is broadly consistent with the regulatory baseline this control period the programme of works is now expected to complete in control period 7, incurring greater costs, particularly with difficulties around designing and introducing new Automatic Route Setting (ARS) technology.

b. Great Western Electrification – this was a major and complex project that extended the electrification of the Great Western Main Line (GWML) from Maidenhead. Financial underperformance has been recognised this control period adding to the extra costs recognised in the previous control period. The financial underperformance this control period resulted from programme delays, various costs pressures to close out the programme and substantiation of disputed costs.

c. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Expenditure across the control period is broadly in line with the funding provided by DfT.

d. Transpennine Route Upgrade – this is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure across the control period is broadly in line with the funding provided by DfT. Financial out performance has been reported this control period on Leeds Intermediate Interventions aspect of the programme due to efficient contractor delivery of works and risk management.

e. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. The main improvements include a new track, platform and accessible footbridge with lifts at Dore & Totley station, a passing loop between Bamford and Hathersage, a new footbridge at Hathersage West, an extended ‘south curve’ at Dore to increase freight standage, as well as signalling improvements along the line to improve reliability and optimise headways. In year, works have progressed faster than anticipated which has bought the investment across the control period in line with the funding available. Financial underperformance has been recognised as overall project costs have increased due to: prolongation installation of Dore South and Bamford Loop activities, additional embankment stability works due to unforeseen ground conditions, inflationary pressures, redesign of station to meet fire safety standards and discovery of unchartered aviation fuel pipe requiring project re-works to avoid.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

f. Critical improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. Work includes station improvements at Surbiton, Peckham Rye, London Liverpool Street and Victoria. Phasing of portfolio delivery means the extra spend this year has bought investment across the control period broadly into line with the funding available. Financial outperformance has been recognised this control period as woks at London Victoria have been delivered more effectively.

g. Gatwick Airport Station – the project has provided a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Expenditure across the control period is broadly in line with the funding provided by DfT. Adverse financial performance recognised in last year's Regulatory Financial Statements has been mitigated this year following agreements with DfT to deliver extra scope to improve physical security at the station.

h. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company. Expenditure across the control period is broadly in line with the funding provided by DfT.

i. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Whilst overall expenditure so far has been in line with the regulatory baseline there is financial underperformance arising from additional costs associated with Botley Road Complexities of inverted arch and associated utility diversion works.

j. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress has been greater than anticipated this year which brings the investment across the control period broadly into line with the funding available. Financial underperformance has been recognised across the control period. This has arisen from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

k. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Expenditure for the control period is lower than the regulatory baseline due to cost savings and cancellation of certain projects, such as Rochdale electrification, on affordability grounds and delays to platform length extension programmes to accommodate longer trains. Financial outperformance has been recognised through efficiencies made through competitive procurement and collaboration with design services framework contractors.

l. Bristol East Junction – this project has delivered upgrade works to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised this control period as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the baseline for the control period.

m. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance reported this control period is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation works.

n. London Euston (in support of High Speed Rail Group scheme) – this project helps support the High Speed 2 programme being undertaken by DfT. Spend is higher in the current year than the baseline as progress on the programme has been quicker than expected.

o. SFN-Freight – this programme aims to deliver improvements on a variety of schemes across the network to improve gauging, train lengthening and other capacity & capability advances. Activity across the control period has been broadly in line with the funding DfT have made available.

p. Access for All – the Access for All (AfA) programme aims to provide an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline which has brought the control period investment in line with the funding available.

q. Crossrail – this project has delivered a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the South East. The programme has recognised adverse financial performance this control period as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

r. Portfolio contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance is more than offset by financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

s. West Coast PSU – progress has been slower than DfT anticipated this year, which has resulted in a minor underspend across the control period.

t. IEP Western Capability – this year, the baseline has been reduced, reflecting changes in the outputs and funding made available by DfT. Expenditure across the control period is in line with the funding DfT have provided.

u. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Across the control period financial underperformance has been reported resulting from remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

v. Restoring your Railway – this programme aims to reinstate lines and stations that had previously been closed. Notable programmes this control period include the Northumberland and Dartmoor lines. Expenditure this year and so across the control period has been lower than the funding available as fewer suitable projects with robust cases have been identified and progressed.

w. NWEP Phase 7 Lostock to Wigan – this programme aims to electrify the line between Bolton and Wigan so that CO2 emitting diesel trains are replaced by electric rolling stock. Platforms will also be lengthened to accommodate longer electric trains to boost capacity. Expenditure this year and so across the control period has been lower than the funding available due to project delays primarily due to the principal contractor entering administration and a new tender process being required. These delays have contributed to the financial underperformance on the project.

x. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. Expenditure across the control period is in line with the funding DfT have provided.

y. New Stations fund – expenditure on this portfolio is lower than the funding available across the control period as fewer projects than expected have been identified and progressed.

Statement 3.7: Analysis of enhancement expenditure, England & Wales – continued

In £m cash prices unless stated

z. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is higher than the baseline which has brought the position across the control period broadly into line with the funding available.

aa. Bushey PSU – this programme aims to improve power supply on the West Coast Main Line between Borne end and London Euston. Whilst spend is broadly in line with the regulatory baselines, financial underperformance has been recognised due to by emerging scope following early designs and industrial action prolongation as well as inflationary pressures.

bb. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this ear, this category is mostly expenditure on certain Crossrail schemes which are reported here to match funding agreements. The position across the control period also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate HS2 which is paid for by High Speed 2 Limited, an arm’s length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year include: construction of a new station at Beaulieu near Chelmsford, development of a freight network interchange site at Northampton to increase capacity, Headbolt Lane rail interchange in Liverpool and Ebbw Vale integration to increase the number of services, including new lines, infrastructure and platforms.

England & Wales
Statement 3.8: Analysis of renewals unit costs
Cash prices

		Unit	FY24 AFC	FY24 AFV	FY24 Unit Costs	FY23 AFC	FY23 AFV	FY23 Unit Costs
Track	PL Replace Full	km	239	136	1,757	319	198	1,611
	PL Replace Partial	km	248	478	519	260	520	500
	PL High Output	km	96	54	1,778	136	82	1,659
	PL Refurbishment	km	84	461	182	80	473	169
	PL Track Slab Track	km	4	-	-	4	-	-
	Switches & Crossing - Replace	point ends	115	235	489	145	263	551
	Switches & Crossing - Other	point ends	80	485	165	63	693	91
	Off Track	km/No.	112	835	134	124	1,107	112
	Track Other		-	-	-	-	-	-
	Total		**978**			**1,131**		
Signalling	Signalling Full	SEU	370	700	529	392	700	560
	Signalling Partial	SEU	70	178	393	73	178	410
	Signalling Refurb	SEU	148	551	269	158	335	472
	Level crossings	No.	121	235	515	144	342	421
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**709**			**767**		
Civils	Underbridges	m2	209	58,329	4	285	74,294	4
	Overbridges (incl BG3)	m2	87	13,720	6	70	21,556	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	23	44,272	1	28	143,680	0
	Culverts	m2	9	3,566	3	12	3,675	3
	Footbridges	m2	7	1,472	5	11	1,893	6
	Coastal & Estuarial Defences	m2	9	1,578	6	9	3,083	3
	Retaining Walls	m2	9	2,314	4	18	5,902	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**353**			**433**		
Earthworks	Earthworks - Embankments	No.	131	2,298	57	140	2,553	55
	Earthworks - Soil Cuttings	No.	129	2,075	62	124	2,428	51
	Earthworks - Rock Cuttings	No.	41	551	74	59	618	95
	Earthworks - Other	No.	-	4	-	4	221	18
	Drainage - Earthworks	m	19	81,557	0	20	83,021	0
	Drainage - Other	m	132	165,806	1	142	187,445	1
	TOTAL		**452**			**489**		
Buildings	Buildings (MS)	m2	10	29,201	0	3	39,857	0
	Platforms (MS)	m2	-	-	-	1	1,104	1
	Canopies (MS)	m2	33	12,712	3	-	-	-
	Train sheds (MS)	m2	25	6,102	4	-	2,655	-
	Footbridges (MS)	m2	-	-	-	1	240	4
	Other (MS)	m2	36	74,830	0	6	50,934	0
	Buildings (FS)	m2	12	12,479	1	27	57,208	0
	Platforms (FS)	m2	18	14,768	1	23	24,585	1
	Canopies (FS)	m2	26	16,307	2	23	27,354	1
	Train sheds (FS)	m2	1	650	2	9	12,668	1
	Footbridges (FS)	m2	21	2,830	7	23	5,549	4
	Lifts & Escalators (FS)	m2	1	2	500	1	45	22
	Other (FS)	m2	27	205,320	0	43	306,733	0
	Light Maintenance Depots	m2	6	42,402	0	11	63,185	0
	Depot Plant	m2	10	18	556	4	14	286
	Lineside Buildings	m2	13	14,476	1	33	55,621	1
	MDU Buildings	m2	55	71,039	1	46	66,398	1
	NDS Depot	m2	-	-	-	1	22,935	0
	Other	m2	-	-	-	-	-	-
	Total		**294**			**255**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	37	62	597	19	70	271
	mid-life refurbishment	Wire runs	78	73	1,068	89	79	1,127
	structure renewals	No.	40	347	115	36	639	56
	other OLE		2	62	32	2	139	14
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	32	101	317	34	100	340
	HV Switchgear Renewal AC	No.	11	34	324	-	4	-
	HV Cables AC	No.	-	2	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	37	595	39	59	661
	HV cables DC	km	67	84	798	53	56	946
	LV cables DC	km	9	12	750	14	39	359
	Transformer Rectifiers DC	No.	10	6	1,667	6	4	1,500
	LV switchgear renewal DC	No.	21	92	228	9	35	257
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	15	448	33	3	115	26
	SCADA	RTU	4	58	69	5	62	81
	UPS (#)	No.	9	45	200	10	97	103
	Generator (#)	No.	1	2	500	-	-	-
	Auxillary Transformer (#)	No.	-	1	-	-	-	-
	Points Heaters	point end	5	71	70	12	156	77
	Signalling Power Cables	km	132	621	213	54	291	186
	Signalling Supply Points	point end	18	35	514	-	-	-
	NSCD / Track Feeder Switch (#)		12	751	16	12	563	21
	Total		**525**			**397**		

Telecoms	Customer Information Systems	No.	37	1,878	20	27	1,391	19
	Public Address	No.	16	4,393	4	6	3,459	2
	CCTV	No.	66	9,747	7	32	5,289	6
	Other Surveillance	No.	3	232	13	-	13	-
	PABX Concentrator	No.	6	2,175	3	7	7,766	1
	Processor Controlled Concentrator	No.	2	561	4	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	10	-	-	-	-
	HMI Large	No.	4	65	62	-	29	-
	Radio		1	14	71	-	-	-
	Power		15	710	21	6	334	18
	Other comms		-	-	-	-	-	-
	Network		11	235	47	6	56	107
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**161**			**84**		

Statement 3.8: Analysis of renewals unit costs, England & Wales

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – The unit rate of Switches and Crossings Other increased due to a more complex work bank compared to 2022/23. Furthermore, Switches and Crossing Other has faced additional costs caused Phase 2 of the Port Talbot West Resignalling project which has incurred additional costs. This was caused by the failure of the main contractor to meet the original programme schedule thus, the project has incurred prolongation costs as the project has been extended to 2025. This also provoked additional costs in other projects, such as the Llanelli refurb works. There has been an increase in the Off track unit rate, however Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore, each year there will be a different mix in the renewal work being done making it difficult to gain insight from such comparisons. Switches and Crossing Replace showed a decrease in unit rate which has been influenced by the different work bank mix completed in Eastern throughout 2023/24 compared to 2022/23. The decrease this year is expected as the mix trends towards a more normal composition.

Statement 3.8: Analysis of renewals unit costs, England & Wales - continued

In £m cash prices unless stated

(3) Signalling- Signalling unit rates across most key cost lines are broadly in line with the prior year value. Signalling Refurb unit rate decreased across the year due to the different work bank mix that was delivered in the year. This was driven by a significant change in unit cost across Wales and Western region, related to the Newport to Shrewsbury Life Extension project because of additional costs declared by the project deliverer following completion of works. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. The unit rate of Level Crossings increased primarily due to a change in the work bank mix and supply chain prices rising faster than inflation.

(4) Civils – Overbridges unit rate increased primarily due to expensive replace work in North West and Central and delays on the Wilbury Road and Eccleston Overbridge projects increasing costs in Southern. The unit cost of Tunnels increased with a key factor being that fiscal restraints led to activity reprioritisation, ultimately reducing volumes delivered on the 23/24 Year 5 Tunnels project. Coastal & Estuarial Defences unit rate has increased as a different work bank mix has been delivered in the year, this includes projects such as Coastal Planned Preventative Maintenance Phase 2. Location as well as complexity of the job can have a strong influence on unit rate when the sample size is so small, with only three Coastal & Estuarial Defences projects delivering volumes in 2023/24.

(5) Earthworks & Drainage – The unit rate of Rock Cuttings has decreased compared to the previous Regulatory Financial Statement because of a change to the work bank mix. There is a smaller proportion of Renew and Refurb compared to Maintain. Southern recorded a significantly lower unit cost as the work bank mix no longer includes the CP6 Sussex Earthworks & Drainage Minor Works and Wessex CP6 Monitoring Installation and Maintenance. Both projects had attracted project cost increases in 2022/23 caused by reactive volumes and additional monitoring visits which were not anticipated in the original project cost respectively. Soil Cuttings unit cost has increased which can be attributed to the Hointon Tunnel project in Southern region. The Hointon Tunnel project costs increased due to contractors increasing spend to lift speed restrictions on the project, delays in securing land access to complete enabling works and emergency works had to be carried out to clear materials from the track because of heavy rain. The unit rate for Earthworks Others has decreased which can be attributed to the small sample size of the key cost line which means unit rates can be influenced easier, with only the Dearham Bridge Cutting project delivering volumes in Year 5.

Statement 3.8: Analysis of renewals unit costs, England & Wales - continued

In £m cash prices unless stated

(6) Buildings – MS Building unit costs have increased significantly since projects have been subject to delays due to the end of the control period and the Birmingham New Street Concrete Repair Works project has experienced a drop in volumes as the asset has been found to be in better condition than originally thought, as well as additional access being required for the project. The unit rate of Other MS also increased however there were very few projects meaning the sample is too trivial to produce any meaningful analysis. Light Maintenance Depots unit rate also decreased as a result of an increase in volumes in North West & Central without additional costs. This is due to key schemes such as Allerton Light Maintenance Depot and Newton Heath roof renewal & refurbishment projects. The unit rate of Lifts and Escalators has increased significantly due to the increase in passenger numbers and usage of stations in Eastern following lockdown where stations were used less and fault numbers decreased. Platforms FS unit cost has increased, primarily due to the Milton Keynes Station Platform project. Worsening ground conditions had caused work on the project to be aborted thus, the abortive costs, plus inefficiency of designs which have been shelved, have increased the projects costs for 2023/24. FS Canopies and FS Buildings unit costs increased as both key cost lines incurred additional costs due to the CP6 Station Refurbishment Works Kent with no additional volumes. This is a result of additional gutter work at Maidstone West, descoping of Dover Priory incurring mobilisation costs and extra work at Faversham, producing further costs with no additional volumes. FS Footbridges unit cost has increased because of additional funds being required on Claygate Bridge to make safe and install a temporary footbridge during an emergency closure of the bridge. Lineside Buildings unit cost has increased which can be attributed to a significant drop in volumes in Eastern, as a result a volumes remeasurement on the Littleport project.

(7) Electrification & Plant – LV Cables DC unit rate has increased which can be attributed to inflationary pressures in the supply chain. Track feeder switch unit rate has decreased although there was only one project in 2022/23 so meaningful data analysis cannot be done with such a small sample size. Wiring unit rate has increased despite a higher proportion of cheaper refurb work being completed in North West and Central. Nevertheless, the increase can be attributed to factors such as inflationary pressures relating to materials and the cost of third party contractors. The unit cost of Structural Renewals increased significantly as the Acton Lane 11 Kilovolt Cable Crossing project was paused with design/further development and physical construction works deferred to CP8. This meant that there were no volumes for the project, causing the significant increase to unit cost. UPS unit cost has increased as the UPS South project experienced increased project costs however, investment in the activity that improved the asset did not result in recognition of any extra volumes under the Network Rail Cost & Volume Handbook definitions.

(8) Telecoms – There was a decrease in the unit cost of Network which can be attributed to last years complex Macclesfield Resignalling project which featured the reassigning of control from Macclesfield to Manchester Route Operating Centre. Public Address unit cost has risen which can be attributed to unexpected cost pressures and re-prioritisation of the work bank to meet CP6 budget availability.

England & Wales
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 Actual prices)	**75,638**
Indexation to 2023-24 prices	78,587
RAB additions	
Renewals expenditure	3,464
Enhancements expenditure	-
Less amortisation	(3,464)
Property Sales	(160)
Closing RAB	**78,427**

Net debt

	£m
Opening net debt	**52,382**
Income	(11,198)
Expenditure	8,951
Financing Costs - Government borrowing	765
Financing Costs - index linked debt	1,479
Financing Costs - Other	77
Corporation tax	-
Working capital	962
Closing net debt	**53,418**

Statement 4: Regulatory financial position, England & Wales

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of England & Wales Regions and how it has moved in the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £3.5bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the England & Wales Regions and how it has moved during the year.

(8) Network Rail's closing debt attributable to England & Wales is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, England & Wales – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Scotland's Railway
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	596	646	(50)	-	626
Franchised track access charges	520	477	43	3	449
Other Single Till Income	56	52	4	4	51
Total Income	**1,172**	**1,175**	**(3)**	**7**	**1,126**
Operating expenditure					
Network operations	75	54	(21)	(21)	66
Support costs	124	85	(39)	(38)	104
Traction electricity, industry costs and rates	99	101	2	1	94
Maintenance	214	169	(45)	(48)	198
Schedule 4	15	30	15	17	70
Schedule 8	19	-	(19)	(19)	26
	546	**439**	**(107)**	**(108)**	**558**
Capital expenditure					
Renewals	466	418	(48)	(21)	438
Enhancements	154	137	(17)	(1)	186
	620	**555**	**(65)**	**(22)**	**624**
Risk expenditure					
Risk (Centrally-held)	-	0	0	-	-
Risk (Route-controlled)	-	108	108	-	-
Risk (Contingent asset management funding)	-	-	-	-	-
	-	**108**	**108**	**-**	**-**
Other expenditure					
Financing costs	262	222	(40)	-	432
Corporation tax	-	9	9	-	(7)
	262	**231**	**(31)**	**-**	**425**
Total expenditure	**1,428**	**1,333**	**(95)**	**(130)**	**1,607**
Total Financial Out/(under) performance				**(123)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	2,945	3,052	(107)	-
Franchised track access charges	2,086	2,107	(21)	(31)
Other Single Till Income	216	235	(19)	(18)
Total Income	**5,247**	**5,394**	**(147)**	**(49)**
Operating expenditure				
Network operations	318	262	(56)	(53)
Support costs	507	417	(90)	(70)
Traction electricity, industry costs and rates	401	436	35	1
Maintenance	940	829	(111)	(124)
Schedule 4	156	89	(67)	(68)
Schedule 8	63	23	(40)	(41)
	2,385	**2,056**	**(329)**	**(355)**
Capital expenditure				
Renewals	2,182	2,257	75	(68)
Enhancements	858	847	(11)	(3)
	3,040	**3,104**	**64**	**(71)**
Risk expenditure				
Risk (Centrally-held)	-	-	-	-
Risk (Route-controlled)	-	306	306	-
Risk (Contingent asset management funding)	-	-	-	-
	-	**306**	**306**	**-**
Other expenditure				
Financing costs	1,340	1,117	(223)	-
Corporation tax	-	28	28	-
	1,340	**1,145**	**(195)**	**-**
Total expenditure	**6,765**	**6,611**	**(154)**	**(426)**
Total Financial Out/(under) performance				**(475)**

Statement 1: Summary of regulatory financial performance, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Scotland Railway's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Scotland's Railway's net expenditure (Total income less Total expenditure) was around £0.1bn higher than the regulatory baseline this year and £0.3bn higher across the control period. The largest contribution this control period arises from higher financing costs on inflation-linked debt instruments.

(2) This statement also shows that Network Rail Scotland has recognised financial underperformance of £0.1bn this year and £0.5bn across the control period. In CP6 there has been underperformance arising from: additional maintenance activity, higher train performance regime costs, Covid-19, inflationary pressures and industrial action in 2022/23.

(3) Income – Grant income in the year and across the control period was lower than the regulatory baseline mainly due to lower Internal financing grants, resulting in a lower allocation to Scotland's Railway. This was due to interest rates being lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. Grant income is lower than the previous year as timing of region activity resulted in reduced Network Grant recognised this year. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the year are higher than the regulatory expectation as higher-than-expected inflation has led to additional amounts payable by operators under track access contracts. Across the control period income is slightly lower as inflation benefits on access charges have been more than offset by lower variable income as fewer trains have ran this control period. This was especially pronounced in the earlier years due to the Covid-19 pandemic but also the knock-on impact that the pandemic has had on travel habits. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is ahead of expectation as reduced property income has been more than offset by higher depot income from additional services offered to operators. Across the control period though income is lower than the regulatory expectation due to the impact of Covid-19 on property income. Social distancing restrictions, government lockdowns and advice on working from home reduced rental income across the property estate, including retail units at managed stations. Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Scotland's Railway – continued

In £m cash prices unless stated

(6) Operating expenditure – Network operations costs were higher than the regulatory expectation this year with adverse variances in most categories, notably Performance as additional investment was made to improve services for the travelling public. Other higher costs include additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment, but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are set out in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year due to higher Regionally-managed costs and additional reorganisation expenses incurred this year to drive future efficiencies. Costs are higher across the control period, mainly due to greater Regionally-managed costs as discussed below. Expenses are higher than the previous year due to increased electricity and reorganisation costs. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are broadly in line with the regulator's assumption in the current year mainly due to higher Traction electricity costs offset by lower Business rates. Costs are lower across the control period due to a combination of the aforementioned lower Business rates along with Traction electricity costs not rising as quickly as expected. Costs are higher than the previous year reflecting higher market electricity prices. In line with the ORR's Regulatory Accounting guidelines (December 2019), variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year and across the control period mainly due to additional maintenance volumes being delivered on the network. Furthermore, additional costs were incurred during Covid-19 to keep the network running. Costs are higher than the previous year, which includes additional activity delivered on the network compared to 2022/23. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are lower than the regulatory baseline this year mostly reflecting financial outperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are discussed in more detail in Statement 3.5.

Statement 1: Summary of regulatory financial performance, Scotland's Railway – continued

In £m cash prices unless stated

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year as train performance did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Train performance targets have been missed across the control period. Even during Covid times, Scotland's Railway did not enjoy the benefits that the other regions did on their train performance and so schedule 8. Train performance this year improved compared to 2022/23 resulting in reduced net compensation paid to operators this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is higher than the regulatory baseline this year, which mitigates some of the reduced investment in earlier years of the control period. Across CP6, spend has been lower than the regulatory baseline as funding has been reprioritised. Investment was higher than the prior year as risk elsewhere has been managed allowing increased funding for renewals activity. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year and across the control period is in line with the regulatory baseline. Project outputs have generally been delivered in line with funding, meaning minimal financial underperformance reported this control period. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items

Statement 1: Summary of regulatory financial performance, Scotland's Railway – continued

(16) Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	350	321	29	-	317
Variable usage charge	26	30	(4)	(4)	21
Electrification asset usage charge	2	2	-	-	2
Capacity charge	-	-	-	-	-
Open access income	1	-	1	1	-
Managed stations long term charge	9	8	1	1	8
Franchised stations long term charge	25	23	2	2	23
Traction electricity charges	59	50	9	-	49
Schedule 4 access charge supplement	26	24	2	2	11
	498	**458**	**40**	**2**	**431**
Other single till income					
Freight income					
Freight variable usage charge	3	4	(1)	(1)	3
Freight other income	-	-	-	-	-
	3	**4**	**(1)**	**(1)**	**3**
Stations income					
Managed stations qualifying expenditure	9	10	(1)	(1)	8
Franchised stations lease income	3	2	1	1	2
	12	**12**	**-**	**-**	**10**
Facility and financing charges					
Facility charges	-	1	(1)	(1)	1
	-	**1**	**(1)**	**(1)**	**1**
Property income					
Property rental	16	20	(4)	(4)	15
Property sales	-	-	-	-	-
	16	**20**	**(4)**	**(4)**	**15**
Depots Income	**22**	**8**	**14**	**14**	**19**
Other income	**-**	**-**	**-**	**-**	**1**
Freight traction electricity charges	**1**	**1**	**-**	**-**	**-**
Total other single till income	**54**	**46**	**8**	**8**	**49**
Total Regionally-managed income	**552**	**504**	**48**	**10**	**480**
Centrally-managed income					
Network grant	441	479	(38)	-	496
Internal financing grant	74	99	(25)	-	69
External financing grant	72	50	22	-	58
BTP grant	9	9	-	-	9
Corporation tax grant	-	9	(9)	-	(6)
Infrastructure cost charges	15	13	2	-	15
Schedule 4 access charge supplement	7	6	1	1	3
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	618	**665**	**(47)**	**1**	**644**
Other single till income					
Property income					
Property rental	1	3	(2)	(2)	2
Property sales	1	3	(2)	(2)	-
	2	**6**	**(4)**	**(4)**	**2**
Total other single till income	**2**	**6**	**(4)**	**(4)**	**2**
Total centrally-managed income	**620**	**671**	**(51)**	**(3)**	**646**
Total income	**1,172**	**1,175**	**(3)**	**7**	**1,126**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,459	1,434	25	-
Variable usage charge	107	141	(34)	(34)
Electrification asset usage charge	10	11	(1)	(1)
Capacity charge	-	-	-	-
Open access income	2	1	1	1
Managed stations long term charge	38	39	(1)	(2)
Franchised stations long term charge	111	109	2	2
Traction electricity charges	140	143	(3)	-
Schedule 4 access charge supplement	72	70	2	2
	1,939	**1,948**	**(9)**	**(32)**
Other single till income				
Freight income				
Freight variable usage charge	14	15	(1)	(1)
Freight other income	-	-	-	-
	14	**15**	**(1)**	**(1)**
Stations income				
Managed stations qualifying expenditure	38	47	(9)	(9)
Franchised stations lease income	11	9	2	1
	49	**56**	**(7)**	**(8)**
Facility and financing charges				
Facility charges	4	5	(1)	-
	4	**5**	**(1)**	**-**
Property income				
Property rental	45	74	(29)	(29)
Property sales	1	1	-	(1)
	46	**75**	**(29)**	**(30)**
Depots Income	**72**	**39**	**33**	**33**
Other income	**4**	**1**	**3**	**4**
Freight traction electricity charges	**2**	**3**	**(1)**	**-**
Total other single till income	**191**	**194**	**(3)**	**(2)**
Total Regionally-managed income	**2,130**	**2,142**	**(12)**	**(34)**
Centrally-managed income				
Network grant	2,246	2,245	1	-
Internal financing grant	336	436	(100)	-
External financing grant	320	301	19	-
BTP grant	43	43	-	-
Corporation tax grant	-	27	(27)	-
Infrastructure cost charges	65	62	3	-
Schedule 4 access charge supplement	18	17	1	1
Traction electricity charges	64	80	(16)	-
Freight traction electricity charges	1	1	-	-
	3,093	**3,212**	**(119)**	**1**
Other single till income				
Property income				
Property rental	21	31	(10)	(11)
Property sales	3	9	(6)	(5)
	24	**40**	**(16)**	**(16)**
Total other single till income	**24**	**40**	**(16)**	**(16)**
Total centrally-managed income	**3,117**	**3,252**	**(135)**	**(15)**
Total income	**5,247**	**5,394**	**(147)**	**(49)**

Statement 2: Analysis of income, Scotland’s Railway

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income in 2023/24 is broadly in line with the regulatory baseline as higher fixed track access has helped offset lower grant income. Across the control period income has been lower than the regulatory baseline with the largely contribution from lower government grants received as interest and tax costs have been lower, meaning less grants are required to meet the costs. Income is higher than the previous year which includes inflationary benefits and planned increases in fixed track access income from operators.

Regionally-managed income

(1) Total Regionally-managed income is higher than the CP6 baseline this year, as higher inflation rates have resulted in higher income earned through track access contracts and higher energy prices resulting in higher electricity income. Across CP6, Regionally-managed income has been lower than expected as Covid and industrial action reduced variable track access income, Covid impacted property income and overall lower average electricity prices. Regionally-managed income is higher than last year mainly due to increased inflation uplift to track access contracts and higher electricity costs.

(2) Infrastructure cost charges - fixed charge income was higher than the regulatory expectation this year and is now higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators’ track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its’ cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year. This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year’s November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(3) Variable usage charge income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the shortfall in the opening four years of the control period. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower income across the control period reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, revenue for the control period is broadly in line with the regulator's expectation as expected price increases earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting rising market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income is higher than the previous year reflecting planned reductions in Schedule 4 costs as reflected in the regulatory baseline for this year.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(6) Managed stations qualifying expenditure – whilst income is broadly consistent with the regulatory baseline for the current year it is lower across the control period. This is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them.

(7) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

(8) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period due to additional services offered to operators. Income is higher than the previous year which is partly due to inflationary benefits from many agreements with operators being linked to the previous year's March RPI (i.e. March 2022) which was exceptionally high, whereas the 2022/23 income has been uplifted using the November 2023 CPI, in line with the Regulatory Accounting guidelines (December 2019).

Centrally-managed income

(1) Aggregate Centrally-managed income is lower than the regulatory baseline this year and across the control period mainly due to lower grants recognised from Transport Scotland and DfT. Income is lower than the previous year mostly due to reduced Network Grant recognised from Transport Scotland.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable Transport Scotland are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with Transport Scotland for Network grant payments and also with DfT to pay for Scotland's Railway's share of Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is slightly lower than the regulatory baseline this year but in line the regulatory expectation across the control period. Income is lower than the previous year due to the phasing of activity in the region.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

Statement 2: Analysis of income, Scotland's Railway – continued

In £m cash prices unless stated

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) Corporation tax grant –grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable attribute to Scotland's Railway in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and across the control period is to be expected. As agreed with the regulator, variances in this category are outside the scope of the financial performance assessment.

(8) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(9) Property rental – income across the control period has been lower than the regulatory baseline as expected growth in this area has not materialised. The impact of Covid-19 restrictions imposed by Scottish government also contributed to reduced station footfall.

(10) Property sales – income is lower than the regulatory baseline across the control period. Property sales only occur where is a sound business case to unlock value, with fewer of these opportunities having been identified during CP6 than the regulatory expectation set in 2019.

Scotland's Railway
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	73	52	(21)	(21)	64
Maintenance	207	162	(45)	(48)	184
Support costs	45	20	(25)	(25)	30
Traction electricity, industry costs and rates	94	97	3	1	89
Schedule 4	15	28	13	15	70
Schedule 8	19	-	(19)	(19)	26
	453	**359**	**(94)**	**(97)**	**463**
Capital expenditure					
Renewals	391	302	(89)	(21)	394
Enhancements	154	137	(17)	(1)	186
	545	**439**	**(106)**	**(22)**	**580**
Total Regionally-managed expenditure	**998**	**798**	**(200)**	**(119)**	**1,043**
Centrally-managed expenditure					
Operating expenditure					
Network operations	2	2	-	-	2
Maintenance	7	7	-	-	14
Support costs	79	65	(14)	(13)	74
Traction electricity, industry costs and rates	5	4	(1)	-	5
Schedule 4	-	2	2	2	-
Schedule 8	-	-	-	-	-
	93	**80**	**(13)**	**(11)**	**95**
Capital expenditure					
Renewals	75	116	41	-	44
Enhancements	-	-	-	-	-
	75	**116**	**41**	**-**	**44**
Risk Expenditure	**-**	**108**	**108**	**-**	**-**
Other					
Financing costs	262	222	(40)	-	432
Taxation	-	9	9	-	(7)
	262	**231**	**(31)**	**-**	**425**
Total centrally-managed expenditure	**430**	**535**	**105**	**(11)**	**564**
Total expenditure	**1,428**	**1,333**	**(95)**	**(130)**	**1,607**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	308	252	(56)	(54)
Maintenance	900	792	(108)	(120)
Support costs	179	101	(78)	(78)
Traction electricity, industry costs and rates	249	271	22	1
Schedule 4	155	79	(76)	(77)
Schedule 8	71	21	(50)	(50)
	1,862	**1,516**	**(346)**	**(378)**
Capital expenditure				
Renewals	1,916	1,925	9	(77)
Enhancements	845	847	2	(3)
	2,761	**2,772**	**11**	**(80)**
Total Regionally-managed expenditure	**4,623**	**4,288**	**(335)**	**(458)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	10	10	-	1
Maintenance	40	37	(3)	(4)
Support costs	328	316	(12)	8
Traction electricity, industry costs and rates	152	165	13	-
Schedule 4	1	10	9	9
Schedule 8	(8)	2	10	9
	523	**540**	**17**	**23**
Capital expenditure				
Renewals	266	332	66	9
Enhancements	13	-	(13)	-
	279	**332**	**53**	**9**
Risk Expenditure	**-**	**306**	**306**	**-**
Other				
Financing costs	1,340	1,117	(223)	-
Taxation	-	28	28	-
	1,340	**1,145**	**(195)**	**-**
Total centrally-managed expenditure	**2,142**	**2,323**	**181**	**32**
Total expenditure	**6,765**	**6,611**	**(154)**	**(426)**

Statement 3: Analysis of expenditure, Scotland's Railway

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, additional maintenance activity and extra renewals which more than offsetting the risk funds included in the baseline. Expenditure has been higher across the control period with contributions from higher financing costs, additional maintenance activity and higher train performance regime costs which more than offset the risk funds included in the baseline. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across the control period are higher with additional operating costs and train performance regime expenses. Costs are lower than the previous year which include higher Schedule 4 costs from industrial action. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally- managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail's index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Scotland's Railway
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	36	30	(6)	(6)	34
Operations Management	4	3	(1)	(1)	4
Controllers	5	5	-	-	5
Electrical control room operators	2	1	(1)	(1)	2
	47	**39**	**(8)**	**(8)**	**45**
Non signaller expenditure					
Mobile operations managers	5	3	(2)	(2)	4
Managed stations	8	6	(2)	(2)	6
Performance	10	2	(8)	(8)	7
Other	3	2	(1)	(1)	2
Total Regionally-managed Operations expenditure	**73**	**52**	**(21)**	**(21)**	**64**
Centrally-managed Operations expenditure					
Network Services	2	2	-	-	2
Total centrally-managed Operations expenditure	**2**	**2**	**-**	**-**	**2**
Total operations expenditure	**75**	**54**	**(21)**	**(21)**	**66**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	163	149	(14)	(14)
Operations Management	19	13	(6)	(6)
Controllers	24	24	-	-
Electrical control room operators	10	5	(5)	(5)
	216	**191**	**(25)**	**(25)**
Non signaller expenditure				
Mobile operations managers	19	15	(4)	(4)
Managed stations	34	30	(4)	(4)
Performance	28	9	(19)	(19)
Other	11	7	(4)	(2)
Total Regionally-managed Operations expenditure	**308**	**252**	**(56)**	**(54)**
Centrally-managed Operations expenditure				
Network Services	10	10	-	1
Total centrally-managed Operations expenditure	**10**	**10**	**-**	**1**
Total operations expenditure	**318**	**262**	**(56)**	**(53)**

Statement 3.1: Analysis of operations expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year with adverse variances in most categories, notably Performance as additional investment was made to improve services for the travelling public. Other higher costs include additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment, but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Across the control period, costs have been broadly consistent with the regulatory expectation.

(3) Performance – costs are higher than the regulatory baseline for both the current year and across the control period due to greater investment in schemes to improve services for the travelling public.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and total control period, as well as the previous year.

Scotland's Railway
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	101	80	(21)	(20)	90
Signalling & Telecoms	29	20	(9)	(9)	28
Civils	29	29	-	(12)	25
Buildings	16	6	(10)	(2)	15
Electrical power and fixed plant	14	10	(4)	(4)	14
Other network operations	18	17	(1)	(1)	12
	207	**162**	**(45)**	**(48)**	**184**
Centrally-managed maintenance expenditure					
Telecoms	4	4	-	-	3
Route Services - Asset Information	4	4	-	-	4
STE Maintenance	-	-	-	-	-
Property	-	-	-	-	-
Route Services - Other	(1)	(1)	-	-	6
Other	-	-	-	-	1
	7	**7**	**-**	**-**	**14**
Total maintenance expenditure	**214**	**169**	**(45)**	**(48)**	**198**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	441	398	(43)	(40)
Signalling & Telecoms	131	99	(32)	(31)
Civils	135	139	4	(26)
Buildings	51	29	(22)	(7)
Electrical power and fixed plant	63	48	(15)	(15)
Other network operations	79	79	-	(1)
	900	**792**	**(108)**	**(120)**
Centrally-managed maintenance expenditure				
Telecoms	13	18	5	5
Route Services - Asset Information	19	19	-	(1)
STE Maintenance	2	2	-	(1)
Property	-	-	-	-
Route Services - Other	5	(2)	(7)	(7)
Other	1	-	(1)	-
	40	**37**	**(3)**	**(4)**
Total maintenance expenditure	**940**	**829**	**(111)**	**(124)**

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, maintenance costs are higher than the regulatory baseline this year mainly due to greater costs in the Regionally-managed category, as additional activity was delivered on the network as described below. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken in the Region as set out below.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across all categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF and extra costs to comply with track worker safety standards. Costs across the control period are 14 per cent higher than the regulatory baseline assumed which has included the delivery of approximately over 40 per cent more maintenance activity on reportable weighted volume measures. Higher costs have also arisen from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs are 13 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 4 per cent compared to the previous year.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(2) Track – track costs are traditionally the largest component of Scotland's Railway's maintenance expenses. This year costs are, once again, higher than the regulatory baseline which includes additional reportable volumes being undertaken and specific performance improvement schemes. Furthermore, the higher costs this year include additional expenses arising from a new stoneblower contract. The costs of this are higher than the previous multi-year contract reflecting higher market prices but also a change in the outputs of the contract to deliver improved services. In addition, a fire at a supplier's quarry has increased ballast costs as alternative sources have had to be established. The overspend across the control period is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances and deferral of intelligent infrastructure benefits earlier in the control period. Expenses are higher than the previous year arising from additional work undertaken the network and from greater than inflation materials and contractor costs increases.

(3) Signalling & telecoms – expenditure in the current year is higher than the regulatory baseline, continuing the trend of earlier years of the control period. The higher costs across the control period are mainly due to performance improvement scheme investment and additional maintenance volumes delivered to support asset resilience along with extra spend earlier in the control period due to Covid-19 resilience and compliance investment. This included additional staff costs and the procurement of Covid-19 secure PPE. Costs are broadly consistent with the previous year.

(4) Civils – costs are broadly in line with the regulatory baseline this year as less reactive maintenance expense has been offset by increased CEFA inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances arising from these interventions are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are lower than the regulatory baseline, but this has mainly been due to the same factors as the current year variance and hence financial underperformance has been reported overall.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Variances arising from these interventions are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs have been higher than the regulatory baseline this year, mainly due to additional reactive maintenance activity. Across the control period spend is higher than the regulatory baseline with extra costs this year allied to higher reactive maintenance costs in previous years.

(6) Electrical power and fixed plant – costs are higher than the regulatory baseline this year, continuing the trend from earlier years in the control period. This has been due to additional teams and resource required to maintain the newly electrified parts of the network in Scotland's Railway which have resulted in higher maintenance volumes for these assets compared to the regulatory baseline and greater inflation in the supply chain increasing costs. Costs are broadly consistent with the previous year.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances this control period are predominantly due to Route services – other variances which are explained below. Costs this year are in line with the regulatory expectation.

(2) Telecoms – costs are lower than the regulatory baseline across the control period mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims.

(3) Route services – other – costs are broadly in line with the regulatory baseline this year but higher across the control period. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

Scotland's Railway
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	5	3	(2)	(2)	4
Finance	7	2	(5)	(5)	5
Accommodation	9	10	1	1	8
Utilities	17	4	(13)	(13)	9
Other	7	1	(6)	(6)	4
	45	**20**	**(25)**	**(25)**	**30**
Centrally-managed Support costs					
Finance & Legal	5	5	-	-	4
Communications	2	2	-	-	2
Human Resources	3	-	(3)	(3)	2
System Operator	7	9	2	2	6
Property	1	2	1	1	2
Telecoms	7	6	(1)	(1)	8
Network Services	-	-	-	-	-
Safety Technical and Engineering	6	6	-	1	5
RS - IT and Business Services	14	12	(2)	(2)	15
RS - Asset Information	2	3	1	(2)	2
RS - Directorate	4	1	(3)	(3)	-
Other corporate functions	-	1	1	-	-
Insurance	3	6	3	3	-
OPEX/CAPEX Adjustment	10	7	(3)	-	22
Group costs	15	5	(10)	(9)	6
	79	**65**	**(14)**	**(13)**	**74**
Total support costs	**124**	**85**	**(39)**	**(38)**	**104**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	21	13	(8)	(7)
Finance	18	10	(8)	(8)
Accommodation	52	55	3	3
Utilities	48	20	(28)	(28)
Other	40	3	(37)	(38)
	179	**101**	**(78)**	**(78)**
Centrally-managed Support costs				
Finance & Legal	21	25	4	4
Communications	9	9	-	-
Human Resources	13	11	(2)	(3)
System Operator	26	39	13	13
Property	7	5	(2)	(2)
Telecoms	35	36	1	-
Network Services	4	6	2	2
Safety Technical and Engineering	26	28	2	4
RS - IT and Business Services	63	58	(5)	(4)
RS - Asset Information	9	17	8	(3)
RS - Directorate	14	11	(3)	(4)
Other corporate functions	6	7	1	-
Insurance	12	24	12	13
OPEX/CAPEX Adjustment	70	36	(34)	-
Group costs	13	4	(9)	(12)
	328	**316**	**(12)**	**8**
Total support costs	**507**	**417**	**(90)**	**(70)**

Statement 3.3: Analysis of support costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to higher Regionally-managed costs and additional reorganisation expenses incurred this year to drive future efficiencies. Costs are higher across the control period, mainly due to greater Regionally-managed costs as discussed below. Expenses are higher than the previous year due to increased electricity and reorganisation costs.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year due to higher electricity prices driving Utilities costs and extra capabilities built-up through the PPF re-organisation programme. The higher costs across the control period are for the same reason along with Covid-19 related expenditure during the pandemic and additional legal expenses. Costs are higher than the prior due to higher Utilities costs.

(2) Human resources – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative.

(3) Finance – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.

(4) Utilities – costs are higher than the baseline this year and across the control period reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices in recent years in the wake of geopolitical disruption and uncertainty. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

(5) Other – costs were higher than the regulatory baseline once again this year reflecting implementing new PPF organisational design which has led to additional resources in the Region in excess of the amount included in the original regulatory baseline. Costs across the control period are higher than the regulatory baseline reflecting these organisational changes but also higher buildings costs from not purchasing an office in the final days of CP5 and compensation costs and legal fees for events including Stonehaven.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are higher than the regulatory assumption this year mainly reflecting settlement of legal cases and higher redundancy costs in Group along with a greater number of projects have been classified as opex. This creates an offsetting saving in Statement 3.6 Renewals. The higher costs this year also accounts for the additional costs in the control period. Costs are higher than the previous year mainly due to the aforementioned higher redundancy and legal cases costs in Group this year.

(2) Finance & legal – costs across the control period are slightly lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings.

(3) Human Resources - costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project.

(4) System Operator – costs are lower than the regulatory baseline this year and across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings across the control period also included reduced staff travel and accommodation costs during the pandemic.

(5) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(6) Route Services – IT and Business Services – costs across the control period are higher than the regulatory baseline. Whilst this category has saved costs at a Great Britain level, the costs allocated to Scotland are higher than the baseline assumptions. In line with Network Rail's accounting policies costs are attributed to Regions using various factors, with the relative level of headcount being the main driver for this category. This control period Scotland's average headcount levels compared to the other Regions have been relatively higher compared to the regulatory baseline assumptions, meaning a greater proportion of costs have been allocated to Scotland's Railway.

(7) Route Services – Asset Information – costs are significantly lower than the regulatory baseline across the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

Statement 3.3: Analysis of support costs, Scotland's Railway - continued

In £m cash prices unless stated

(8) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(9) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

(10) Group – costs are higher than the regulatory baseline this year and the control period as a whole mainly due to settlement of legal cases and higher redundancy costs, including the re-organisation costs of the maintenance modernisation and management modernisation initiatives, along with higher legal costs than expected. The savings arising from the workforce modernisation programmes are reported in the regionally-managed cost categories or the other centrally-managed categories where the savings have been enjoyed in those areas. Costs are higher than the previous year due to the higher aforementioned redundancy and legal costs.

Scotland's Railway
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	**Actual**	**Regulatory baseline**	**Variance**	**Of which financial out / (under) performance**	**2022-23 actual (rebased to 23/24 prices)**
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	57	51	(6)	-	51
Business rates	29	37	8	-	29
British transport police costs	8	9	1	1	9
	94	**97**	**3**	**1**	**89**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	3	2	(1)	-	3
RDG membership costs	1	1	-	-	1
RSSB costs	1	1	-	-	1
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	5	**4 -**	**1**	**-**	**5**
Total traction electricity, industry costs and rates	**99**	**101**	**2**	**1**	**94**

Cumulative	**Actual**	**Regulatory baseline**	**Variance**	**Of which financial out / (under) performance**
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	141	145	4	-
Business rates	82	99	17	-
British transport police costs	26	27	1	1
	249	**271**	**22**	**1**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	65	81	16	-
Business rates	48	49	1	-
British transport police costs	16	16	-	-
ORR licence fee and railway safety levy	14	12	(2)	-
RDG membership costs	3	2	(1)	-
RSSB costs	6	5	(1)	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	152	**165**	**13**	**-**
Total traction electricity, industry costs and rates	**401**	**436**	**35**	**1**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is slightly lower than the regulator's assumption in the current year as higher Traction electricity costs have been offset by lower Business rates. Costs have been lower across the control period due to lower Traction electricity which has been offset by lower income received from operators (refer to Statement 2) and lower Business rates. Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, costs for the control period are lower than the regulator's expectation as expected price rises earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These cost savings are broadly balanced by reduced income from recharging electricity to operators (as shown in Statement 2). Costs were higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway – continued

In £m cash prices unless stated

(2) Business rates - from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the overall control period. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(7) Reporters fees – this relates to amounts paid to named independent reporters who undertake work on behalf of the regulator and Network Rail. This relates to work undertaken by these organisations against specific remits in their role as independent Reporters and not for other services they may provide to Network Rail. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	15	28	13	15	70
Access charge supplement Income	(26)	(24)	2	2	(11)
Net (income)/cost	**(11)**	**4**	**15**	**17**	**59**
Schedule 8					
Performance element income	19	-	(19)	(19)	26
Performance element costs	-	-	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**19**	**-**	**(19)**	**(19)**	**26**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	-	2	2	2	-
Access charge supplement Income	(7)	(6)	1	-	(3)
Net (income)/cost	**(7)**	**(4)**	**3**	**2**	**(3)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	-	-	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**-**	**-**	**-**	**-**	**-**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	15	30	15	17	70
Access charge supplement Income	(33)	(30)	3	2	(14)
Net (income)/cost	**(18)**	**-**	**18**	**19**	**56**
Schedule 8					
Performance element income	19	-	(19)	(19)	26
Performance element costs	-	-	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**19**	**-**	**(19)**	**(19)**	**26**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	155	79	(76)	(77)
Access charge supplement Income	(72)	(70)	2	2
Net (income)/cost	**83**	**9**	**(74)**	**(75)**
Schedule 8				
Performance element income	46	-	(46)	(46)
Performance element costs	25	21	(4)	(4)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**71**	**21**	**(50)**	**(50)**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	1	10	9	9
Access charge supplement Income	(18)	(17)	1	-
Net (income)/cost	**(17)**	**(7)**	**10**	**9**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(8)	2	10	9
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(8)**	**2**	**10**	**9**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	156	89	(67)	(68)
Access charge supplement Income	(90)	(87)	3	2
Net (income)/cost	**66**	**2**	**(64)**	**(66)**
Schedule 8				
Performance element income	46	-	(46)	(46)
Performance element costs	17	23	6	5
Access charge supplement Income	-	-	-	-
Net (income)/cost	**63**	**23**	**(40)**	**(41)**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are lower than the regulatory baseline this year mostly reflecting financial outperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year as train performance did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Train performance targets have been missed across the control period. Even during Covid times, Scotland's Railway did not enjoy the benefits that the other regions did on their train performance and so schedule 8. Train performance this year improved compared to 2022/23 resulting in reduced net compensation paid to operators this year.

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). Income is higher than the previous year, reflecting planned increases in the regulatory baseline set by ORR in 2018. Performance element costs are lower than the regulatory baseline this year, reflecting sound possession planning and favourable settlement of commercial claims, which has enabled financial outperformance to be recognised this year. This benefit has helped offset some of the higher costs from earlier in the control period, particularly the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland’s Railway – continued

In £m cash prices unless stated

(2) Schedule 8 costs are higher than the regulatory baseline this year as train performance did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Train performance targets have been missed across the control period. Even during Covid times, Scotland’s Railway did not enjoy the benefits that the other regions did on their train performance and so schedule 8. Train performance this year improved compared to 2022/23 resulting in reduced net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed costs.

(3) Schedule 8 – costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Scotland's Railway
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	32	36	4	-	29
PL Replace Partial	37	15	(22)	-	28
PL High Output	15	-	(15)	-	19
PL Refurbishment	7	3	(4)	-	5
PL Track Slab Track	8	-	(8)	-	7
Switches & Crossing - Replace	15	20	5	-	15
Switches & Crossing - Other	10	13	3	-	8
Off Track	10	10	-	-	23
Track Other	18	18	-	-	18
	152	**115**	**(37)**	**(11)**	**152**
Signalling					
Signalling Full	17	3	(14)	-	11
Signalling Partial	27	2	(25)	-	34
Signalling Refurb	29	7	(22)	-	21
Level crossings	4	13	9	-	2
Minor works	16	17	1	-	16
Other	-	-	-	-	-
	93	**42**	**(51)**	**(1)**	**84**
Civils					
Underbridges	20	32	12	-	38
Overbridges	10	13	3	-	3
Major structures	1	1	-	-	2
Tunnels	5	2	(3)	-	5
Minor works	16	20	4	-	9
Other	8	7	(1)	-	3
	60	**75**	**15**	**-**	**60**
Earthworks					
Earthworks - Embankments	3	4	1	-	4
Earthworks - Soil Cuttings	15	18	3	-	21
Earthworks - Rock Cuttings	8	5	(3)	-	7
Earthworks - Other	1	5	4	-	5
	27	**32**	**5**	**(1)**	**37**
Buildings					
Managed stations	1	1	-	-	-
Franchised stations	10	8	(2)	-	12
Light maint depots	2	1	(1)	-	1
Depot plant	-	4	4	-	-
Lineside buildings	1	-	(1)	-	1
MDU buildings	-	-	-	-	1
Other	(1)	-	1	-	1
	13	**14**	**1**	**(4)**	**16**
Electrical power and fixed plant					
AC distribution	2	3	1	-	1
Overhead Line	6	4	(2)	-	8
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	9	4	(5)	-	5
Other	5	-	(5)	-	11
Fixed plant	1	2	1	-	1
	23	**13**	**(10)**	**(1)**	**26**
Drainage					
Drainage (Track)	8	2	(6)	-	9
Drainage (Earthworks)	(1)	2	3	-	5
Drainage (Resilience)	10	1	(9)	-	2
	17	**5**	**(12)**	**(3)**	**16**
Property					
Property	6	6	-	-	3
	6	**6**	**-**	**-**	**3**
Total Regionally-managed renewals expenditure	**391**	**302**	**(89)**	**(21)**	**394**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	3
	-	**-**	**-**	**-**	**3**
Telecoms					
Operational communications	1	1	-	-	-
Network	2	1	(1)	-	1
SISS	10	-	(10)	-	2
Projects and other	1	-	(1)	-	-
Non-route capital expenditure	6	6	-	-	7
	20	**8**	**(12)**	**(1)**	**10**
Wheeled plant and machinery					
High output	1	3	2	-	1
Incident response	-	-	-	-	-
Infrastructure monitoring	-	2	2	-	-
Intervention	1	2	1	-	1
Materials delivery	1	2	1	-	1
On track plant	10	4	(6)	-	5
Seasonal	1	2	1	-	1
Other	3	-	(3)	-	2
	17	**15**	**(2)**	**-**	**11**
Route Services					
Business Improvement	5	-	(5)	-	5
IT Renewals	2	8	6	-	2
Asset Information	1	-	(1)	-	1
Other	-	2	2	-	-
	8	**10**	**2**	**-**	**8**
STE Renewals					
Intelligent infrastructure	6	4	(2)	-	7
Faster Isolations	8	-	(8)	-	2
Centrally Managed Signalling Costs	1	1	-	-	1
Research and development	7	10	3	-	5
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	3	1	(2)	-	-
Small plant	1	1	-	-	1
Other	7	-	(7)	-	5
	33	**20**	**(13)**	**-**	**21**
Property					
Property	-	1	1	-	-
	-	**1**	**1**	**-**	**-**
Other renewals					
ETCS	-	-	-	-	-
Digital Railway	1	3	2	-	2
Civils & Drainage - Insurance Fund	2	3	1	1	1
Buildings - Insurance Fund	-	2	2	-	1
OPEX/CAPEX Adjustment	(10)	(7)	3	-	(21)
Phasing overlay	-	57	57	-	-
System Operator	3	3	-	-	3
Other renewals	1	1	-	-	5
	(3)	**62**	**65**	**1**	**(9)**
Total centrally-managed renewals expenditure	**75**	**116**	**41**	**-**	**44**
TOTAL RENEWALS EXPENDITURE	**466**	**418**	**(48)**	**(21)**	**438**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	199	220	21	-
PL Replace Partial	155	113	(42)	-
PL High Output	80	108	28	-
PL Refurbishment	28	14	(14)	-
PL Track Slab Track	32	13	(19)	-
Switches & Crossing - Replace	97	104	7	-
Switches & Crossing - Other	37	48	11	-
Off Track	61	49	(12)	-
Track Other	80	84	4	-
	769	**753**	**(16)**	**(24)**
Signalling				
Signalling Full	40	91	51	-
Signalling Partial	137	90	(47)	-
Signalling Refurb	81	93	12	-
Level crossings	23	48	25	-
Minor works	64	81	17	-
Other	-	-	-	-
	345	**403**	**58**	**(20)**
Civils				
Underbridges	161	161	-	-
Overbridges	40	66	26	-
Major structures	29	23	(6)	-
Tunnels	18	15	(3)	-
Minor works	57	74	17	-
Other	41	38	(3)	-
	346	**377**	**31**	**5**
Earthworks				
Earthworks - Embankments	35	26	(9)	-
Earthworks - Soil Cuttings	92	84	(8)	-
Earthworks - Rock Cuttings	37	26	(11)	-
Earthworks - Other	9	15	6	-
	173	**151**	**(22)**	**(7)**
Buildings				
Managed stations	5	10	5	-
Franchised stations	75	80	5	-
Light maint depots	8	7	(1)	-
Depot plant	-	5	5	-
Lineside buildings	8	1	(7)	-
MDU buildings	3	-	(3)	-
Other	1	-	(1)	-
	100	**103**	**3**	**(10)**
Electrical power and fixed plant				
AC distribution	7	8	1	-
Overhead Line	39	15	(24)	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	22	26	4	-
Other	23	5	(18)	-
Fixed plant	11	11	-	-
	102	**65**	**(37)**	**(6)**
Drainage				
Drainage (Track)	36	35	(1)	-
Drainage (Earthworks)	20	11	(9)	-
Drainage (Resilience)	12	5	(7)	-
	68	**51**	**(17)**	**(15)**
Property				
Property	13	22	9	-
	13	**22**	**9**	**-**
Total Regionally-managed renewals expenditure	**1,916**	**1,925**	**9**	**(77)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	**-**	**(5)**	**(3)**
Telecoms				
Operational communications	5	12	7	-
Network	6	11	5	-
SISS	17	15	(2)	-
Projects and other	3	-	(3)	-
Non-route capital expenditure	37	37	-	-
	68	**75**	**7**	**(4)**
Wheeled plant and machinery				
High output	10	13	3	-
Incident response	-	-	-	-
Infrastructure monitoring	-	8	8	-
Intervention	5	12	7	-
Materials delivery	4	16	12	-
On track plant	21	20	(1)	-
Seasonal	3	10	7	-
Other	10	1	(9)	-
	53	**80**	**27**	**-**
Route Services				
Business Improvement	32	15	(17)	-
IT Renewals	15	32	17	-
Asset Information	4	3	(1)	-
Other	2	5	3	-
	53	**55**	**2**	**-**
STE Renewals				
Intelligent infrastructure	31	24	(7)	-
Faster Isolations	17	17	-	-
Centrally Managed Signalling Costs	4	4	-	-
Research and development	25	30	5	-
Integrated Management System (Incl. BCR)	-	9	9	-
Other National SCADA Programmes	11	9	(2)	-
Small plant	3	5	2	-
Other	27	5	(22)	-
	118	**103**	**(15)**	**-**
Property				
Property	3	4	1	-
	3	**4**	**1**	**-**
Other renewals				
ETCS	4	11	7	-
Digital Railway	5	1	(4)	-
Civils & Drainage - Insurance Fund	5	13	8	9
Buildings - Insurance Fund	1	10	9	-
OPEX/CAPEX Adjustment	(69)	(36)	33	-
Phasing overlay	-	-	-	-
System Operator	10	12	2	-
Other renewals	10	4	(6)	7
	(34)	**15**	**49**	**16**
Total centrally-managed renewals expenditure	**266**	**332**	**66**	**9**
TOTAL RENEWALS EXPENDITURE	**2,182**	**2,257**	**75**	**(68)**

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is higher than the regulatory baseline this year, which offsets some of the underspends experienced in earlier years of the control period. Expenditure across the control period is lower than the regulatory expectation as Covid-19, industrial action and train performance issues have necessitated a reprioritisation of the funds made available by Transport Scotland for CP6. Additionally, more projects have been classified as opex, which doesn't change the overall spend but does alter the amounts recognised in this statement and in Statement 3.3 Support costs. Investment is higher than the previous year as Scotland's Railway have managed risks elsewhere in the business this year, allowing more funds to be invested in renewals.

Regionally-managed renewals

(1) Total Regionally-managed renewals were higher than the regulatory baseline this year which brings the expenditure across the control period in line with the regulatory expectation. Financial outperformance has been recognised this year which has mitigated some of the underperformance reported in previous years. Expenditure was lower broadly similar to the previous year.

(2) Track – expenditure was higher than the regulatory baseline this year which has brought investment across the control period broadly in line with the regulatory expectation. There has been a change in the mix of spend this control period compared to the regulatory baseline, including reduced use of High Output solutions given concerns over performance and reliability of this technique and a preference for traditional delivery methods. There has been some adverse financial performance recognised this control period. This includes problems with High output where volumes have decreased significantly as a result of plant failure, safety stand downs and possession productivity lost from weather and industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Covid-19 also increased costs in the early years of the control period as did inflationary pressures on materials prices. Financial underperformance this year also included difficulties related to the Carstairs modernisation programme necessitating digging at deeper depth and discovering contaminated ballast and a reduction in enhancements workbank, reducing the amount of fixed costs that could be off-charged to other activities. Track worker safety programme costs are excluded from assessment of financial performance. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. Investment is broadly similar to the prior year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(3) Signalling – whilst expenditure in the current year is significantly higher than the regulatory baseline, it remains lower across the control period. This included a significant reduction in level crossing activity as funds were reprioritised across Scotland's Railway in CP6. Expenditure is higher than the previous year. This includes additional work to extend the life of the signalling infrastructure at Craigendoran and improving the resilience of the Portobello Area Interlocking assets, which has been partly offset by reductions in Carstairs modernisation project and work on the Edinburgh control system Renew. On a like-for-like basis, costs have been slightly higher this control period compared to the regulatory baseline, resulting in financial underperformance being recognised. This has been caused by: inflationary pressures on contractor and materials prices; Covid-19 costs impacting access to delivery sites; loss of economies of scale from reduced workbanks; changes in scope on level crossing conversion schemes; additional commercial claims on large projects, design issues and unforeseen extra landlord compensation to gain access to sites. These factors have been partly mitigated by savings from earlier contractor involvement at the design stage of the project, utilisation of existing equipment and benefits from standard changes.

(4) Civils – costs are lower than the regulatory baseline this year augmenting underspends from earlier in the control period, particularly in Overbridges as funds have been reprioritised across Scotland's Railway. Expenditure is broadly similar to the previous year. The financial outperformance this control period includes: improved delivery of projects, for example instead of constructing scaffolding to complete works on the Lugar Viaduct where rope access mechanisms were used allowing cost savings; utilising an existing blockade in Argyle to delivery extra activity; extra efficiencies from better access planning and earlier contractor involvement in design specification.

(5) Earthworks – although spend this year is lower than the regulatory baseline it is higher across the control period as additional investment has been made in light of weather impacting asset condition and the need for safety across the network along with higher like-for-like costs. These higher like-for-like costs have resulted in financial underperformance being reported for CP6. This has arisen from a combination of: reprioritisation of workbanks across earthworks, drainage and wider asset portfolios with a greater focus on assets which provide longer term resilience, albeit at a higher cost; materials and other inflationary pressures; difficulties securing access to undertake required works causing project prolongation; and late design changes to offer optimal scope. The Stonehaven works carried out to repair the network after the derailment in August 2020 are funded via the Centrally-managed insurance renewals fund and therefore most of the costs are not captured within the Regionally-managed figures. Expenditure is lower than the previous year as more of the Earthworks portfolio was delivered earlier in the control period.

(6) Buildings – expenditure this year and across the control period are broadly consistent with the regulatory baseline. Financial underperformance has been recognised across the control period which includes: footbridge projects having issues with access times which resulted in project extensions; works were required in Edinburgh projects which were not originally designed; delays to projects from higher contract tender prices; and Covid-19 and the impact social distancing had on contractor availability and internal ability to complete works.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment is higher than the regulatory baseline this year and across the control period. This is the result of increased strategic attention diverted to electrification, particularly overhead lines, to help Scotland's government achieve environmental objectives. Costs are lower than last year reflecting the phasing of projects in this area this control period, particularly on the Ferguslie and Newton feeder stations. Financial underperformance has been recognised this control period, including: impact of Covid-19, industrial action contingency planning and project prolongation arising from shifting Transport Scotland priorities and subsequent decisions.

(8) Drainage – expenditure this year is higher than the regulatory baseline which is contributing to the higher costs this control period which includes the impact of higher like-for-like project costs. This has resulted in the recognition of financial underperformance in CP6 and has arisen from: costs of postponing activity at some sites into CP7 as funding has been repurposed, higher materials and other inflationary pressures along with access issues. Expenditure is broadly in line with the previous year.

(9) Property – investment across the control period is lower than the regulatory assumption. Since responsibility and budget has been deferred to the Region, funding has been reprioritised in Scotland's Railway.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the region. Investment is higher than the previous year with the largest contributor being the variability in the opex/ capex adjustment category in the table, reflecting the nature of the overall renewals portfolio delivered this year.

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(3) Telecoms – investment is higher than the regulatory baseline in the year but remains lower across the control period. Although activity has ramped up in recent years the regulatory baselines assumed a greater delivery in early years of the control period. Slippage on operational communications is the primary reason for the lower spend this control period. The overall lower investment in the control period is also due to Regional decisions to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Financial underperformance has been reported this control period including project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is slightly higher than the regulatory baseline in current year but remains behind across. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

a. High output – investment was lower than the regulatory baseline this year and across the control period as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. In particular, concerns over the suitability of High output plant as a delivery solution have resulted in a more cautious approach to investment.

b. Infrastructure monitoring – costs are lower than the regulatory baseline across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment was lower than the regulatory baseline assumption across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – there was a step up in investment this year compared to the regulatory baseline which has bought the expenditure across the control period broadly in line with the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

f. Seasonal – expenditure across the control period is lower than the regulatory baseline. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

g. Other – at the time the baselines were set in 2019, it was expected that the Other category would include on track monitoring fitment to support the East Coast digital programme, meaning most of the baseline was allocated to different regions. Instead, most of the actual spend in this category relates to Fleet Support Plant which is allocated to regions based on the relative train miles in each region The overspend reported on this category for the control period offsets some of the underspend reported on other Wheeled plant & machinery lines.

(5) STE renewals – overall STE expenditure is higher than the regulatory expectation in the current year which has driven the higher costs across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline this year which brings the control period investment broadly in line with the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. Investment is higher than the prior year reflecting progress across a range of different projects. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

d. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

e. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

(6) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised in the control period has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

g. Other renewals – this category also includes various workforce safety schemes, including installation of new walkways and crossings. Investment in these areas are also the main driver behind the higher spend across the control period as they were not included in the original CP6 baselines.

Scotland's Railway
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	56	53	(1)
Aberdeen to Inverness	-	-	-	70	70	4
Kintore Station	-	-	-	14	14	(1)
Rolling Programme of Electrification	-	-	-	15	14	(5)
East Kilbride Barrhead	20	20	-	47	47	-
New Down Platform Dunbar	-	-	-	7	8	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	4	4	-	9	9	-
Cadder HST Depot	-	-	-	33	33	(3)
Hairmyres Land Purchase	-	-	-	14	14	-
Feeder St/Power Mod Ele	22	12	-	103	102	-
Edinburgh Waverley Western Approaches	-	(1)	-	6	4	-
Reston Station	5	1	-	22	21	-
North Hanover Street Development	-	-	-	5	6	-
West of Fife Enhancements	-	-	-	5	6	-
A9 Interface- Lynebeg Bridge	-	-	-	10	9	1
Far North Line Route Enhanceme	-	1	-	13	14	-
East Linton Station	(1)	2	1	18	17	-
Busby Jn to Barrhead Ele	25	26	-	63	63	-
Dalcross New Station	-	-	1	41	41	-
Levenmouth	57	57	-	104	104	-
GLAB Currie Feeder St	2	2	-	18	18	-
Cadder Buildings	-	-	-	6	8	(1)
Fife Decarbonisation	3	2	-	18	18	-
Millerhill Interventions	-	-	-	4	4	-
Barrhead Kilmarnock Ele	-	-	-	-	1	-
Aberdeen Cent Belt Elec	8	8	-	32	32	-
Portobello Junction	-	(13)	-	10	10	-
Aberdeen Cen Journey	5	-	-	11	12	-
Other	4	16	(3)	85	88	(3)
Total	**154**	**137**	**(1)**	**845**	**847**	**(3)**
	-	-	-	-	-	-
Other Capital Expenditure	-	-	-	13	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
Other third Party	18	-	-	33	-	-
Total	18	-	-	33	-	-
Total enhancements	**172**	**137**	**(1)**	**891**	**847**	**(3)**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**154**	**137**	**(1)**	**858**	**847**	**(3)**

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the regulatory baseline, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with Scotland's Railway's core funder (TS).

(2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the core Scotland's Railway funder of TS.

(3) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government. These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Scotland's Railway's core funder (TS).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements. This is a new class of expenditure this year so there is no regulatory baseline or prior year comparative.

Comments:

(1) Enhancement expenditure in the year paid for by the core Scotland's Railway funder (Transport Scotland) was £152m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£170m) less the PAYGO schemes funded by other third parties (£18m).

(2) Enhancements expenditure this year and across the control period is higher than the regulatory baseline due to projects funded by other third parties for which there is no regulatory baseline.

(3) Transport Scotland funded schemes – enhancement expenditure across the portfolio this control period is in line with the regulatory baseline. Project specifications and approved change controls for funding with Transport Scotland has been reflected throughout the control period. Project outputs have generally been delivered in line with funding, meaning minimal financial underperformance reported this control period. Some notable programmes include:

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

a. Edinburgh to Glasgow Improvement Programme (EGIP) – the key outputs of EGIP included reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Expenditure across the control period is broadly in line with the funding Transport Scotland have provided. The marginal financial underperformance recognised this control period is a result of Covid-19 impacting working practices.

b. Aberdeen to Inverness – this project to upgraded the railway structure and provided capacity for the construction of two new stations Kintore and Inverness Airport. Infrastructure works consisted of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Financial outperformance has been recognised during the control period as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.

c. Rolling Programme of Electrification – this project will electrified the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Financial underperformance reported this control period includes final compensation settlements on completed programme.

d. New Down platform Dunbar – this project provided a new platform constructed on the Down Line (northbound) at Dunbar to increase capacity and improve operational flexibility on the East Coast Main Line. The project was substantially complete in 2019-20 and the financial outperformance recognised in earlier years of the control period was as a result of finalisation of contractor costs and management of programme contingencies.

e. Dunblane to Perth – this project is part of the wider Seven Cities Connectivity programme to improve links between some of the major urban areas in Scotland which aims to reduce passenger journey times. Expenditure across the control period is in line with the funding Transport Scotland have provided.

f. Feeder Station/Power Modelling Electrification – projects are part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Delivery in the current year is ahead of the funding expectation which brings the investment across the control period into line baselines. Progress in earlier years of the control period had been slower than anticipated due to Covid-19 impact and delays in Transport Scotland approving funding for various stages.

g. Edinburgh Waverley Western Approaches – this project delivered preliminary work to significantly improve the rail network on the approaches to Edinburgh Waverley Station. The investment enables options for the Edinburgh Waverley Western Approaches (EWWA) project to be taken forward to Outline Business Case. This will explore three infrastructure options for delivering capacity and performance improvements in this section of the railway. Investment across the control period is broadly in line with the funding available.

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

h. Reston station – this project involved creating a new station on the East Coast Main Line to improve connectivity for the rural communities it serves in the Scottish Borders area. Expenditure in the current year is higher than the funding available due to change controls on scope, costs and outputs enacted by Transport Scotland. This has bought investment across the control period broadly in line with the funding available.

i. North Hanover Street development – this programme included improvement to Glasgow Queen Street facilities, such as retail, and increased connectivity and access from/ to the station to the surrounding area. Expenditure across the control period is in line with the funding Transport Scotland have provided.

j. A9 interface Lynebeg bridge – this programme is part of supporting work ahead of dualling of the A9 road between Tomatin and Moy on the Highland mainline part of the network. Expenditure across the control period is in line with the funding Transport Scotland have provided.

k. Far North Line route enhancement – programme upgraded the radio communications network on the Highland rail network and services it enables for passengers at stations as well as improved the safe movement of train services across the Far North line. Expenditure across the control period is in line with the funding Transport Scotland have provided.

l. East Linton station – this project involved creating a new station which opened this year on the East Coast Main Line to improve connectivity for the rural communities it serves. Expenditure across the control period is in line with the funding Transport Scotland have provided.

m. Bushey Junction to Barrhead electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. Expenditure across the control period is in line with the funding Transport Scotland have provided.

n. Dalcross new station – this project delivered a new station which opened in February 2023. Expenditure across the control period is in line with the funding Transport Scotland have provided.

o. Levenmouth – this project involved reinstating and electrifying 19 single track kilometres of railway for the people of Scotland along with two new stations, with was officially opened in May 2024. Expenditure across the control period is in line with the funding Transport Scotland have provided.

p. Fife decarbonisation – this programme supports the removal of diesel-powered units through the introduction of Battery Electric Multiple Unit (BEMU) services, via partial electrification, with the potential for full electrification of the line and move to full electric services in the future. Expenditure across the control period is in line with the funding Transport Scotland have provided.

q. Barrhead Kilmarnock electrification – this electrification project is part of a Scottish Government investment to decarbonise Scotland's railway passenger services by providing greener trains onto the route. There has been minimal activity on this project this control period as Transport Scotland have reviewed its priorities.

r.

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m cash prices unless stated

s. Aberdeen Central Belt – this programme is part of an ongoing investment to reduce rail journey times from Aberdeen to Glasgow, Edinburgh and Dundee, and to improve connectivity and enhance capacity for both passenger and freight trains. Expenditure across the control period is in line with the funding Transport Scotland have provided.

t. Other – this heading captures investment activity on numerous smaller programmes. Expenditure this year was lower than the regulatory baseline which brings the investment across the control period in line with the funding made available by Transport Scotland.

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – the most notable investment this control period is Ravenscraig line crossing, a project financed by the local council to improve connectivity in the area. This year also saw investment by a local council in Bawbee bridge as part of the Levenmouth programme noted above.

Scotland's Railway
Statement 3.8: Analysis of renewals unit costs
Cash prices

		Unit	FY24 AFC	FY24 AFV	FY24 Unit Costs	FY23 AFC	FY23 AFV	FY23 Unit Costs
Track	PL Replace Full	km	50	36	1,389	61	41	1,488
Track	PL Replace Partial	km	115	258	446	126	305	413
Track	PL High Output	km	-	-	-	-	-	-
Track	PL Refurbishment	km	26	248	105	25	240	104
Track	PL Track Slab Track	km	-	-	-	-	-	-
Track	Switches & Crossing - Replace	point ends	14	34	412	3	9	333
Track	Switches & Crossing - Other	point ends	54	289	187	27	216	125
Track	Off Track	km/No.	35	1,289	27	41	1,297	32
Track	Track Other		-	-	-	-	-	-
	Total		**294**			**283**		
Signalling	Signalling Full	SEU	-	-	-	-	-	-
Signalling	Signalling Partial	SEU	66	199	332	72	199	362
Signalling	Signalling Refurb	SEU	10	24	417	10	24	417
Signalling	Level crossings	No.	1	1	1,000	1	1	1,000
Signalling	Minor works		-	-	-	-	-	-
Signalling	Other		-	-	-	-	-	-
	Total		**77**			**83**		
Civils	Underbridges	m2	39	16,688	2	47	27,266	2
Civils	Overbridges (incl BG3)	m2	7	797	9	6	1,968	3
Civils	Major Structures		-	-	-	-	-	-
Civils	Tunnels	m2	5	1,027	5	12	11,875	1
Civils	Culverts	m2	3	268	11	4	597	7
Civils	Footbridges	m2	-	23	-	-	-	-
Civils	Coastal & Estuarial Defences	m2	7	157	45	-	-	-
Civils	Retaining Walls	m2	5	3,391	1	3	1,473	2
Civils	Structures Other	m2	-	-	-	-	-	-
Civils	Other		-	-	-	-	-	-
	Total		**66**			**72**		
Earthworks	Earthworks - Embankments	No.	3	73	41	8	314	25
Earthworks	Earthworks - Soil Cuttings	No.	20	418	48	59	1,199	49
Earthworks	Earthworks - Rock Cuttings	No.	12	136	88	8	108	74
Earthworks	Earthworks - Other	No.	-	-	-	4	33	121
Earthworks	Drainage - Earthworks	m	4	6,160	1	10	27,449	0
Earthworks	Drainage - Other	m	31	37,917	1	22	32,154	1
	TOTAL		**70**			**111**		
Buildings	Buildings (MS)	m2	-	-	-	-	400	-
Buildings	Platforms (MS)	m2	-	-	-	-	-	-
Buildings	Canopies (MS)	m2	-	-	-	-	-	-
Buildings	Train sheds (MS)	m2	-	-	-	-	-	-
Buildings	Footbridges (MS)	m2	-	-	-	-	-	-
Buildings	Other (MS)	m2	-	3,500	-	-	-	-
Buildings	Buildings (FS)	m2	4	2,590	2	4	2,737	1
Buildings	Platforms (FS)	m2	2	1,557	1	3	2,007	1
Buildings	Canopies (FS)	m2	-	-	-	1	1,214	1
Buildings	Train sheds (FS)	m2	-	-	-	-	-	-
Buildings	Footbridges (FS)	m2	1	480	2	-	-	-
Buildings	Lifts & Escalators (FS)	m2	-	-	-	1	1	1,000
Buildings	Other (FS)	m2	-	134	-	5	3,250	2
Buildings	Light Maintenance Depots	m2	1	33,173	0	-	551	-
Buildings	Depot Plant	m2	-	-	-	-	-	-
Buildings	Lineside Buildings	m2	1	1,713	1	-	828	-
Buildings	MDU Buildings	m2	-	477	-	1	3,530	0
Buildings	NDS Depot	m2	-	-	-	-	-	-
Buildings	Other	m2	-	-	-	-	-	-
	Total		**9**			**15**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	4	46	87	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	15	182	82	-	-	-
	other OLE		1	24	42	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	3	-	5	67	75
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	2	22	91	2	23	87
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	14	48	292	3	21	143
	Signalling Supply Points	point end	1	1	1,000	-	3	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**37**			**10**		
Telecoms	Customer Information Systems	No.	4	471	8	4	465	9
	Public Address	No.	10	1,724	6	-	-	-
	CCTV	No.	3	325	9	-	-	-
	Other Surveillance	No.	2	157	13	1	87	11
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	134	-	-	-	-
	DOO CCTV	No.	-	-	-	1	1	1,000
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	342	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**19**			**6**		

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – Unit Costs have remained mostly in line with last year in this area excluding Switches and Crosses where we have seen increases. This is due to the different mix of work bank that was delivered in the year combined with higher levels of inflation impacting cost of materials in macro-economic environment. The increase in the unit rates for Switches & Crossing – Replace and Other is largely due to increases in unit costs related to contaminated ballast impacting site digs on the Carstairs Modernisation Project. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small.

(3) Signalling – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway – continued

In £m cash prices unless stated

(4) Civils – the unit cost of Culverts increased which can be attributed to the Culverts Development project which experienced complexities in delivery. Moreover, the project was unable to be delivered alongside a structures scheme decreasing the projects usual economies of scale, with both these factors increasing project costs. Retaining Walls unit rate decreased due to efficiencies in the Bellshill Station project whereby changes to the construction methodology of the asset increased the projects volumes without an increase to cost. Tunnels unit cost increased significantly due to ingress of sewage water into tunnels impacting planned repairs to both the Charing Cross and Finnieston Tunnel projects. The unit rate of Underbridges increased which can be attributed to the Ballochan Linn Viaduct project where the programme duration and therefore project costs increased as a result of material shortages. Overbridges unit cost increased which can be explained by a significant drop in volumes from 2022/23 attributable to Scotland experiencing prolonged periods of severe weather across the 2023/24 winter.

(5) Earthworks & Drainage –Rock Cuttings unit cost has increased this year as a result of re-phasing of the work bank to accommodate urgent works. The unit rate of Drainage Earthworks has increased due to re-prioritisation and re-phasing of the work bank creating a more complex work bank compared to 2022/23. The unit cost of Drainage Other has increased because of a drop in volumes across projects due to factors such as lack of available haulage and design changes post remit, on the Greenfaulds North and Kilkerran and Geotech Framework projects, respectively. Earthworks Embankments unit cost has increased due to inflationary pressures and lower volumes being delivered compared to the prior year.

(6) Buildings – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(7) Electrical Power and Fixed Plant – Electrical Power and Fixed Plant unit rates across most key cost lines are broadly in line with the prior year value. Nonetheless, there has an increase in the unit costs of Signalling Power Cables and Wiring as a result of inflationary pressure on the cost of materials in projects.

(8) Telecoms – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Scotland's Railway
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 actual prices)	**8,808**
Indexation to 2023-24 prices	9,151
RAB additions	
Renewals expenditure	466
Enhancements expenditure	-
Less amortisation	(466)
Property Sales	(1)
Closing RAB	**9,150**

Net debt

	£m
Opening net debt	**5,867**
Income	(1,172)
Expenditure	1,012
Financing Costs - Government borrowing	86
Financing Costs - index linked debt	167
Financing Costs - Other	9
Corporation tax	0
Working capital	78
Closing net debt	**6,047**

Statement 4: Regulatory financial position, Scotland's Railway

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the network in Scotland's Railway and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £0.5bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs). No significant disposals of assets in Scotland were made this year.

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Scotland's Railway and how it has moved during the year.

(8) Network Rail's debt attributable to Scotland's Railway is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Scotland's Railway – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Transport Scotland to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Eastern
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	2,620	2,634	(14)	-	2,756
Franchised track access charges	593	696	(103)	(33)	558
Other Single Till Income	206	201	5	4	184
Total Income	**3,419**	**3,531**	**(112)**	**(29)**	**3,498**
Operating expenditure					
Network operations	233	212	(21)	(21)	223
Support costs	284	262	(22)	(29)	317
Traction electricity, industry costs and rates	316	415	99	(3)	293
Maintenance	716	540	(176)	(172)	660
Schedule 4	104	86	(18)	(19)	246
Schedule 8	72	43	(29)	(29)	62
	1,725	**1,558**	**(167)**	**(273)**	**1,801**
Capital expenditure					
Renewals	944	1,150	206	(34)	1,139
Enhancements	1,524	1,483	(41)	28	1,272
	2,468	**2,633**	**165**	**(6)**	**2,411**
Risk expenditure					
Risk (Centrally-held)	-	101	101	-	-
Risk (Route-controlled)	-	18	18	-	-
Risk (Contingent asset management funding)	-	77	77	-	-
	-	**196**	**196**	**-**	**-**
Other expenditure					
Financing costs	687	587	(100)	-	1,157
Corporation tax	-	29	29	-	(14)
	687	**616**	**(71)**	**-**	**1,143**
Total expenditure	**4,880**	**5,003**	**123**	**(279)**	**5,355**
Total Financial Out/(under) performance				**(308)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	11,039	10,864	175	-
Franchised track access charges	2,859	3,315	(456)	(176)
Other Single Till Income	811	896	(85)	(97)
Total Income	**14,709**	**15,075**	**(366)**	**(273)**
Operating expenditure				
Network operations	1,084	1,027	(57)	(57)
Support costs	1,286	1,220	(66)	64
Traction electricity, industry costs and rates	1,388	1,703	315	(5)
Maintenance	3,003	2,607	(396)	(376)
Schedule 4	657	486	(171)	(170)
Schedule 8	51	186	135	136
	7,469	**7,229**	**(240)**	**(408)**
Capital expenditure				
Renewals	5,148	5,181	33	(301)
Enhancements	5,180	4,992	(188)	(49)
Other	-	-	-	-
	10,328	**10,173**	**(155)**	**(350)**
Risk expenditure				
Risk (Centrally-held)	-	273	273	-
Risk (Route-controlled)	-	69	69	-
Risk (Contingent asset management funding)	-	292	292	-
	-	**634**	**634**	**-**
Other expenditure				
Financing costs	3,563	2,957	(606)	-
Corporation tax	1	84	83	-
	3,564	**3,041**	**(523)**	**-**
Total expenditure	**21,361**	**21,077**	**(284)**	**(758)**
Total Financial Out/(under) performance				**(1,031)**

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations, except as noted below in (4). The prior year numbers have not been restated, except as noted below in (4).

(4) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative and prior year sections of the statement.

Comments:

(1) This statement shows that Network Rail's Eastern net expenditure (Total income less Total expenditure) was broadly in line with the regulatory baseline for this year as lower renewals and risk funds in the baseline have been offset by additional interest costs and maintenance. Across the control period net expenditure is around £0.65bn higher than expected with financing costs £0.6bn higher.

(2) This statement also shows that Network Rail Eastern has recognised financial underperformance of around £0.3bn this year and £1.0bn across the control period. Underperformance this year includes: additional maintenance activity, inflationary pressures and higher payments under the train performance regime. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, industrial action in 2022/23 and inflationary pressures.

(3) Income – Grant income is broadly consistent with the regulatory baseline this year but higher across the control period. The higher income across the control period arises from agreed increases with DfT and disproportionate use of the England & Wales risk funds, have been offset by lower interest grants, reflecting lower market interest costs across the control period. Grants are lower than the previous year reflecting a different profile of activity and utilisation of the grant funding available in Eastern. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year mainly due to lower Traction electricity charges as the costs Network Rail pays for electricity has also been lower than the regulatory baseline this year. Across the control period, less income has been received than the regulatory baseline expected. This is mainly due to lower costs for electricity, with many operators having pre-purchased CP6 requirements when market prices were lower than current levels following Russian aggression in Ukraine. In addition, variable track income has been lower due to reduced level of services ran during the Covid-19 pandemic period and the onwards impact of passenger demand. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is higher than the previous year. This is largely because the prior year comparatives have been uplifted using November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is broadly similar to the regulatory baseline as reduced property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations, has been offset by extra property sales. The adverse variance across the control period is mainly due to the lower property rental income following the pandemic. To support retail and commercial estate tenants during the pandemic Network Rail cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Whilst the situation is improving, it remains below the pre-Covid time. Other single till income is broadly in line with the previous year. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were slightly higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year with the largest contribution from rising electricity market prices. Across the control period higher electricity prices and the strengthening of Eastern's regional management team through the PPF process have resulted in higher expenses. Costs are lower than the previous year as higher electricity costs have been more than offset by reduced restructuring costs and fewer projects qualifying as Renewals (refer to Statement 3.6). Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year due to savings in Traction electricity and Business rates. Whilst market electricity prices have increased significantly in the past two years, many of the operators in Eastern had pre-purchased requirements, which limited the impact of market rises. Business rates have been lower due to government delays in re-setting these rates owing to Covid-19. Costs across the control period are lower than the regulatory baseline for the same reason. Costs are broadly similar to the previous year. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year mainly due to additional activity was delivered on the network as. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year. Schedule 8 costs are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is lower than the regulatory baseline this year which brings the position across the control period broadly into line with the regulatory expectation. This reflects higher like-for-like project costs across the portfolio in Eastern offset by reduced activity. Investment was lower in the current year as the funding across the region was reprioritised elsewhere. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements are undertaken at the directions of the funder (Department for Transport (DfT)) who specify outputs and funding for each programme. . Expenditure this year and across the control period is broadly in line with the regulatory baseline. Financial underperformance this control period has been mainly against legacy CP5 programmes that were completed early in CP6. Enhancement investment is set out in more detail in Statement 3.7.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m cash prices unless stated

(14)Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15)Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16)Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Eastern
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	192	176	16	-	174
Variable usage charge	75	107	(32)	(32)	69
Electrification asset usage charge	9	14	(5)	(5)	8
Capacity charge	-	-	-	-	-
Open access income	12	21	(9)	(9)	14
Managed stations long term charge	16	14	2	2	15
Franchised stations long term charge	40	35	5	5	37
Traction electricity charges	162	249	(87)	-	152
Schedule 4 access charge supplement	63	58	5	5	64
	569	**674**	**(105)**	**(34)**	**533**
Other single till income					
Freight income					
Freight variable usage charge	28	32	(4)	(4)	25
Freight other income	2	3	(1)	(1)	2
	30	**35**	**(5)**	**(5)**	**27**
Stations income					
Managed stations qualifying expenditure	17	16	1	1	16
Franchised stations lease income	12	12	-	-	14
	29	**28**	**1**	**1**	**30**
Facility and financing charges					
Facility charges	17	17	-	-	16
	17	**17**	**-**	**-**	**16**
Property income	**-**	**-**	**-**	**-**	**-**
Property rental	56	70	(14)	(14)	52
Property sales	5	5	-	-	6
	61	**75**	**(14)**	**(14)**	**58**
Depots Income	**36**	**26**	**10**	**10**	**32**
Other income	**1**	**2**	**(1)**	**(1)**	**2**
Freight traction electricity charges	**5**	**2**	**3**	**-**	**8**
Total other single till income	**179**	**185**	**(6)**	**(9)**	**173**
Total Regionally-managed income	**748**	**859**	**(111)**	**(43)**	**706**
Centrally-managed income					
Network grant	2,205	2,179	26	-	2,401
Internal financing grant	194	262	(68)	-	184
External financing grant	192	132	60	-	152
BTP grant	29	32	(3)	-	34
Corporation tax grant	-	29	(29)	-	(15)
Infrastructure cost charges	8	7	1	-	7
Schedule 4 access charge supplement	16	15	1	1	18
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	2,644	**2,656**	**(12)**	**1**	2,781
Other single till income					
Property income					
Property rental	7	9	(2)	(2)	3
Property sales	20	7	13	15	8
	27	**16**	**11**	**13**	**11**
Total other single till income	**27**	**16**	**11**	**13**	**11**
Total centrally-managed income	**2,671**	**2,672**	**(1)**	**14**	**2,792**
Total income	**3,419**	**3,531**	**(112)**	**(29)**	**3,498**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	961	959	2	-
Variable usage charge	341	484	(143)	(143)
Electrification asset usage charge	40	57	(17)	(17)
Capacity charge	-	-	-	-
Open access income	67	96	(29)	(29)
Managed stations long term charge	72	69	3	4
Franchised stations long term charge	175	171	4	4
Traction electricity charges	468	690	(222)	-
Schedule 4 access charge supplement	356	352	4	4
	2,480	**2,878**	**(398)**	**(177)**
Other single till income				
Freight income				
Freight variable usage charge	118	128	(10)	(10)
Freight other income	7	7	-	(1)
	125	**135**	**(10)**	**(11)**
Stations income				
Managed stations qualifying expenditure	72	74	(2)	(2)
Franchised stations lease income	61	67	(6)	(4)
	133	**141**	**(8)**	**(6)**
Facility and financing charges				
Facility charges	73	73	-	(1)
	73	**73**	**-**	**(1)**
Property income				
Property rental	159	256	(97)	(97)
Property sales	17	16	1	2
	176	**272**	**(96)**	**(95)**
Depots Income	**150**	**125**	**25**	**26**
Other income	**3**	**7**	**(4)**	**(7)**
Freight traction electricity charges	**15**	**7**	**8**	**-**
Total other single till income	**675**	**760**	**(85)**	**(94)**
Total Regionally-managed income	**3,155**	**3,638**	**(483)**	**(271)**
Centrally-managed income				
Network grant	9,144	8,680	464	-
Internal financing grant	892	1,155	(263)	-
External financing grant	851	794	57	-
BTP grant	151	150	1	-
Corporation tax grant	1	85	(84)	-
Infrastructure cost charges	39	39	-	-
Schedule 4 access charge supplement	87	86	1	1
Traction electricity charges	253	312	(59)	-
Freight traction electricity charges	5	4	1	-
	11,423	**11,305**	**118**	**1**
Other single till income				
Property income				
Property rental	85	92	(7)	(6)
Property sales	46	40	6	3
	131	**132**	**(1)**	**(3)**
Total other single till income	**131**	**132**	**(1)**	**(3)**
Total centrally-managed income	**11,554**	**11,437**	**117**	**(2)**
Total income	**14,709**	**15,075**	**(366)**	**(273)**

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income in the current year is lower than the regulatory baseline mainly due to lower traction electricity income. Revenue across the control period is lower than the regulatory baseline, due to lower property income, Traction electricity income and variable usage charge. Overall income is broadly similar to the previous year.

Regionally-managed income

(1) Total Regionally-managed income is lower than the CP6 baseline this year, as income from Traction electricity remained below regulatory expectations, and fewer train services ran compared to the CP6 assumption. Across the control period, Regionally-managed income has been lower than expected as Covid and industrial action reduced variable track access income, Covid impacted property income and overall lower average electricity prices. Regionally-managed income is higher than last year mainly due to increased inflation uplift to track access contracts and higher electricity costs.

(2) Infrastructure cost charges - fixed charge income was higher than the regulatory expectation this year and is now in line for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year. This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the control period shortfall. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Across the control period lower income reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Electrification asset usage charge – this income stream is designed to recover Network Rail's operating, maintenance and renewals costs of the electrification assets on the network (i.e. overhead lines and 3rd rail). As noted above, fewer trains ran this year than the regulatory baseline expected meaning less EAU income was received leading to financial underperformance. Across the control period underperformance is due to reduced services this control period owing to the aforementioned impacts of Covid-19 and industrial action.

(5) Open access income – income is lower than the regulatory baseline in the year and the control period mainly due to responsibility for the Open access income received by London Underground moving over from the Eastern region to the Southern region.

(6) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is lower than the regulatory assumption as the widely-publicised increases in short term market prices in recent years have not fully impacted operators in this region as many of them had opted to pre-purchase their electricity requirements earlier in the control period before Russian military aggression in eastern Europe caused market price increases. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(8) Freight Income – income is lower than the regulatory baseline this year as planned growth in freight demand has not fully materialised. The reduced income across the control period is also due to the disruptive impact of industrial action in 2022/23 which limited the number of services that Network Rail has been able to run to satisfy the demand from freight operators.

(9) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

(10) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period due to additional services offered to operators. Income is higher than the previous year which is partly due to inflationary benefits from many agreements with operators being linked to the previous year's March RPI (i.e. March 2022) which was exceptionally high, whereas the 2022/23 income has been uplifted using the November 2023 CPI, in line with the Regulatory Accounting guidelines (December 2019).

Centrally-managed income

(1) Aggregate Centrally-managed income is consistent with the CP6 baseline this year and slightly higher across the control period due to higher grant income. Income is lower than the previous year reflecting profiling of activity and so recognition of Network grant revenue.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is broadly similar to the regulatory baseline for the year but higher across the control period. This includes additional funding agreed with DfT and a higher use of the England & Wales risk funds in Eastern compared to the regulatory baseline. This resulted in lower utilisation of risk funds in other England & Wales regions. Income is higher than the previous year reflecting the profiling of activity in the region across the control period.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) British Transport Police grant – these grants are used to pay the costs of the core British Transport Police, included in Statement 3.4. Income is broadly in line with the regulatory baseline for the current year and the control period in total. Income is lower than the prior year, reflecting lower costs this year from British Transport Police as shown in Statement 3.4.

(7) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

(8) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(9) Property rental – whilst income was higher than the previous year it remained lower than regulatory baseline, continuing the trend of the control period overall. This is due to the aforementioned impact of Covid-19.

(10) Property sales – whilst sales this year are in line with the regulatory baseline they are higher across the control period. Property sales are only made where there is a sound business case, especially given the bespoke nature of most of the transactions. Therefore, an element of variability is to be expected. Property sales this control period includes the proceeds from disposal of part of the network which is treated as neutral for financial performance measure purpose.

Eastern
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	224	205	(19)	(20)	215
Maintenance	693	521	(172)	(170)	620
Support costs	91	46	(45)	(45)	74
Traction electricity, industry costs and rates	303	406	103	(3)	278
Schedule 4	102	66	(36)	(37)	246
Schedule 8	70	38	(32)	(32)	59
	1,483	**1,282**	**(201)**	**(307)**	**1,492**
Capital expenditure					
Renewals	782	823	41	(37)	1,002
Enhancements	1,520	1,483	(37)	28	1,267
	2,302	**2,306**	**4**	**(9)**	**2,269**
Total Regionally-managed expenditure	**3,785**	**3,588**	**(197)**	**(316)**	**3,761**
Centrally-managed expenditure					
Operating expenditure					
Network operations	9	8	(1)	(1)	8
Maintenance	23	19	(4)	(2)	40
Support costs	193	216	23	16	243
Traction electricity, industry costs and rates	13	9	(4)	-	15
Schedule 4	2	20	18	18	-
Schedule 8	2	5	3	3	3
	242	**277**	**35**	**34**	**309**
Capital expenditure					
Renewals	162	327	165	3	137
Enhancements	4	-	(4)	-	5
	166	**327**	**161**	**3**	**142**
Risk Expenditure	**-**	**196**	**196**	**-**	**-**
Other					
Financing costs	687	587	(100)	-	1,157
Taxation	-	29	29	-	(14)
	687	**616**	**(71)**	**-**	**1,143**
Total centrally-managed expenditure	**1,095**	**1,416**	**321**	**37**	**1,594**
Total expenditure	**4,880**	**5,004**	**124**	**(279)**	**5,355**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	1,045	990	(55)	(55)
Maintenance	2,886	2,503	(383)	(362)
Support costs	364	206	(158)	(159)
Traction electricity, industry costs and rates	850	1,121	271	(8)
Schedule 4	655	394	(261)	(260)
Schedule 8	42	165	123	123
	5,842	**5,379**	**(463)**	**(721)**
Capital expenditure				
Renewals	4,404	4,278	(126)	(327)
Enhancements	5,012	4,992	(20)	(49)
	9,416	**9,270**	**(146)**	**(376)**
Total Regionally-managed expenditure	**15,258**	**14,649**	**(609)**	**(1,097)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	39	37	(2)	(2)
Maintenance	117	104	(13)	(14)
Support costs	922	1,014	92	223
Traction electricity, industry costs and rates	538	582	44	3
Schedule 4	2	92	90	90
Schedule 8	9	21	12	13
	1,627	**1,850**	**223**	**313**
Capital expenditure				
Renewals	744	903	159	26
Enhancements	168	-	(168)	-
Other	-	-	-	-
	912	**903**	**(9)**	**26**
Risk Expenditure	**-**	**634**	**634**	**-**
Other				
Financing costs	3,563	2,957	(606)	-
Taxation	1	84	83	-
	3,564	**3,041**	**(523)**	**-**
Total centrally-managed expenditure	**6,103**	**6,428**	**325**	**339**
Total expenditure	**21,361**	**21,077**	**(284)**	**(758)**

Statement 3: Analysis of expenditure, Eastern – continued

In £m cash prices unless stated

Note:

(1) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative and prior year sections of the statement.

Comments:

(1) Overall, expenditure is lower than the regulatory baseline this year, as higher financing costs and additional maintenance activity have been more than offset by lower renewals and the presence of the risk funds included in the baseline. Expenditure has been higher across the control period with the largest contribution from financing costs. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across in the control period are higher with additional capital investment and operating costs partly offset by lower traction electricity cots. Expenses are broadly similar to the previous year as higher Schedule 4 costs from industrial action in 2022/23 has been partly offset by higher maintenance and enhancements costs. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally- managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail's index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Eastern
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	102	98	(4)	(4)	95
Operations Management	31	22	(9)	(9)	29
Controllers	18	10	(8)	(8)	18
Electrical control room operators	6	6	-	-	6
	157	**136**	**(21)**	**(21)**	**148**
Non signaller expenditure					
Mobile operations managers	20	15	(5)	(5)	20
Managed stations	16	14	(2)	(2)	14
Performance	5	7	2	2	5
Other	26	32	6	6	28
Total Regionally-managed Operations expenditure	**224**	**204**	**(20)**	**(20)**	**215**
Centrally-managed Operations expenditure					
Network Services	9	8	(1)	(1)	8
Total centrally-managed Operations expenditure	**9**	**8**	**(1)**	**(1)**	**8**
Total operations expenditure	**233**	**212**	**(21)**	**(21)**	**223**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	475	473	(2)	(2)
Operations Management	133	106	(27)	(27)
Controllers	75	51	(24)	(24)
Electrical control room operators	25	30	5	5
	708	**660**	**(48)**	**(48)**
Non signaller expenditure				
Mobile operations managers	88	74	(14)	(14)
Managed stations	69	67	(2)	(2)
Performance	25	36	11	11
Other	155	153	(2)	(2)
Total Regionally-managed Operations expenditure	**1,045**	**990**	**(55)**	**(55)**
Centrally-managed Operations expenditure				
Network Services	39	37	(2)	(2)
Total centrally-managed Operations expenditure	**39**	**37**	**(2)**	**(2)**
Total operations expenditure	**1,084**	**1,027**	**(57)**	**(57)**

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were slightly higher than the regulatory expectation this year with adverse variances in most categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Across the control period, costs have been broadly consistent with the regulatory expectation. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

(3) Operations management – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. There was also the creation of new Putting Passengers First initiatives in York and the completion of a project allowing the more seamless flow of information to operator owned Customer Information Systems. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

(4) Controllers – costs are higher than the regulatory baseline this year continuing the trend of the earlier years of the control period. This included extra capabilities included by the Region in the York area through the Putting Passengers First initiative. The higher costs in the control period also includes an increase in the staff premium costs as a result of high sickness levels during Covid-19 and the need to have sufficient cover for sick and self-isolating staff to ensure that the network could remain operational. Costs are consistent with the previous year.

(5) Mobile operations managers – costs were higher than the regulatory baseline this year, continuing the trend from earlier in the control period. This was due to additional resource being invested in these teams to help improve performance and quicken recovery of the network following incidents, which has contributed to the saving shown in the Performance line of this statement. Following the Putting Passengers First programme extra capabilities were included in the Region team in this area to improve services.

(6) Performance – costs were lower than the regulatory baseline this year, continuing the trend from earlier in the control period. Through Putting Passengers First organisational changes, some of the responsibilities relating to performance were embedded in the resources managed through Mobile operations managers and Operations management. Whilst this does not change the overall Operations expenditure for Eastern, it does alter how it is reported in these Regulatory Financial Statements, particularly in the Mobile operations managers category.

(7) Other – costs are lower than the regulatory baseline this year which brings the position across the control period broadly into line with the regulatory expectation.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period. Savings from workforce reform initiatives including restrained pay, performance-related pay reductions and management modernisation reorganisation have been offset by higher inflationary pressures, reflecting price movements in the wider economy.

Eastern
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	271	224	(47)	(47)	244
Signalling & Telecoms	104	80	(24)	(24)	98
Civils	120	69	(51)	(58)	105
Buildings	35	22	(13)	(4)	32
Electrical power and fixed plant	43	39	(4)	(4)	42
Other network operations	120	87	(33)	(33)	99
	693	**521**	**(172)**	**(170)**	**620**
Centrally-managed maintenance expenditure					
Telecoms	10	11	1	1	9
Route Services - Asset Information	12	11	(1)	(1)	11
STE Maintenance	1	1	-	-	-
Property	-	-	-	-	-
Route Services - Other	(2)	(4)	(2)	(2)	16
Other	2	-	(2)	-	4
	23	**19**	**(4)**	**(2)**	**40**
Total maintenance expenditure	**716**	**540**	**(176)**	**(172)**	**660**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	1,189	1,092	(97)	(86)
Signalling & Telecoms	462	389	(73)	(73)
Civils	439	333	(106)	(119)
Buildings	138	110	(28)	(6)
Electrical power and fixed plant	199	188	(11)	(12)
Other network operations	459	391	(68)	(66)
	2,886	**2,503**	**(383)**	**(362)**
Centrally-managed maintenance expenditure				
Telecoms	36	50	14	13
Route Services - Asset Information	54	53	(1)	(6)
STE Maintenance	4	7	3	4
Property	1	2	1	1
Route Services - Other	17	(8)	(25)	(28)
Other	5	-	(5)	2
	117	**104**	**(13)**	**(14)**
Total maintenance expenditure	**3,003**	**2,607**	**(396)**	**(376)**

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year mainly due to greater costs in the Regionally-managed category, as additional activity was delivered on the network as described below. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Costs are higher than the prior year comparative, reflecting extra activity undertaken in the Region as set out below.

Regionally-managed maintenance costs

(1) Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across all categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF, increased inspections to comply with CEFA and CAFA standards and extra costs to comply with track worker safety standards. Costs across the control period are 12 per cent higher than the regulatory baseline assumed which has included the delivery of approximately 17 per cent more maintenance activity on reportable weighted volume measures. Higher costs have also arisen from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules. Costs are 15 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 10 per cent compared to the previous year.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

(2) Track – track costs are the largest component of Eastern's overall maintenance expenditure. This year costs are, once again, higher than the regulatory baseline which includes additional reportable volumes being undertaken, specific performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance in the current year and across the control period. Furthermore, the higher costs this year include additional expenses arising from a new stoneblower contract. The costs of this are higher than the previous multi-year contract reflecting higher market prices but also a change in the outputs of the contract to deliver improved services. In addition, a fire at a supplier's quarry has increased ballast costs as alternative sources have had to be established. The overspend across the control period is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances. Expenses are higher than the previous year arising from additional work undertaken the network and from greater than inflation materials and contractor costs increases.

(3) Signalling & telecoms – this year, costs are higher than the regulatory baseline, continuing the trend across the control period. The changing of organisational and staffing structures have predominantly increased the costs compared to the regulatory assumption for the year as have costs to develop additional skills to provide improved asset performance. Expenditure across the control period is higher than the regulatory baseline, primarily due to the aforementioned reasons and also due to adverse weather experienced in the first year of the control period, as well as costs incurred in response to Covid-19 such as additional staffing to cover absences and separate vehicles to comply with social distancing rules. Expenses have increased slightly compared to the previous year, including higher than inflation materials costs increases.

(4) Civils – costs were higher than the regulatory baseline this year. The predominant reason for this was due to increased costs in meeting CEFA and CAFA examination standards. Detailed examinations of Buildings & Civils are required to maintain Network Rail's operating license. In 2021/22, Eastern reviewed and changed contracting strategy leading to short term increases in cost but will ensure Eastern will deliver on meeting examination requirements. Costs have also increased due to an increased vegetation workbank. Spend across the control period is higher than the regulatory baseline due to the aforementioned reasons. The overspend in the current year and across the control period is partly mitigated by reduced reactive maintenance works. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher levels of reactive maintenance. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline but this is almost all due to reactive maintenance activity variances. Costs are higher than the previous year, reflecting increased visual and detailed inspections this year.

(6) Other network operations – costs are higher than the regulatory baseline this year, continuing the trend across the control period. These extra costs include inheritance of property through Putting Passengers First programme with perceived insufficient funding, increases in costs were realised from asset management compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance this year and across the control period. In addition, extra depots have been set up across the Eastern region to be closer to the infrastructure and allow quicker response times to mitigate faults, but this comes with an increase in these indirect costs. Across the control period spend is higher than the regulatory baseline, primarily due to the additional aforementioned causes as well as the costs occurred in the response to Covid-19. Costs are higher than the prior year comparative which benefitted from some non-recurring commercial settlement benefits. The current year also included additional training costs to develop staff competencies and reduced delivery of capital projects by maintenance teams.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – costs are lower than the regulatory baseline this year and across the Control Period, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims. Costs are higher than the previous year due to a catch up of projects this year.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

(3) Route services – other – costs are higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

(4) Other – whilst there are minimal costs in the current year, costs have been higher than the £nil regulatory baseline across the control period. This is mostly due to variances on reactive maintenance projects compared to the neutral regulatory baseline. In line with the guidance agreed with ORR for assessing financial performance, variances on these activities are not included. The marginal positive financial performance across the control period is mostly due to benefits earlier in the control period from notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories in the Regions). Costs are lower than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 included the reversal of some of the benefits reported in 2021/22.

Eastern
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	3	3	-	-	2
Finance	6	4	(2)	(2)	5
Accommodation	26	14	(12)	(12)	27
Utilities	40	20	(20)	(20)	23
Other	16	5	(11)	(11)	17
	91	**46**	**(45)**	**(45)**	**74**
Centrally-managed Support costs					
Finance & Legal	14	18	4	4	10
Communications	5	6	1	1	5
Human Resources	9	3	(6)	(6)	7
System Operator	20	25	5	5	17
Property	1	7	6	6	-
Telecoms	20	18	(2)	(2)	23
Network Services	-	-	-	-	-
Safety Technical and Engineering	14	16	2	1	14
RS - IT and Business Services	40	37	(3)	(3)	37
RS - Asset Information	6	13	7	(12)	7
RS - Directorate	11	10	(1)	(1)	2
Other corporate functions	1	2	1	1	1
Insurance	11	19	8	8	(3)
OPEX/CAPEX Adjustment	45	32	(13)	-	73
Group costs	(4)	10	14	14	50
	193	**216**	**23**	**16**	**243**
Total support costs	**284**	**262**	**(22)**	**(29)**	**317**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	14	13	(1)	(1)
Finance	29	16	(13)	(13)
Accommodation	112	66	(46)	(45)
Utilities	117	96	(21)	(19)
Other	92	15	(77)	(81)
	364	**206**	**(158)**	**(159)**
Centrally-managed Support costs				
Finance & Legal	59	80	21	20
Communications	25	28	3	2
Human Resources	39	35	(4)	(1)
System Operator	72	101	29	29
Property	(4)	21	25	25
Telecoms	107	103	(4)	(5)
Network Services	12	21	9	9
Safety Technical and Engineering	64	68	4	5
RS - IT and Business Services	182	180	(2)	(1)
RS - Asset Information	27	47	20	34
RS - Directorate	42	40	(2)	(3)
Other corporate functions	19	23	4	6
Insurance	32	79	47	47
OPEX/CAPEX Adjustment	249	132	(117)	-
Group costs	(3)	56	59	56
	922	**1,014**	**92**	**223**
Total support costs	**1,286**	**1,220**	**(66)**	**64**

Statement 3.3: Analysis of support costs, Eastern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to additional costs in Regionally-managed activities, mostly caused by higher electricity prices. Costs across the control period are higher than the regulatory baseline as greater Regionally-managed expenses have been partly offset by savings in Centrally-managed categories. Costs are lower than the previous year as higher electricity costs have been more than offset by reduced restructuring costs and fewer projects qualifying as Renewals (refer to Statement 3.6).

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline this year due to higher electricity prices driving Utilities costs and extra capabilities built-up through the PPF re-organisation programme. The higher costs across the control period are for the same reason along with Covid-19 related expenditure during the pandemic. Costs are higher than the prior due to higher Utilities costs.

(2) Finance – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.

(3) Accommodation – costs are significantly higher than the baseline expectation this year and across the control period primarily due to implementation of the PPF programme and devolution of activity to Regions necessitating increased office and accommodation requirements, which were in excess of expectation. The higher costs in the control period also includes expenditure to ensure Covid-19 compliance at Network Rail sites during the pandemic.

(4) Utilities – costs are higher than the baseline this year and across the control period reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices in recent years in the wake of geopolitical disruption and uncertainty. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

(5) Other – costs were higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. This is primarily due to implementation of the PPF programme, which saw an increase in costs in Eastern. There was also the impact of commercial claims settled for higher than planned in the first year of the control.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are favourable to the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been more than offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are lower than the previous year mainly due to fewer projects classified as opex rather than capex in this category and lower reorganisation costs.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(3) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings, as well as from extra training costs this year.

(4) System Operator – costs are lower than the regulatory baseline this year and across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings across the control period also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(5) Property - costs are lower than the regulatory baseline this year and across the control period in total. These savings include savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes as well as benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(6) Telecoms – costs are higher than the regulatory target this year and across the control period in total. Whilst savings have been made through reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, inflationary pressures have been present in the supply chain, forcing costs up. Savings have been made compared to the previous year, including a reduction in the number and extent of opex projects carried out.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

(7) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(8) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed.

(9) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(10) Route Services – Directorate – costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(11) Other Corporate Functions – costs are lower than the regulatory expectation this year and across the control period. As noted in the 2022/23 Regulatory Financial Statements savings in the control period include the Putting Passenger First reorganisation costs which have been reported in the Group line this control period in this statement.

(12) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

(13) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

(14) Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year. As noted in the 2022/23 Regulatory Financial Statements, Group costs in that year included workforce reform credits given to the regions and functions.

Eastern
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	178	252	74	(2)	156
Business rates	92	122	30	-	89
British transport police costs	33	32	(1)	(1)	33
	303	**406**	**103**	**(3)**	**278**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	7	5	(2)	-	8
RDG membership costs	1	-	(1)	-	1
RSSB costs	4	4	-	-	5
Reporters fees	1	-	(1)	-	1
Other industry costs	-	-	-	-	-
	13	**9 -**	**4**	**-**	**15**
Total traction electricity, industry costs and rates	**316**	**415**	**99 -**	**3**	**293**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	490	700	210	(2)
Business rates	262	327	65	-
British transport police costs	98	94	(4)	(6)
	850	**1,121**	**271**	**(8)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	252	315	63	2
Business rates	176	164	(12)	-
British transport police costs	54	56	2	1
ORR licence fee and railway safety levy	29	24	(5)	-
RDG membership costs	5	5	-	-
RSSB costs	18	18	-	-
Reporters fees	4	-	(4)	-
Other industry costs	-	-	-	-
	538	**582**	**44**	**3**
Total traction electricity, industry costs and rates	**1,388**	**1,703**	**315 -**	**5**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Eastern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and across the control period mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are slightly higher than the previous year reflecting higher traction electricity costs.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulatory assumption despite well-publicised increases in electricity costs in recent years. These increases have not fully impacted operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. Costs across the control period are lower expected price rises earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred. Costs were higher than the previous year reflecting market price increases. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Eastern – continued

In £m cash prices unless stated

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs were slightly higher than the regulatory baseline for the control period reflecting additional services requested from British Transport Police to improve passenger safety and experience.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year are higher than the regulatory baseline as the regulator extends its services to offer regulation across the industry. This is also the driver of the increase in the overall control period. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Eastern

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	102	66	(36)	(37)	246
Access charge supplement Income	(63)	(60)	3	5	(64)
Net (income)/cost	**39**	**6**	**(33)**	**(32)**	**182**
Schedule 8					
Performance element income	70	-	(70)	(70)	59
Performance element costs	-	38	38	38	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**70**	**38**	**(32)**	**(32)**	**59**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	2	20	18	18	-
Access charge supplement Income	(16)	(15)	1	-	(18)
Net (income)/cost	**(14)**	**5**	**19**	**18**	**(18)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	2	5	3	3	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**2**	**5**	**3**	**3**	**3**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	104	86	(18)	(19)	246
Access charge supplement Income	(79)	(75)	4	5	(82)
Net (income)/cost	**25**	**11**	**(14)**	**(14)**	**164**
Schedule 8					
Performance element income	70	-	(70)	(70)	59
Performance element costs	2	43	41	41	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**72**	**43**	**(29)**	**(29)**	**62**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	655	394	(261)	(260)
Access charge supplement Income	(356)	(354)	2	4
Net (income)/cost	**299**	**40**	**(259)**	**(256)**
Schedule 8				
Performance element income	(21)	-	21	21
Performance element costs	63	165	102	102
Access charge supplement Income	-	-	-	-
Net (income)/cost	**42**	**165**	**123**	**123**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	2	92	90	90
Access charge supplement Income	(87)	(86)	1	-
Net (income)/cost	**(85)**	**6**	**91**	**90**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	9	21	12	13
Access charge supplement Income	-	-	-	-
Net (income)/cost	**9**	**21**	**12**	**13**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	657	486	(171)	(170)
Access charge supplement Income	(443)	(440)	3	4
Net (income)/cost	**214**	**46**	**(168)**	**(166)**
Schedule 8				
Performance element income	(21)	-	21	21
Performance element costs	72	186	114	115
Access charge supplement Income	-	-	-	-
Net (income)/cost	**51**	**186**	**135**	**136**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are higher than the regulatory baseline this year, mostly reflecting financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). The Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Any benefit is offset by higher compensation payments rates, which are also subject to contractual annual inflationary increases. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events this year, with the highest level of named storm events in the UK since the current system began in 2015/16. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Also, nearly one-fifth of the financial underperformance this year has been due to higher inflation increasing the compensation rates paid to operators to higher than the regulatory baseline for 2023/24. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

(2) Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed costs.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern – continued

In £m cash prices unless stated

(3) Schedule 8 – costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow. In addition, across the control period, a lower than expected level of costs have been recognised in Centrally-managed areas, with more being reflected in the Regionally-managed section of this statement.

Eastern
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	71	57	(14)	-	86
PL Replace Partial	54	61	7	-	56
PL High Output	37	73	36	-	28
PL Refurbishment	8	1	(7)	-	16
PL Track Slab Track	-	(1)	(1)	-	2
Switches & Crossing - Replace	78	75	(3)	-	77
Switches & Crossing - Other	14	4	(10)	-	19
Off Track	28	15	(13)	-	36
Track Other	10	(14)	(24)	-	16
	300	**271**	**(29)**	**(31)**	**336**
Signalling					
Signalling Full	45	9	(36)	0	51
Signalling Partial	42	33	(9)	0	60
Signalling Refurb	27	43	16	0	33
Level crossings	25	18	(7)	0	42
Minor works	40	157	117	0	76
Other	0	(1)	(1)	0	-
	179	**259**	**80**	**(8)**	**262**
Civils					
Underbridges	29	109	80	-	73
Overbridges	33	6	(27)	-	30
Major structures	10	2	(8)	-	3
Tunnels	2	(1)	(3)	-	7
Minor works	3	-	(3)	-	1
Other	13	3	(10)	-	15
	90	**119**	**29**	**15**	**129**
Earthworks					
Earthworks - Embankments	40	19	(21)	-	31
Earthworks - Soil Cuttings	4	6	2	-	3
Earthworks - Rock Cuttings	2	5	3	-	2
Earthworks - Other	1	1	-	-	3
	47	**31**	**(16)**	**(3)**	**39**
Buildings					
Managed stations	3	3	-	-	15
Franchised stations	36	18	(18)	-	37
Light maint depots	4	-	(4)	-	7
Depot plant	1	-	(1)	-	1
Lineside buildings	1	1	-	-	5
MDU buildings	12	5	(7)	-	15
Other	1	5	4	-	1
	58	**32**	**(26)**	**(6)**	**81**
Electrical power and fixed plant					
AC distribution	10	10	-	-	10
Overhead Line	42	41	(1)	-	81
DC distribution	-	-	-	-	-
Conductor rail	2	-	(2)	-	3
Signalling Power Supplies	18	21	3	-	15
Other	1	1	-	-	-
Fixed plant	15	6	(9)	-	19
	88	**79**	**(9)**	**(7)**	**128**
Drainage					
Drainage (Track)	7	3	(4)	-	12
Drainage (Earthworks)	-	9	9	-	-
Drainage (Resilience)	3	4	1	-	4
	10	**16**	**6**	**3**	**16**
Property					
Property	10	16	6	-	11
	10	**16**	**6**	**-**	**11**
Total Regionally-managed renewals expenditure	**782**	**823**	**41**	**(37)**	**1,002**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	5
	-	**-**	**-**	**-**	**5**
Telecoms					
Operational communications	6	9	3	-	4
Network	10	3	(7)	-	5
SISS	4	2	(2)	-	4
Projects and other	-	2	2	-	2
Non-route capital expenditure	14	16	2	-	18
	34	**32**	**(2)**	**-**	**33**
Wheeled plant and machinery					
High output	6	7	1	-	6
Incident response	1	-	(1)	-	-
Infrastructure monitoring	1	6	5	-	1
Intervention	2	5	3	-	1
Materials delivery	6	9	3	-	4
On track plant	-	5	5	-	-
Seasonal	-	1	1	-	1
Other	9	44	35	-	9
	25	**77**	**52**	**-**	**22**
Route Services					
Business Improvement	13	1	(12)	-	15
IT Renewals	5	23	18	-	6
Asset Information	2	-	(2)	-	3
Other	1	5	4	-	2
	21	**29**	**8**	**-**	**26**
STE Renewals					
Intelligent infrastructure	18	12	(6)	-	23
Faster Isolations	2	2	-	-	3
Centrally Managed Signalling Costs	2	3	1	-	2
Research and development	20	29	9	-	15
Integrated Management System (Incl. BCR)	-	7	7	-	-
Other National SCADA Programmes	7	1	(6)	-	1
Small plant	4	3	(1)	-	4
Other	25	7	(18)	-	42
	78	**64**	**(14)**	**-**	**90**
Property					
Property	16	1	(15)	-	1
	16	**1**	**(15)**	**-**	**1**
Other renewals					
ETCS	-	1	1	-	10
Digital Railway	3	8	5	-	8
Civils & Drainage - Insurance Fund	5	8	3	5	2
Buildings - Insurance Fund	-	5	5	-	1
OPEX/CAPEX Adjustment	(45)	(32)	13	-	(73)
Phasing overlay	-	124	124	-	-
System Operator	7	9	2	-	10
Other renewals	18	1	(17)	(2)	2
	(12)	**124**	**136**	**3**	**(40)**
Total centrally-managed renewals expenditure	**162**	**327**	**165**	**3**	**137**
TOTAL RENEWALS EXPENDITURE	**944**	**1,150**	**206**	**(34)**	**1,139**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	393	334	(59)	-
PL Replace Partial	275	320	45	-
PL High Output	245	307	62	-
PL Refurbishment	73	14	(59)	-
PL Track Slab Track	10	(1)	(11)	-
Switches & Crossing - Replace	346	401	55	-
Switches & Crossing - Other	110	24	(86)	-
Off Track	165	95	(70)	-
Track Other	69	(55)	(124)	-
	1,686	**1,439**	**(247)**	**(152)**
Signalling				
Signalling Full	318	265	(53)	-
Signalling Partial	186	168	(18)	-
Signalling Refurb	103	160	57	-
Level crossings	143	176	33	-
Minor works	341	481	140	-
Other	-	(2)	(2)	-
	1,091	**1,248**	**157**	**(71)**
Civils				
Underbridges	276	471	195	-
Overbridges	90	57	(33)	-
Major structures	37	18	(19)	-
Tunnels	30	19	(11)	-
Minor works	18	(7)	(25)	-
Other	64	39	(25)	-
	515	**597**	**82**	**(7)**
Earthworks				
Earthworks - Embankments	166	101	(65)	-
Earthworks - Soil Cuttings	18	29	11	-
Earthworks - Rock Cuttings	22	21	(1)	-
Earthworks - Other	7	3	(4)	-
	213	**154**	**(59)**	**(12)**
Buildings				
Managed stations	68	75	7	-
Franchised stations	134	131	(3)	-
Light maint depots	20	4	(16)	-
Depot plant	8	3	(5)	-
Lineside buildings	22	5	(17)	-
MDU buildings	62	37	(25)	-
Other	6	5	(1)	-
	320	**260**	**(60)**	**(41)**
Electrical power and fixed plant				
AC distribution	31	49	18	-
Overhead Line	302	244	(58)	-
DC distribution	-	10	10	-
Conductor rail	17	-	(17)	-
Signalling Power Supplies	63	104	41	-
Other	3	6	3	-
Fixed plant	55	35	(20)	-
	471	**448**	**(23)**	**(45)**
Drainage				
Drainage (Track)	53	33	(20)	-
Drainage (Earthworks)	2	27	25	-
Drainage (Resilience)	20	28	8	-
	75	**88**	**13**	**1**
Property				
Property	33	44	11	-
	33	**44**	**11**	**-**
Total Regionally-managed renewals expenditure	**4,404**	**4,278**	**(126)**	**(327)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	11	-	(11)	-
	11	**-**	**(11)**	**(6)**
Telecoms				
Operational communications	21	33	12	-
Network	25	17	(8)	-
SISS	13	17	4	-
Projects and other	6	7	1	-
Non-route capital expenditure	103	105	2	-
	168	**179**	**11**	**(11)**
Wheeled plant and machinery				
High output	40	31	(9)	-
Incident response	1	-	(1)	-
Infrastructure monitoring	5	26	21	-
Intervention	15	34	19	-
Materials delivery	17	50	33	-
On track plant	2	22	20	-
Seasonal	2	3	1	-
Other	51	93	42	-
	133	**259**	**126**	**-**
Route Services				
Business Improvement	91	42	(49)	-
IT Renewals	40	96	56	-
Asset Information	11	10	(1)	-
Other	10	14	4	-
	152	**162**	**10**	**-**
STE Renewals				
Intelligent infrastructure	99	70	(29)	-
Faster Isolations	9	17	8	-
Centrally Managed Signalling Costs	9	15	6	-
Research and development	71	86	15	-
Integrated Management System (Incl. BCR)	-	24	24	-
Other National SCADA Programmes	28	21	(7)	-
Small plant	17	14	(3)	-
Other	135	24	(111)	-
	368	**271**	**(97)**	**-**
Property				
Property	22	26	4	-
	22	**26**	**4**	**-**
Other renewals				
ETCS	50	21	(29)	(1)
Digital Railway	17	5	(12)	-
Civils & Drainage - Insurance Fund	14	42	28	34
Buildings - Insurance Fund	1	26	25	-
OPEX/CAPEX Adjustment	(245)	(132)	113	-
Phasing overlay	-	-	-	-
System Operator	30	33	3	-
Other renewals	23	11	(12)	10
	(110)	**6**	**116**	**43**
Total centrally-managed renewals expenditure	**744**	**903**	**159**	**26**
TOTAL RENEWALS EXPENDITURE	**5,148**	**5,181**	**33**	**(301)**

Statement 3.6: Analysis of renewals expenditure, Eastern

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall Renewals expenditure is lower than the regulatory baseline this year but broadly similar across the control period. Whilst there are lots of offsetting movements throughout the asset categories the largest contributor to the underspend in the year is the inclusion of a phasing adjustment in the regulatory baseline. Investment is lower than the previous year as more of the CP6 funds had been invested in earlier years of the control period.

Regionally-managed renewals

(1) Regionally-managed Renewals expenditure is lower than the regulatory baseline this year but higher across the control period. This additional investment includes higher like-for-like costs across the portfolio, resulting in financial underperformance being reported. Investment is lower than the previous year as more work had been delivered earlier in the control period with the largest year-on-year reduction in signalling.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(2) Track – investment is higher than the regulatory baseline this year, continuing the pattern of the earlier years of the control period. The additional spend this control period has been funded from the risk funds included in the regulatory baselines. As part of ORR's Periodic Review 2018 (PR18), some of Network Rail's renewals funding was ring-fenced as a risk fund, which could be used to invest more in renewals if other risks did not materialise. Higher costs this control period includes extra costs to comply with track worker safety rules and financial underperformance recognised as a result of higher like-for-like project costs. The financial underperformance recognised this control period includes issues relating to High output where the reduction in volumes outweighs the saving in cost. The reduction in volumes has arisen from plant failure, safety stand downs and possession productivity lost from weather and the aforementioned industrial action. In addition, Covid-19 impacted the ability to deliver, including where operators were stranded in eastern Europe due to Covid-19 travelling restrictions. Productivity concerns with High output has also dissuaded the Regions from choosing this as a track volume delivery method. This has reduced the volumes but retained the fixed costs of the operations, as the High output is delivered in-house. Higher inflation, particularly around materials and wider macro-economic movements, have added to project costs. Higher costs in earlier years of the control period included impact of Covid-19, necessitating extra welfare, increased labour, PPE purchases and vehicle costs, to ensure adherence to social distancing rules. Covid-19 also resulted in lost volumes in the plan. In such circumstances this leads to project prolongation or abortive costs. Volumes have also been lost due to industrial action whilst access from operators across the control period has also impacted ability to deliver planned workbanks, such as on the Manea Bridge Wheel timber project, meaning the original 28-day blockade was rejected by freight operators, and only multiple weekend access was granted, leading to increased delivery costs. Scope changes to ensure projects delivered the required asset management output and haulage issues augmented the financial underperformance. Financial underperformance in the current year also arose from reductions in planned volumes due to funding constraints meaning fixed costs were spread across fewer outputs, sunk costs were incurred on cancelled projects and prolongation costs on deferred projects. Reduced activity this year also led to loss of discounts previously secured on bulk material purchases allied to higher market prices for construction materials. Costs arising from the Track worker safety programme are considered neutral when assessing financial performance. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. Investment is lower than the previous year reflecting the phasing of activity in CP6, as more of the work had been delivered earlier in the control period.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(3) Signalling – expenditure was lower than the regulatory baseline this year, adding the to the underspend from earlier years of the control period. The reduction reflects repriotisation of funding to areas the Eastern team would deliver better outcomes for passengers, with reductions in Minor works and Level crossings. Financial underperformance has been recognised this control period. A large element of this relates to the Cambridge resignalling project, which has experienced a number of challenges including: scope creep, contractor estimates and access challenges. In addition, Covid-19 challenges were encountered in early years of the control period including contractor prolongation costs and re-prioritisation of works impacting the portfolio. Additional welfare, labour and vehicle costs were also incurred as direct consequence of Covid-19. There have also been issues on the South Kirby resignalling project as inadequate surveys and deteriorated assets required additional remediation works, which slowed progress elsewhere on the project. Financial underperformance in the current year also arose from reductions in planned volumes due to funding constraints meaning fixed costs were spread across fewer outputs, sunk costs were incurred on cancelled projects and prolongation costs on deferred projects. This year also required reworking of cable installation on the Cambridge interlocking project. Investment is lower than the previous year as major programmes had been delivered earlier in the control period. This includes reductions on: Cambridge interlocking works, replacement of life-expired assets on the Ferrybridge to Goole stretch of the network and replacing the frequency Division Multiplexing (FDM) transmission system that is currently in use between Colchester and Norwich.

(4) Civils – overall expenditure was lower than the regulatory baseline this year, augmenting the experience of earlier years of the control period. Overall, expenditure is lower as renewals activity has been reprioritised across the asset portfolios this control period, notably with extra Track, Buildings and Earthworks investment. Some minor financial underperformance has been recognised this control period including: difficulties or delays securing access, site complexity above the business plan assumptions and increased scope; challenges brought by Covid-19 illness, isolation and social distancing rules which has partly been offset by some innovation and technology benefits. Investment is lower than the previous year, with reductions across a range of projects including: Royal Border Bridge, Gainsborough Road, Swaithe Viaduct, Wellington street and Diving Duck.

(5) Earthworks – investment in the year was higher than the regulatory baseline continuing the trend experienced throughout the control period. The Stonehaven derailment in August 2020 led to increased focus on the management of the Earthworks asset across all Regions. In addition, like-for-like project costs have been higher which caused additional costs. This financial underperformance includes: changes to working practices as badgers were found on project sites, abortive costs as sites have not been progressed due to funding constraints in CP7 and emergency works, including Ingatestone embankment. Investment is higher than the previous year reflecting the profile of delivery of Earthworks improvements across the control period, with the largest contributor being works to stabilise a large active natural hillside landslip near the river Browney in Durham.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(6) Buildings – investment in the year is larger than the regulatory baseline which is contributing to the higher spend across the control period. The higher costs across the control period also reflects higher like-for-like project costs. This financial underperformance includes: extensive additional work required for Liverpool Street Station Roof Design than was initially assumed, problems with access resulting from a collapsed wall adjacent to the delivery site for Cricklewood maintenance depot, increased investment required as a result of changing work practices to adhere to Covid-19 rules, higher tender prices as markets and materials are impacted by inflation, emergency works on Harringay station and a late change to the designs at Selby substation. Investment this year is lower than the previous year with a noticeable contribution in Managed stations, where the Liverpool Street station roof replacement project was deferred as funding was reprioritised across Eastern this year.

(7) Electrical power and fixed plant – investment in the current year is higher than the baseline adding to the higher costs in previous years of CP6. The higher costs this control period includes higher like-for-like project costs and so financial underperformance has been recognised. This includes delays and lower productivity than anticipated in the OLE Refurbishment campaign in Anglia with volume reductions arising from constrained funding losing anticipated economies of scale on the programme, increased access requirements during Christmas for the Stratford campaign, changes in portal requirements in Morpeth, restricted access on the Shenfield-Southend re-wire programme in year one of the control period following local political pressure, descoping of swingbridges due to worse than expected asset condition resulting in abortive costs and reprioritisation within the region this year in light of funding constraints, resulting in abortive costs for cancelled projects or prolongation costs for deferred projects. Expenditure was lower than the previous year, which included extra work on the signature overhead line mid-life refurbishment project which is now progressing towards the end of its' life cycle.

(8) Drainage – investment this year is lower than the regulatory baseline, adding to savings earlier in the control period. The reduction has arisen from reprioritisation of investment in Eastern, particularly to Earthworks assets as a way of managing overall safety risk. Investment is lower than the previous year, reflecting overall asset management decisions made by the Region team.

(9) Property – expenditure is lower than the regulatory baseline this year and across the control period as Eastern have reprioritised investment across the portfolio. The nature of Property investment also requires sound business cases to be available so that the money is spent in the best way possible. In light of the uncertainty arising from Covid-19 and subsequent travelling and working habits, fewer schemes with robust financial benefits were identified.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the regions.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

(3) Telecoms – investment is in line with the regulatory baseline in the year but remains slightly lower across the control period. Although activity has ramped up in recent years the regulatory baselines assumed a greater delivery in early years of the control period. Financial underperformance has been reported this control period including project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

a. High output – whilst investment was broadly in line with the regulatory baseline this year it is higher across the control period as reported in previous years' Regulatory Financial Statements.

b. Infrastructure monitoring – costs are lower than the regulatory baseline this year and across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline in the current year and across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

e. On track plant – investment in the control period is lower than the regulatory baseline. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Other – there has been a noticeable savings compared to the regulatory baseline this year. At the time the baselines were set in 2019, it was expected that the Other category would include on track monitoring fitment to support the East Coast digital programme, meaning most of the baseline was allocated to Eastern. However, this programme has been delayed. Instead, most of the actual spend in this category relates to Fleet Support Plant which is allocated to regions based on the relative train miles in each region. The current year underspend largely accounts for the variance across the control period.

(5) Route Services – expenditure this year is lower than the regulatory baseline but is broadly in line with the regulatory expectation across the control period. Spend was slightly lower than the previous year, including reduced IT spend as projects had been completed earlier in the control period.

(6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Expenditure is lower than the previous year as more of the programme outputs having been delivered by the end of 2022/23. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are lower than the regulatory baseline across the control period. Delays in identifying suitable programmes has resulted in slippage across the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline once more this year. The savings across the control period reflects a higher proportion of activity being undertaken in the regions compared to the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. Investment is higher than the prior year reflecting progress across a range of different projects. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

e. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other national SCADA programmes – investment is higher than the regulatory baseline this year which also accounts for the greater spend across the control period. The programme has required higher investment across the control period due to delays in delivering the CP5 outputs. Expenditure is higher than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 is lower as a number of projects were classified as opex.

g. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Costs were higher than the prior year due to a step up in safety programmes in Eastern this year.

(7) Property – expenditure is higher than the regulatory baseline this year which offsets some of the savings from earlier in the control period. Notable schemes this year include investment adjacent to Leeds stations as well as in East London as part of wider regeneration programmes for the areas. Despite the additional investment this year, across the control period expenditure has been lower than the regulatory baseline. This control period, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. Investment is higher than the previous year, due to the aforementioned acquisitions undertaken this year.

(8) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is higher than the regulatory baseline across the control period as a greater proportion of the programme's outputs, and so costs, have been delivered in Eastern compared to the regulatory baseline assumption set in 2019. Costs are lower than the previous year as the programme reorganises ahead of CP7 delivery.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. This category also includes various workforce safety schemes, including installation of new walkways and crossings. Investment in these areas are also the main driver behind the higher spend across the control period as they were not included in the original CP6 baselines.

Eastern
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	-	-	-	16	16	-
Great Western Electrification	-	-	-	-	-	-
Cardiff Central Operational Resilience	-	-	-	-	-	-
Brighton Mainline Upgrade Programme	-	-	-	-	-	-
West Anglia Main Line Capacity	-	-	-	5	5	-
Midland Main Line Programme	192	196	-	871	879	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	-	-	-	-	-
Trans Pennine Route Upgrade	699	697	1	2,189	2,185	20
Hope Valley Capacity	60	50	(10)	135	134	(11)
Cambridge South Station Dvpt 2	71	72	-	101	102	-
Critical Stations Improvement Fund	5	6	-	8	11	-
Gatwick Station	-	-	-	-	-	-
East West Rail Phase 2	-	-	-	-	-	-
Oxford Corridor Capacity Phase 2	-	-	-	-	-	-
GWEP Distribution Network Operators clearance work	-	-	-	-	-	-
East Coast Main Line Enhancements Programme	69	55	23	628	633	(6)
Manchester Improvements	-	-	-	1	1	-
Reading Independent Feeder (Power Supply)	-	-	-	-	-	-
Bristol East Junction	-	-	-	-	-	-
Kings Lynn to Cambridge 8 Car	-	-	-	26	25	(3)
South West Rail Resilience Programme	-	-	-	-	-	-
St Albans Station Capacity	-	-	-	7	6	-
London Euston (in support of High Speed Rail Group scheme)	-	-	-	-	-	-
SFN-Freight Forecasts project	-	-	-	5	4	-
Access for All	27	20	-	64	65	-
Thameslink Resilience Programme	-	-	-	6	6	-
Midlands Hub - Continued Design and Early Development	-	-	-	-	-	-
Western Rail Access to Heathrow	-	-	-	-	-	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	(3)	(2)	-	90	80	(60)
Integrated Crewe Hub - HS2	-	-	-	-	-	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	-	-	-
Dr Days to Filton Abbey Wood Capacity	-	-	-	-	-	-
Portfolio Contingency (including T-12)	-	-	-	-	-	-
Depots & Stabling Fund	-	-	-	-	-	-
Northern Hub	-	1	-	1	-	-
Thames Valley EMU Capability	-	-	-	-	-	-
West Coast PSU	-	-	-	-	-	-
IEP Western Capability	-	-	-	-	-	-
West of England Plat Length	-	-	-	-	-	-
Feltham	-	-	-	-	-	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	-	-	-	-	-	-
Access to Assets	-	-	-	-	-	-
Restoring Your Railway	43	53	3	90	100	2
University Station	-	-	-	-	-	-
Energy Coast Rail Upgrade Project	-	-	-	-	-	-
GWML W10-W12 Gauge Enhancement	-	-	-	-	-	-
NWEP Phase 7 Lostock - Wigan	-	-	-	-	-	-
Crumlin River Bridge	-	-	-	-	-	-
W009 West of England DMU Capability	-	-	-	-	-	-
Anglia Traction PSU	-	1	(1)	9	5	(1)
EC Digital	284	283	-	591	590	-
Ely Area Capacity Enh	-	-	1	10	12	1
Ashford to Ramsgate	-	-	-	-	-	-
Clapham Junction Short-term	-	-	-	-	-	-
Darlington Station Improvements	17	15	-	25	29	-
Denmark Hill Congestion Relief	-	-	-	-	-	-
Tactile Paving Installation	8	9	-	18	17	-
New Stations Fund	-	-	-	-	4	-
River Irwell Fl Resil	-	-	-	-	-	-
W Mid New Stations	-	-	-	-	-	-
LNWS623 Bushey PSU	-	-	-	-	-	-
IRP Portfolio	16	18	-	41	45	-
Other	32	9	11	75	38	9
Total	**1,520**	**1,483**	**28**	**5,012**	**4,992**	**(49)**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	-	-	-
Aberdeen to Inverness	-	-	-	-	-	-
Kintore Station	-	-	-	-	-	-
Rolling Programme of Electrification	-	-	-	-	-	-
East Kilbride Barrhead	-	-	-	-	-	-
New Down Platform Dunbar	-	-	-	-	-	-
Highland ML JTI Ph 2	-	-	-	-	-	-
Dunblane to Perth	-	-	-	-	-	-
Cadder HST Depot	-	-	-	-	-	-
Hairmyres Land Purchase	-	-	-	-	-	-
Feeder St/Power Mod Ele	-	-	-	-	-	-
Edinburgh Waverley Western Approaches	-	-	-	-	-	-
Reston Station	-	-	-	-	-	-
North Hanover Street Development	-	-	-	-	-	-
West of Fife Enhancements	-	-	-	-	-	-
A9 Interface- Lynebeg Bridge	-	-	-	-	-	-
Far North Line Route Enhanceme	-	-	-	-	-	-
East Linton Station	-	-	-	-	-	-
Busby Jn to Barrhead Ele	-	-	-	-	-	-
Dalcross New Station	-	-	-	-	-	-
Levenmouth	-	-	-	-	-	-
GLAB Currie Feeder St	-	-	-	-	-	-
Cadder Buildings	-	-	-	-	-	-
Fife Decarbonisation	-	-	-	-	-	-
Millerhill Interventions	-	-	-	-	-	-
Barrhead Kilmarnock Ele	-	-	-	-	-	-
Aberdeen Cent Belt Elec	-	-	-	-	-	-
Portobello Junction	-	-	-	-	-	-
Aberdeen Cen Journey	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
	-	-	-	-	-	-
Other Capital Expenditure	4	-	-	168	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	-	-	-	-	-	-
Other third Party	117	-	-	471	-	-
Total	117	-	-	471	-	-
Total enhancements	**1,641**	**1,483**	**28**	**5,651**	**4,992**	**(49)**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**1,524**	**1,483**	**28**	**5,180**	**4,992**	**(49)**

Statement 3.7: Analysis of enhancement expenditure, Eastern

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative sections of the statement.

(3) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the Eastern's core funder (DfT).

(4) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(5) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(6) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Eastern's core funder (DfT).

(7) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funder, DfT, was £1,522m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£1,639m) less the PAYGO schemes funded by third parties (£117m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Minor financial outperformance has been recognised across the control period. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of the funder (DfT).

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the position across the control period broadly in line with the regulatory baseline. Some notable variances at programme level include:

a. Midland Main Line Programme (MML) – the programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Expenditure across the control period is broadly in line with the funding provided by DfT.

b. Trans Pennine Route Upgrade – this is a long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure across the control period is broadly in line with the funding provided by DfT. Financial out performance has been reported this control period on Leeds Intermediate Interventions aspect of the programme due to efficient contractor delivery of works and risk management.

c. Hope Valley capacity – this scheme delivers upgraded rail infrastructure across the route between Manchester and Sheffield to increase passenger and freight capacity and improve reliability. The main improvements include a new track, platform and accessible footbridge with lifts at Dore & Totley station, a passing loop between Bamford and Hathersage, a new footbridge at Hathersage West, an extended 'south curve' at Dore to increase freight standage, as well as signalling improvements along the line to improve reliability and optimise headways. In year, works have progressed faster than anticipated which has bought the investment across the control period in line with the funding available. Financial underperformance has been recognised as overall project costs have increased due to: prolongation installation of Dore South and Bamford Loop activities, additional embankment stability works due to unforeseen ground conditions, inflationary pressures, redesign of station to meet fire safety standards and discovery of unchartered aviation fuel pipe requiring project re-works to avoid.

d. East Coast Main Line Enhancements Programme – the programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Progress has been greater than anticipated this year which brings the investment across the control period broadly into line with the funding available. Financial underperformance has been recognised across the control period. This has arisen from slower progress on the project in earlier years resulting from Covid-19 working practice changes and rescheduling Werrington and Kings Cross elements. Whilst this approach helped reduce the overall disruption for passengers by allowing partial rather than full closure of the lines, it impacted the effectiveness of the project delivery.

e. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline which has brought the control period investment in line with the funding available.

f. Crossrail – this project has delivered a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the South East. The programme has recognised adverse financial performance this control period as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

g. Restoring your Railway – this programme aims to reinstate lines and stations that had previously been closed. Notable programmes this control period include the Northumberland line. Expenditure this year and so across the control period has been lower than the funding available as fewer suitable projects with robust cases have been identified and progressed.

h. East Coast Digital Programme (ECDP) – this programme will upgrade the south section of the East Coast Main Line train improving performance and safety through the introduction of digital signalling. With the introduction of this new operating system, trains can run in a way that makes best use of the capacity available, with more safety protection and better recovery from disruption. Expenditure across the control period is in line with the funding DfT have provided.

i. New Stations fund – expenditure on this portfolio is lower than the funding available across the control period as fewer projects than expected have been identified and progressed.

j. IRP portfolio – the Integrated Rail Plan is a collection of projects which aims to improve the railway network in the Midlands and the North. Expenditure is lower than the baseline this control period as fewer schemes have been identified in Eastern compared to the assumption in the baseline. The portfolio is managed at an England & Wales level and fewer projects have been identified in Eastern compared to the other England & Wales regions.

k. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this year, this category is mostly expenditure on certain Crossrail schemes which are reported here to match funding agreements. The control period position also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(5) Third party funded schemes – significant projects delivered this year include: construction of a new station at Beaulieu near Chelmsford, Sunderland station re-development and Hartlepool station upgrades.

Eastern
Statement 3.8: Analysis of renewals unit costs
Cash prices

		Unit	FY24 AFC	FY24 AFV	FY24 Unit Costs	FY23 AFC	FY23 AFV	FY23 Unit Costs
Track	PL Replace Full	km	50	33	1,515	75	53	1,415
	PL Replace Partial	km	67	161	416	96	225	427
	PL High Output	km	18	8	2,250	30	28	1,071
	PL Refurbishment	km	12	116	103	23	163	141
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	44	111	396	65	108	602
	Switches & Crossing - Other	point ends	14	168	83	32	425	75
	Off Track	km/No.	43	167	257	53	429	124
	Track Other		-	-	-	-	-	-
	Total		**248**			**374**		
Signalling	Signalling Full	SEU	19	38	500	19	37	514
	Signalling Partial	SEU	26	89	292	24	88	273
	Signalling Refurb	SEU	2	29	69	2	23	87
	Level crossings	No.	39	79	494	62	180	344
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**86**			**107**		
Civils	Underbridges	m2	39	20,330	2	121	29,237	4
	Overbridges (incl BG3)	m2	58	7,623	8	36	9,124	4
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	2	24,465	0	8	101,102	0
	Culverts	m2	8	3,144	3	7	2,673	3
	Footbridges	m2	2	296	7	1	315	3
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	1	284	4	7	2,724	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**110**			**180**		
Earthworks	Earthworks - Embankments	No.	60	765	78	59	857	69
	Earthworks - Soil Cuttings	No.	5	288	17	9	324	28
	Earthworks - Rock Cuttings	No.	3	144	21	1	95	11
	Earthworks - Other	No.	-	-	-	-	-	-
	Drainage - Earthworks	m	1	31,298	0	-	309	-
	Drainage - Other	m	15	26,437	1	19	31,260	1
	TOTAL		**84**			**88**		
Buildings	Buildings (MS)	m2	-	6,350	-	1	23,505	0
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	100	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	14	12,450	1	1	2,800	0
	Buildings (FS)	m2	1	1,414	1	7	2,545	3
	Platforms (FS)	m2	4	3,746	1	9	6,614	1
	Canopies (FS)	m2	3	1,793	2	1	1,005	1
	Train sheds (FS)	m2	1	210	5	-	-	-
	Footbridges (FS)	m2	8	1,174	7	8	1,076	7
	Lifts & Escalators (FS)	m2	-	2	-	1	40	25
	Other (FS)	m2	1	22,974	0	-	495	-
	Light Maintenance Depots	m2	4	7,795	1	2	9,415	0
	Depot Plant	m2	1	2	500	-	1	-
	Lineside Buildings	m2	2	639	3	7	4,278	2
	MDU Buildings	m2	15	24,335	1	15	25,212	1
	NDS Depot	m2	-	-	-	1	22,935	0
	Other	m2	-	-	-	-	-	-
	Total		**54**			**53**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	3	16	188	-	-	-
	mid-life refurbishment	Wire runs	78	73	1,068	89	79	1,127
	structure renewals	No.	38	342	111	35	350	100
	other OLE		2	39	51	2	49	41
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	1	1	1,000
	HV Switchgear Renewal AC	No.	11	34	324	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	9	307	29	3	115	26
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	12	-
	Signalling Power Cables	km	22	129	171	9	63	143
	Signalling Supply Points	point end	1	3	333	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**164**			**139**		
Telecoms	Customer Information Systems	No.	2	157	13	1	23	43
	Public Address	No.	-	-	-	1	284	4
	CCTV	No.	-	-	-	2	119	17
	Other Surveillance	No.	-	-	-	-	8	-
	PABX Concentrator	No.	4	1,363	3	7	7,766	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	2	24	83	-	29	-
	Radio		-	-	-	-	-	-
	Power		2	67	30	1	41	24
	Other comms		-	-	-	-	-	-
	Network		5	148	34	1	5	200
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**15**			**13**		

Statement 3.8: Analysis of renewals unit costs, Eastern

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – PL Replace Full unit rate has increased which has been driven by a change in the work bank mix compared to 2022/23 where the work bank mix drove the unit rate lower reported in last year's Regulatory Financial Statements. There has been a decrease in PL Refurbishment which can be attributed to location as well as complexity of the job which can have a strong influence on unit rate especially when the sample size is small. Switches and Crossing Replace showed a decrease in unit rate which has been influenced by the different mix of work completed throughout the year compared to the previous year. The decrease this year is expected as the mix trends towards a more normal composition. Off-track unit rate increased which can be attributed to the different work bank mix delivered. The work bank mix issue has a significant influence on the Off-track unit rate as the work can vary between assets such as fencing or longitudinal timbers. PL High Output increased significantly which can be attributed to location as well as complexity of the job which can have a strong influence on unit rate especially when the sample size is small.

(3) Signalling – Signalling unit rates across most key cost lines are broadly in line with the prior year value. The unit rate of Level Crossings increased. This can be attributed to a change in the work bank mix, supply chain prices rising faster than inflation.

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m cash prices unless stated

(4) Civils – Footbridges unit cost has increased primarily due to extensive land negotiations in 2022 causing a 12 month possession delay of Lindsell's Footbridge until 2023 – the next available disruptive possession. Whilst the unit rate of overbridges increased which can be attributed to Bishopsgate works which has been deferred to control period 7 due to unforeseen asset condition of steel girders. Retaining Walls unit cost increased because of an increase to project costs on the Tottenham North Curve Tunnel project resulting from additional costs associated with ground anchors and access to third party land. Underbridges unit cost has decreased due to efficiencies achieved through risk mitigation and improved planning on projects including the Three Colts Lane and Structures Planned Renewals project.

(5) Earthworks & Drainage – The unit rate of Earthworks Embankments has increased despite a higher proportion of cheaper Maintain work being completed. Within Earthworks categories there are three subcategories; Maintain, Renew and Refurb. All three offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. As mentioned earlier, location and complexity can also have a large effect on the unit rate. Rock Cuttings unit rates has risen due to Network Rail experiencing inflationary pressures in the supply chain driving an increase in material and contractor costs. Whilst decreases in the unit rate of Earthworks Soil Cuttings can also be attributed to a reduction in market pressures easing prices in the supply chain.

(6) Buildings – Lineside Buildings unit cost has increased which can be attributed to a significant drop in volumes, as a result of a volumes remeasurement on the Littleport project. Other MS unit cost has also increased significantly as works on site have been suspended due to timetable clashes with the TransPennine route upgrade. The unit cost of Canopies FS has risen primarily due to delays on the Luton Station Canopy project caused by cancelled possessions as a result of prioritisation of the rail head treatment train. Another key factor which has driven unit rates higher is the inflationary pressures in the supply chain which Network Rail has experience in material and contractor costs. The unit cost of Buildings MS has decreased due to savings on delivery of signage modification, facility upgrades and customer service enhancements on the Liverpool Street Transformation project. FS Buildings has experienced a decrease in unit costs since efficiencies have been gained by a change in performance improvement activity.

(7) Electrification & Plant – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Eastern
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 Actual prices)	**23,706**
Indexation to 2023-24 prices	24,630
RAB additions	
Renewals expenditure	944
Enhancements expenditure	-
Less amortisation	(944)
Property Sales	(25)
Closing RAB	**24,605**

Net debt

	£m
Opening net debt	**15,551**
Income	(3,419)
Expenditure	2,669
Financing Costs - Government borrowing	226
Financing Costs - index linked debt	438
Financing Costs - Other	23
Corporation tax	0
Working capital	326
Closing net debt	**15,814**

Statement 4: Regulatory financial position, Eastern

In £m cash prices unless stated

Notes:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

(2) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred leading to a change in the opening debt reported in these Regulatory Financial Statements for Eastern compared to the closing debt disclosed in the 2022/23 Regulatory Financial Statements.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Eastern part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £0.9bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually results in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the Eastern Region and how it has moved during the year.

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

(8) Network Rail's debt attributable to Eastern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until then point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

North West & Central
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	2,090	2,014	76	-	1,799
Franchised track access charges	694	576	118	9	604
Other Single Till Income	180	151	29	28	142
Total Income	**2,964**	**2,741**	**223**	**37**	**2,545**
Operating expenditure					
Network operations	181	157	(24)	(24)	163
Support costs	360	231	(129)	(47)	262
Traction electricity, industry costs and rates	300	238	(62)	(4)	224
Maintenance	510	450	(60)	(28)	513
Schedule 4	112	81	(31)	(10)	197
Schedule 8	58	3	(55)	(55)	5
	1,521	**1,160**	**(361)**	**(168)**	**1,364**
Capital expenditure					
Renewals	886	803	(83)	19	882
Enhancements	278	301	23	(12)	316
	1,164	**1,104**	**(60)**	**7**	**1,198**
Risk expenditure					
Risk (Centrally-held)	-	72	72	-	-
Risk (Route-controlled)	-	82	82	-	-
Risk (Contingent asset management funding)	-	60	60	-	-
	-	**214**	**214**	**-**	**-**
Other expenditure					
Financing costs	547	467	(80)	-	913
Corporation tax	-	20	20	-	(11)
	547	**487**	**(60)**	**-**	**902**
Total expenditure	**3,232**	**2,965**	**(267)**	**(161)**	**3,464**
Total Financial Out/(under) performance				**(124)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	7,868	7,855	13	-
Franchised track access charges	2,867	2,877	(10)	(46)
Other Single Till Income	681	765	(84)	(90)
Total Income	**11,416**	**11,497**	**(81)**	**(136)**
Operating expenditure				
Network operations	788	737	(51)	(53)
Support costs	1,273	1,115	(158)	(18)
Traction electricity, industry costs and rates	1,025	1,034	9	(6)
Maintenance	2,316	2,151	(165)	(35)
Schedule 4	460	465	5	14
Schedule 8	2	42	40	40
	5,864	**5,544**	**(320)**	**(58)**
Capital expenditure				
Renewals	3,925	3,737	(188)	(95)
Enhancements	1,413	1,420	7	2
	5,338	**5,157**	**(181)**	**(93)**
Risk expenditure				
Risk (Centrally-held)	-	204	204	-
Risk (Route-controlled)	-	199	199	-
Risk (Contingent asset management funding)	-	204	204	-
	-	**607**	**607**	**-**
Other expenditure				
Financing costs	2,825	2,350	(475)	-
Corporation tax	-	59	59	-
	2,825	**2,409**	**(416)**	**-**
Total expenditure	**14,027**	**13,717**	**(310)**	**(151)**
Total Financial Out/(under) performance				**(287)**

Statement 1: Summary of regulatory financial performance, North West & Central

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of North West & Central's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations, except as noted below in (4). The prior year numbers have not been restated, except as noted below in (4).

(4) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative and prior year sections of the statement.

Comments:

(1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.05bn higher than the regulatory baseline for this year as higher revenue grants and risk funds in the baseline have been partly offset by additional interest costs and project costs. Across the control period net expenditure is around £0.4bn higher than expected with financing costs £0.5bn higher.

(2) This statement also shows that Network Rail has recognised financial underperformance of £123m this year and £286m across the control period. Underperformance this year includes: additional maintenance activity, inflationary pressures and higher payments under the train performance regime. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, inflationary pressures and higher like-for-like renewals projects costs.

(3) Income – Grant income in the year was higher than the regulatory baseline in the current year but broadly in line across the control period as higher network grants, reflecting agreed increases with DfT and disproportionate use of the England & Wales risk funds, have been offset by lower interest grants, reflecting lower market interest costs across the control period. Grants are higher this year reflecting the phasing of activity in the region compared to the regulatory baselines. Variances in Grant income is outside of the scope of financial performance. Grant income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(4) Income – Franchised track access charges income in the year was higher than the baseline mainly due to higher traction electricity income which is offset by higher costs within Network Rail. Across the control period, income is broadly similar as higher electricity traction income has offset lower variable usage charges, as fewer trains ran in the year this control period due to during the Covid-19 pandemic and subsequent change to the industry demand. Income is higher than the previous year, reflecting higher traction electricity income. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is higher than baseline mostly due additional property sales which has helped offset the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. Across the control period income is below the regulatory baseline due to reduced property income. To support retail and commercial estate tenants during the pandemic Network Rail cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. Other single till income is higher than the previous year mainly due to extra property sales, particularly around transactions with High Speed 2 which were included in the plans in earlier years of the control period. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were higher than the regulatory expectation this year with adverse variances in almost all categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to the accounting reclassification of certain High Speed 2 costs from Renewals (refer to Statement 3.6) and Support. Costs across the control period are higher than the regulatory baseline as greater Regionally-managed expenses, including the accounting reclassification noted above, have been partly offset by savings in Centrally-managed categories. Costs are higher than the previous year mainly due to the aforementioned transfer from Renewals. Support costs are discussed in more detail in Statement 3.3.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(8) Operating expenditure – Traction electricity, industry costs and rates are higher than the regulator's assumption in the current year mainly due to higher electricity costs, reflecting increases in the market price of electricity, which is offset by higher income from operators (refer to Statement 2). Across the control period costs are broadly in line with the regulatory expectation, as there electricity prices did not rise as quickly earlier in the control period which largely offsets recent increases. Costs are higher than the previous year reflecting higher market prices for electricity. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year mainly due to additional activity was delivered on the network. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 are higher than the regulatory baseline this year, which includes the impact of financial underperformance in the region. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year. Schedule 8 costs are discussed in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is higher than the regulatory baseline in the current year and across the control period. In CP6 risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment was similar to the previous year. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year was lower than the regulatory baseline which has bought investment across the control period in line with expectation. The highest investment in this year in North West & Central was on East West Rail. Enhancement investment is set out in more detail in Statement 3.7.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m cash prices unless stated

(14)Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16)Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	245	224	21	-	234
Variable usage charge	68	74	(6)	(6)	55
Electrification asset usage charge	6	6	-	-	5
Capacity charge	-	-	-	-	-
Open access income	1	-	1	1	1
Managed stations long term charge	25	23	2	2	24
Franchised stations long term charge	52	48	4	4	49
Traction electricity charges	210	123	87	-	125
Schedule 4 access charge supplement	62	56	6	6	80
	669	**554**	**115**	**7**	**573**
Other single till income					
Freight income					
Freight variable usage charge	18	22	(4)	(4)	19
Freight other income	1	1	-	-	1
	19	**23**	**(4)**	**(4)**	**20**
Stations income					
Managed stations qualifying expenditure	34	32	2	2	31
Franchised stations lease income	8	7	1	1	8
	42	**39**	**3**	**3**	**39**
Facility and financing charges					
Facility charges	13	15	(2)	(2)	12
	13	**15**	**(2)**	**(2)**	**12**
Property income					
Property rental	39	51	(12)	(12)	39
Property sales	34	10	24	24	1
	73	**61**	**12**	**12**	**40**
Depots Income	**25**	**18**	**7**	**7**	**16**
Other income	**-**	**1**	**(1)**	**(1)**	**2**
Freight traction electricity charges	**2**	**2**	**-**	**-**	**4**
Total other single till income	**174**	**159**	**15**	**15**	**133**
Total Regionally-managed income	**843**	**713**	**130**	**22**	**706**
Centrally-managed income					
Network grant	1,759	1,657	102	-	1,519
Internal financing grant	154	208	(54)	-	148
External financing grant	152	106	46	-	120
BTP grant	25	23	2	-	23
Corporation tax grant	-	20	(20)	-	(11)
Infrastructure cost charges	9	8	1	-	9
Schedule 4 access charge supplement	16	14	2	2	22
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	2,115	**2,036**	**79**	**2**	**1,830**
Other single till income					
Property income					
Property rental	2	-	2	2	3
Property sales	4	(8)	12	11	6
	6	**(8)**	**14**	**13**	**9**
Total other single till income	**6**	**(8)**	**14**	**13**	**9**
Total centrally-managed income	**2,121**	**2,028**	**93**	**15**	**1,839**
Total income	**2,964**	**2,741**	**223**	**37**	**2,545**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,177	1,160	17	-
Variable usage charge	291	343	(52)	(52)
Electrification asset usage charge	25	28	(3)	(3)
Capacity charge	-	-	-	-
Open access income	2	2	-	-
Managed stations long term charge	114	111	3	3
Franchised stations long term charge	231	230	1	1
Traction electricity charges	415	354	61	-
Schedule 4 access charge supplement	326	323	3	3
	2,581	**2,551**	**30**	**(48)**
Other single till income				
Freight income				
Freight variable usage charge	85	88	(3)	(3)
Freight other income	2	2	-	1
	87	**90**	**(3)**	**(2)**
Stations income				
Managed stations qualifying expenditure	147	150	(3)	(3)
Franchised stations lease income	37	34	3	2
	184	**184**	**-**	**(1)**
Facility and financing charges				
Facility charges	63	69	(6)	(6)
	63	**69**	**(6)**	**(6)**
Property income				
Property rental	122	190	(68)	(68)
Property sales	47	37	10	8
	169	**227**	**(58)**	**(60)**
Depots Income	**88**	**86**	**2**	**2**
Other income	**7**	**5**	**2**	**2**
Freight traction electricity charges	**8**	**4**	**4**	**-**
Total other single till income	**606**	**665**	**(59)**	**(65)**
Total Regionally-managed income	**3,187**	**3,216**	**(29)**	**(113)**
Centrally-managed income				
Network grant	6,375	6,139	236	-
Internal financing grant	709	918	(209)	-
External financing grant	676	634	42	-
BTP grant	108	106	2	-
Corporation tax grant	-	58	(58)	-
Infrastructure cost charges	47	45	2	-
Schedule 4 access charge supplement	81	81	-	2
Traction electricity charges	158	200	(42)	-
Freight traction electricity charges	2	3	(1)	-
	8,156	**8,184**	**(28)**	**2**
Other single till income				
Property income				
Property rental	56	51	5	5
Property sales	17	46	(29)	(30)
	73	**97**	**(24)**	**(25)**
Total other single till income	**73**	**97**	**(24)**	**(25)**
Total centrally-managed income	**8,229**	**8,281**	**(52)**	**(23)**
Total income	**11,416**	**11,497**	**(81)**	**(136)**

Statement 2: Analysis of income, North West & Central

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is higher than the regulatory baseline this year due to higher traction electricity revenue and additional grants from governments. Across the control period, income has been broadly similar to expectation. Income is higher than last year as a result of higher network grant receipts and traction electricity charges.

Regionally-managed income

(1) Total Regionally-managed income is higher than the CP6 baseline this year, mainly as a result of higher electricity market prices increasing the amounts Network Rail charge operators in North West & Central. This is broadly matched by higher traction electricity costs disclosed in Statement 3.4. Higher inflation rates have also resulted in higher income earned through track access contracts. Across CP6, Regionally-managed income has been broadly in line with regulatory expectation as higher electricity income has been offset by reduced income due to Covid and industrial action reduced variable track access income and Covid impacted property income. Regionally-managed income is higher than last year mainly due to increased inflation uplift to track access contracts and higher electricity costs.

(2) Infrastructure cost charges - fixed charge income was higher than the regulatory expectation this year and is now slightly higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year. This is mostly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the control period shortfall. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower income across the control period reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years, which has also resulted in higher income across the control period. The higher income were broadly balanced by extra electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income is lower than the previous year reflecting planned reductions in Schedule 4 costs as reflected in the regulatory baseline for this year.

(6) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(7) Property sales – sales are higher than the regulatory baseline this year and across the control period as additional opportunities have been identified to offset property income shortfalls elsewhere. The current year is higher than the previous year reflecting the erratic nature of this income with sales only made when value can be unlocked, including disposals to support High Speed 2 construction.

(8) Depots income – income in the year was higher than the regulatory baseline which brings revenue across the control period in line with the regulatory expectation. Income is higher than the previous year as additional facilities have been offered to operators.

(9) Freight traction electricity charges – income is higher than the regulatory baseline across the control period. This is mainly due to the well-publicised higher market electricity prices this in recent years following Russian aggression in Ukraine and the impact this has had on global energy prices. Freight operators were disproportionately impacted compared to franchised train operating companies this control period, as many franchised train operators had chosen to pre-purchase expected electricity requirements when market prices were lower. Network Rail passes on the cost to operators and so this extra income is offset by higher traction electricity costs as reported in Statement 3.4.

Centrally-managed income

(1) Aggregate Centrally-managed income is higher than the CP6 baseline this year and the prior year comparative due to higher grants. Across the control period, total Centrally-managed income is lower due to lower Traction electricity income and Property sales.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year and across the control period. This includes additional funding agreed with DfT and a higher use of the England & Wales risk funds in North West & Central compared to the regulatory baseline. This resulted in lower utilisation of risk funds in other England & Wales regions. Income is higher than the previous year due to extra expenditure recognised this year.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

Statement 2: Analysis of income, North West & Central - continued

In £m cash prices unless stated

(5) External financing grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

(7) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represents income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(8) Property sales – sales are higher than the regulatory baseline in the current year but, as reported in previous years' Regulatory Financial Statements, remain significantly behind the control period expectation. Property sales by their nature are erratic as properties can only be sold once and, therefore, Network Rail needs to make sure any transaction is supported by strong business cases. The bespoke nature of many of the properties also mean there is a relatively limited market to sell to.

North West & Central
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	175	151	(24)	(24)	157
Maintenance	494	436	(58)	(27)	485
Support costs	213	68	(145)	(64)	93
Traction electricity, industry costs and rates	292	231	(61)	(4)	217
Schedule 4	111	65	(46)	(25)	197
Schedule 8	56	-	(56)	(56)	3
	1,341	**951**	**(390)**	**(200)**	**1,152**
Capital expenditure					
Renewals	735	565	(170)	21	787
Enhancements	277	301	24	(12)	316
	1,012	**866**	**(146)**	**9**	**1,103**
Total Regionally-managed expenditure	**2,353**	**1,817**	**(536)**	**(191)**	**2,255**
Centrally-managed expenditure					
Operating expenditure					
Network operations	6	6	-	-	6
Maintenance	16	14	(2)	(1)	28
Support costs	147	163	16	17	169
Traction electricity, industry costs and rates	8	7	(1)	-	7
Schedule 4	1	16	15	15	-
Schedule 8	2	3	1	1	2
	180	**209**	**29**	**32**	**212**
Capital expenditure					
Renewals	151	238	87	(2)	95
Enhancements	1	-	(1)	-	-
	152	**238**	**86**	**(2)**	**95**
Risk Expenditure	**-**	**214**	**214**	**-**	**-**
Other					
Financing costs	547	467	(80)	-	913
Taxation	-	20	20	-	(11)
	547	**487**	**(60)**	**-**	**902**
Total centrally-managed expenditure	**879**	**1,148**	**269**	**30**	**1,209**
Total expenditure	**3,232**	**2,965**	**(267)**	**(161)**	**3,464**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	758	706	(52)	(52)
Maintenance	2,224	2,079	(145)	(17)
Support costs	573	329	(244)	(164)
Traction electricity, industry costs and rates	669	647	(22)	(7)
Schedule 4	460	390	(70)	(60)
Schedule 8	18	27	9	9
	4,702	**4,178**	**(524)**	**(291)**
Capital expenditure				
Renewals	3,328	3,004	(324)	(118)
Enhancements	1,385	1,414	29	(19)
	4,713	**4,418**	**(295)**	**(137)**
Total Regionally-managed expenditure	**9,415**	**8,596**	**(819)**	**(428)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	30	31	1	(1)
Maintenance	92	72	(20)	(18)
Support costs	700	786	86	146
Traction electricity, industry costs and rates	356	387	31	1
Schedule 4	-	75	75	74
Schedule 8	(16)	15	31	31
	1,162	**1,366**	**204**	**233**
Capital expenditure				
Renewals	597	733	136	23
Enhancements	28	6	(22)	21
Other	-	-	-	-
	625	**739**	**114**	**44**
Risk Expenditure	**-**	**607**	**607**	**-**
Other				
Financing costs	2,825	2,350	(475)	-
Taxation	-	59	59	-
	2,825	**2,409**	**(416)**	**-**
Total centrally-managed expenditure	**4,612**	**5,121**	**509**	**277**
Total expenditure	**14,027**	**13,717**	**(310)**	**(151)**

Statement 3: Analysis of expenditure, North West & Central

In £m cash prices unless stated

Note:

(1) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative and prior year sections of the statement.

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, additional maintenance and renewals activity along with greater performance regime costs more than offsetting the risk funds included in the baseline. Expenditure has been higher across the control period for similar reasons. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across in the control period are higher with additional capital investment and operating costs. Expenses are broadly similar to the previous year as higher Schedule 4 costs from industrial action in 2022/23 has been partly offset by higher traction electricity costs. Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally- managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail’s index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

North West & Central
Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	71	63	(8)	(8)	63
Operations Management	46	34	(12)	(12)	39
Controllers	7	7	-	-	6
Electrical control room operators	5	3	(2)	(2)	5
	129	**107**	**(22)**	**(22)**	**113**
Non signaller expenditure					
Mobile operations managers	11	10	(1)	(1)	10
Managed stations	24	20	(4)	(4)	24
Performance	(9)	(7)	2	2	(9)
Other	20	21	1	1	19
Total Regionally-managed Operations expenditure	**175**	**151**	**(24)**	**(24)**	**157**
Centrally-managed Operations expenditure					
Network Services	6	6	-	-	6
Total centrally-managed Operations expenditure	**6**	**6**	**-**	**-**	**6**
Total operations expenditure	**181**	**157**	**(24)**	**(24)**	**163**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	305	297	(8)	(8)
Operations Management	186	161	(25)	(25)
Controllers	32	35	3	3
Electrical control room operators	19	14	(5)	(5)
	542	**507**	**(35)**	**(35)**
Non signaller expenditure				
Mobile operations managers	47	45	(2)	(2)
Managed stations	105	96	(9)	(11)
Performance	(41)	(34)	7	7
Other	105	92	(13)	(11)
Total Regionally-managed Operations expenditure	**758**	**706**	**(52)**	**(52)**
Centrally-managed Operations expenditure				
Network Services	30	31	1	(1)
Total centrally-managed Operations expenditure	**30**	**31**	**1**	**(1)**
Total operations expenditure	**788**	**737**	**(51)**	**(53)**

Statement 3.1: Analysis of operations expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year with adverse variances in almost all categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce and also to comply with fatigue management standards. Costs across the control period have been higher than the regulatory baseline reflecting the above recruitment but also extra expenses incurred during Covid-19 times and inflationary pressures that emerged in the second half of the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. The higher costs for the control period incorporates the above but also includes increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

(3) Operations management – costs are higher than the regulatory expectation this year mainly due to additional resource required to comply with fatigue management safety standards and from headcount increases to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs are higher in the control period due to the aforementioned fatigue management safety standards as well as extra resource to provide resilience and ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

Statement 3.1: Analysis of operations expenditure, North West & Central – continued

In £m cash prices unless stated

(4) Managed stations – once again, costs are higher than the regulatory baseline. This includes extra staff at stations to offer a better service to the travelling public and higher costs of running stations as inflation has risen faster than expected. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are broadly similar to the previous year.

(5) Other – whilst costs are broadly similar to the regulatory baseline this year, they are higher across the control period. This is primarily caused by the investment in the 21st century operations programme in the earlier years of CP6. Costs are broadly consistent with the previous year.

Centrally-managed operations expenditure

1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period. Savings from workforce reform initiatives including restrained pay, performance-related pay reductions and management modernisation reorganisation have been offset by higher inflationary pressures, reflecting price movements in the wider economy.

North West & Central
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	212	194	(18)	(18)	190
Signalling & Telecoms	82	79	(3)	(3)	76
Civils	64	52	(12)	1	66
Buildings	28	24	(4)	1	26
Electrical power and fixed plant	44	41	(3)	(3)	46
Other network operations	64	46	(18)	(5)	81
	494	**436**	**(58)**	**(27)**	**485**
Centrally-managed maintenance expenditure					
Telecoms	7	8	1	1	6
Route Services - Asset Information	9	9	-	-	7
STE Maintenance	1	1	-	-	1
Property	-	-	-	-	-
Route Services - Other	(1)	(4)	(3)	(1)	12
Other	-	-	-	(1)	2
	16	**14**	**(2)**	**(1)**	**28**
Total maintenance expenditure	**510**	**450**	**(60)**	**(28)**	**513**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	929	917	(12)	(12)
Signalling & Telecoms	376	371	(5)	(6)
Civils	264	239	(25)	48
Buildings	126	120	(6)	6
Electrical power and fixed plant	201	192	(9)	(8)
Other network operations	328	240	(88)	(45)
	2,224	**2,079**	**(145)**	**(17)**
Centrally-managed maintenance expenditure				
Telecoms	28	36	8	7
Route Services - Asset Information	40	40	-	1
STE Maintenance	6	5	(1)	-
Property	4	-	(4)	(4)
Route Services - Other	13	(9)	(22)	(20)
Other	1	-	(1)	(2)
	92	**72**	**(20)**	**(18)**
Total maintenance expenditure	**2,316**	**2,151**	**(165)**	**(35)**

Statement 3.2: Analysis of maintenance expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, maintenance costs are higher than the regulatory baseline this year mainly due to greater costs in the Regionally-managed category, as additional activity was delivered on the network as described below. Costs for the control period in total are higher than the regulatory baseline reflecting additional work delivered compared to the plan but also expenses responding to the Covid-19 pandemic, which saw increased premium costs for staff, investment in PPE and investment in vehicle shields and extra vehicles.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across all categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF and extra costs to comply with track worker safety standards. Costs across control period are 7 per cent higher than the regulatory baseline assumed which has included the delivery of approximately 23 per cent more maintenance activity on reportable weighted volume measures. Higher costs have also arisen from the factors noted above, along with additional costs incurred in response to Covid-19, including extra cost for premium hours to ensure the continuity of staff, such as overtime to cover sick and isolating staff and extra vehicles required to comply with social distancing rules.

(2) Track – track costs are the largest component of North West & Central's overall maintenance expenditure. This year, costs are higher than the regulatory baseline including the delivery of additional works on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Furthermore, the higher costs this year include additional expenses arising from a new stoneblower contract. The costs of this are higher than the previous multi-year contract reflecting higher market prices but also a change in the outputs of the contract to deliver improved services. In addition, a fire at a supplier's quarry has increased ballast costs as alternative sources have had to be established. The above factors are also driving the year on year increases in costs along with greater than inflation materials and contractor costs increases.

(3) Signalling & telecoms – expenses have increased slightly compared to the previous year, including higher than inflation materials costs increases and additional maintenance volumes delivered.

Statement 3.2: Analysis of maintenance expenditure, North West & Central - continued

In £m cash prices unless stated

(4) Civils – costs were higher than the regulatory baseline this year due to reactive maintenance expenses being higher than the regulatory expectation this year. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. The higher costs across the control period are driven by increased reactive maintenance activity offset by savings in inspection costs including successful settlement of legacy commercial claims and greater than expected efficiencies on contract negotiations.

(5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure across the control period is slightly higher than the regulatory assumption due to higher reactive maintenance expenditure offset by some other minor savings. Reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

(6) Other network operations – costs are higher than the regulatory baseline this year and across the control period. These extra costs include: inheritance of property through PPF with perceived insufficient budget, increases in costs were realised from asset management compliance works, additional vegetation works as well as track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance in the current year and across the control period. Across the control period spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year as well as the costs occurred in response to Covid-19 and preparation for hosting the Commonwealth Games in this Region. Expenditure in this category has reduced this year compared to 2022/23 which experienced extra investment to deal with backlogs, derailment emergency costs and higher devegetation activity.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

Statement 3.2: Analysis of maintenance expenditure, North West & Central - continued

In £m cash prices unless stated

(2) Telecoms – costs are lower than the regulatory baseline across the Control Period, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims.

(3) Route services – other – costs are higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

North West & Central
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	5	3	(2)	(2)	4
Finance	4	2	(2)	(2)	3
Accommodation	21	21	-	-	19
Utilities	52	20	(32)	(32)	25
Other	131	22	(109)	(28)	42
	213	**68**	**(145)**	**(64)**	**93**
Centrally-managed Support costs					
Finance & Legal	13	15	2	2	9
Communications	4	5	1	1	4
Human Resources	8	1	(7)	(7)	5
System Operator	15	15	-	-	12
Property	2	6	4	4	2
Telecoms	13	13	-	-	17
Network Services	-	-	-	-	-
Safety Technical and Engineering	10	11	1	2	9
RS - IT and Business Services	36	34	(2)	(2)	32
RS - Asset Information	5	9	4	(3)	4
RS - Directorate	8	9	1	1	1
Other corporate functions	1	2	1	1	-
Insurance	6	13	7	7	(3)
OPEX/CAPEX Adjustment	21	15	(6)	-	51
Group costs	5	15	10	11	26
	147	**163**	**16**	**17**	**169**
Total support costs	**360**	**231**	**(129)**	**(47)**	**262**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	19	14	(5)	(6)
Finance	15	9	(6)	(5)
Accommodation	95	99	4	3
Utilities	136	98	(38)	(38)
Other	308	109	(199)	(118)
	573	**329**	**(244)**	**(164)**
Centrally-managed Support costs				
Finance & Legal	52	65	13	13
Communications	21	26	5	5
Human Resources	33	30	(3)	(3)
System Operator	54	62	8	8
Property	8	17	9	8
Telecoms	76	74	(2)	(2)
Network Services	10	13	3	3
Safety Technical and Engineering	45	49	4	8
RS - IT and Business Services	159	162	3	3
RS - Asset Information	19	36	17	-
RS - Directorate	31	34	3	3
Other corporate functions	16	21	5	5
Insurance	24	59	35	35
OPEX/CAPEX Adjustment	155	80	(75)	-
Group costs	(3)	58	61	60
	700	**786**	**86**	**146**
Total support costs	**1,273**	**1,115**	**(158)**	**(18)**

Statement 3.3: Analysis of support costs, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally-managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year mainly due to the accounting reclassification of certain High Speed 2 costs from Renewals (refer to Statement 3.6) and Support. Across the control period costs are higher than the regulatory baseline as greater Regionally-managed expenses, including the accounting reclassification noted above, have been partly offset by savings in Centrally-managed categories. Costs are higher than the previous year mainly due to the aforementioned transfer from Renewals.

Regionally-managed support costs

(1) Variances in the total Regionally-managed support costs compared to the regulatory baseline this year and across the control period as well as variances to the prior year are mainly due to additional costs reported in Other, as explained below.

(2) Human resources – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative.

(3) Finance – costs are higher than the regulatory baseline across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative.

(4) Utilities – costs are higher than the baseline this year and across the control period reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices in recent years in the wake of geopolitical disruption and uncertainty. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

Statement 3.3: Analysis of support costs, North West & Central - continued

In £m cash prices unless stated

(5) Other – costs were significantly higher than the regulatory baseline this year. This is mostly due to a reclassification of projects undertaken to accommodate the new planned High Speed 2 network. Following government announcements to curtail the programme at Birmingham, the costs of these projects have been transferred from Renewals (see Statement 3.6) to this statement. As agreed with the regulator this has been treated as neutral when assessing financial performance in both Support and Renewals. Across the control period costs in this area have been higher which includes: the aforementioned accounting reclassification, the implementation of the PPF programme, costs associated with preparing for Birmingham in this Region to host the Commonwealth Games, investment in Project Alpha - an on-going programme developed in response to train performances falling below target – and Covid-19 related expenditure, such as PPE purchases and additional vehicle hire. Costs are higher than the previous year mainly due to the aforementioned accounting reclassification of certain High Speed 2-related projects.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are favourable to the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been more than offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex. Costs are lower than the previous year mainly due to fewer projects classified as opex rather than capex in this category and lower reorganisation costs.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(3) Communications – costs across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project.

(5) System Operator – costs are lower than the regulatory baseline across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, savings in consultancy expenses as more of the required tasks were completed in-house and reduced staff travel and accommodation costs during the pandemic.

Statement 3.3: Analysis of support costs, North West & Central - continued

In £m cash prices unless stated

(6) Property – costs are lower than the regulatory baseline this year and across the control period in total. These savings include savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes as well as benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(7) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(8) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed.

(9) Route Services – IT and Business Services – whilst costs are higher than the regulatory baseline this year, they are slightly lower across the control period. Savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in travel and accommodation during Covid-19 have been achieved but have been offset by one-off costs during Covid-19 as this function supported a transition to back-office staff working from home and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(11) Route Services – Directorate – costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(12) Other Corporate Functions – costs are lower than the regulatory expectation across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has partly offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain.

Statement 3.3: Analysis of support costs, North West & Central - continued

In £m cash prices unless stated

(13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(14) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

(15) Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year. As noted in the 2022/23 Regulatory Financial Statements, Group costs in that year included workforce reform credits given to the regions and functions.

North West & Central
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	217	125	(92)	(3)	130
Business rates	51	83	32	-	63
British transport police costs	24	23	(1)	(1)	24
	292	**231**	**(61)**	**(4)**	**217**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	3	2	(1)	-	3
RDG membership costs	1	1	-	-	1
RSSB costs	4	4	-	-	3
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	8	**7 -**	**1**	**-**	**7**
Total traction electricity, industry costs and rates	**300**	**238 -**	**62 -**	**4**	**224**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	428	360	(68)	(3)
Business rates	171	221	50	-
British transport police costs	70	66	(4)	(4)
	669	**647**	**(22)**	**(7)**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	161	203	42	-
Business rates	122	111	(11)	-
British transport police costs	39	40	1	1
ORR licence fee and railway safety levy	12	12	-	-
RDG membership costs	4	4	-	-
RSSB costs	17	17	-	-
Reporters fees	1	-	(1)	-
Other industry costs	-	-	-	-
	356	**387**	**31**	**1**
Total traction electricity, industry costs and rates	**1,025**	**1,034**	**9 -**	**6**

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is higher than the regulator's assumption in the current year due to higher Traction electricity costs reflecting market price increases. Across the control period costs are broadly similar as Traction electricity costs have been largely offset by delays in Business rates rises. Costs are higher than the previous year reflecting increases in the market price of electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are higher than the regulatory expectation reflecting higher market prices which also accounts for the variance across the control period. The impact would have been greater but many of the operators had pre-purchased expected traction electricity when market prices were lower, offering them protection against price rises. Costs are higher than last year as not all operators had pre-purchased electricity requirements and so were subject to rising market prices this year. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central - continued

In £m cash prices unless stated

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and across the control period are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry’s disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	111	65	(46)	(25)	197
Access charge supplement Income	(62)	(56)	6	6	(80)
Net (income)/cost	**49**	**9**	**(40)**	**(19)**	**117**
Schedule 8					
Performance element income	56	-	(56)	(56)	3
Performance element costs	-	-	-	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**56**	**-**	**(56)**	**(56)**	**3**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	16	15	15	-
Access charge supplement Income	(16)	(14)	2	-	(22)
Net (income)/cost	**(15)**	**2**	**17**	**15**	**(22)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	2	3	1	1	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**2**	**3**	**1**	**1**	**2**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	112	81	(31)	(10)	197
Access charge supplement Income	(78)	(70)	8	6	(102)
Net (income)/cost	**34**	**11**	**(23)**	**(4)**	**95**
Schedule 8					
Performance element income	56	-	(56)	(56)	3
Performance element costs	2	3	1	1	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**58**	**3**	**(55)**	**(55)**	**5**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	460	390	(70)	(60)
Access charge supplement Income	(326)	(323)	3	3
Net (income)/cost	**134**	**67**	**(67)**	**(57)**
Schedule 8				
Performance element income	(72)	-	72	72
Performance element costs	90	27	(63)	(63)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**18**	**27**	**9**	**9**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	-	75	75	74
Access charge supplement Income	(81)	(81)	-	-
Net (income)/cost	**(81)**	**(6)**	**75**	**74**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(16)	15	31	31
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(16)**	**15**	**31**	**31**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	460	465	5	14
Access charge supplement Income	(407)	(404)	3	3
Net (income)/cost	**53**	**61**	**8**	**17**
Schedule 8				
Performance element income	(72)	-	72	72
Performance element costs	74	42	(32)	(32)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**2**	**42**	**40**	**40**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 are higher than the regulatory baseline this year, which includes the impact of financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). The Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Any benefit is offset by higher compensation payments rates, which are also subject to contractual annual inflationary increases. Income is lower than the previous year reflecting the expected profile of possessions in the regulatory CP6 determination. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events this year, with the highest level of named storm events in the UK since the current system began in 2015/16. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Also, nearly half of the financial underperformance this year has been due to higher inflation increasing the compensation rates paid to operators to higher than the regulatory baseline for 2023/24. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

(2) Schedule 8 costs are higher than the regulatory baseline this year as train performance has not met the regulatory benchmarks this year. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. Despite the setbacks this year, Schedule 8 across the control period remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed costs.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central – continued

In £m cash prices unless stated

(3) Schedule 8 – costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow. In addition, across the control period, a lower than expected level of costs have been recognised in Centrally-managed areas, with more being reflected in the Regionally-managed section of this statement.

North West & Central
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	55	41	(14)	-	38
PL Replace Partial	65	15	(50)	-	62
PL High Output	30	40	10	-	28
PL Refurbishment	11	29	18	-	9
PL Track Slab Track	-	2	2	-	-
Switches & Crossing - Replace	21	2	(19)	-	28
Switches & Crossing - Other	12	8	(4)	-	9
Off Track	23	11	(12)	-	22
Track Other	18	2	(16)	-	9
	235	**150**	**(85)**	**(5)**	**205**
Signalling					
Signalling Full	38	107	69	0	96
Signalling Partial	7	3	(4)	0	3
Signalling Refurb	51	34	(17)	0	21
Level crossings	12	10	(2)	0	10
Minor works	(15)	43	58	0	72
Other	0	5	5	0	-
	93	**202**	**109**	**31**	**202**
Civils					
Underbridges	52	19	(33)	-	38
Overbridges	7	9	2	-	10
Major structures	-	20	20	-	(3)
Tunnels	10	8	(2)	-	6
Minor works	32	27	(5)	-	33
Other	5	3	(2)	-	9
	106	**86**	**(20)**	**6**	**93**
Earthworks					
Earthworks - Embankments	22	20	(2)	-	15
Earthworks - Soil Cuttings	22	10	(12)	-	25
Earthworks - Rock Cuttings	4	2	(2)	-	2
Earthworks - Other	8	2	(6)	-	6
	56	**34**	**(22)**	**5**	**48**
Buildings					
Managed stations	13	7	(6)	-	15
Franchised stations	56	17	(39)	-	55
Light maint depots	6	2	(4)	-	6
Depot plant	-	-	-	-	-
Lineside buildings	5	4	(1)	-	4
MDU buildings	3	6	3	-	6
Other	1	-	(1)	-	-
	84	**36**	**(48)**	**(11)**	**86**
Electrical power and fixed plant					
AC distribution	2	10	8	-	5
Overhead Line	28	11	(17)	-	25
DC distribution	(7)	1	8	-	18
Conductor rail	1	2	1	-	-
Signalling Power Supplies	73	8	(65)	-	22
Other	-	-	-	-	-
Fixed plant	-	-	-	-	11
	97	**32**	**(65)**	**6**	**81**
Drainage					
Drainage (Track)	35	13	(22)	-	32
Drainage (Earthworks)	-	5	5	-	5
Drainage (Resilience)	-	-	-	-	-
	35	**18**	**(17)**	**(11)**	**37**
Property					
Property	29	7	(22)	-	35
	29	**7**	**(22)**	**-**	**35**
Total Regionally-managed renewals expenditure	**735**	**565**	**(170)**	**21**	**787**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	4
	-	**-**	**-**	**-**	**4**
Telecoms					
Operational communications	6	9	3	-	2
Network	22	6	(16)	-	9
SISS	4	5	1	-	3
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	9	12	3	-	16
	42	**32**	**(10)**	**(4)**	**31**
Wheeled plant and machinery					
High output	3	3	-	-	2
Incident response	-	-	-	-	-
Infrastructure monitoring	1	4	3	-	1
Intervention	1	3	2	-	1
Materials delivery	3	5	2	-	3
On track plant	4	1	(3)	-	1
Seasonal	2	4	2	-	1
Other	6	1	(5)	-	5
	20	**21**	**1**	**-**	**14**
Route Services					
Business Improvement	12	-	(12)	-	11
IT Renewals	5	21	16	-	6
Asset Information	2	-	(2)	-	2
Other	1	4	3	-	2
	20	**25**	**5**	**-**	**21**
STE Renewals					
Intelligent infrastructure	13	9	(4)	-	16
Faster Isolations	15	13	(2)	-	4
Centrally Managed Signalling Costs	1	3	2	-	1
Research and development	16	20	4	-	12
Integrated Management System (Incl. BCR)	-	5	5	-	-
Other National SCADA Programmes	5	2	(3)	-	1
Small plant	3	2	(1)	-	2
Other	26	5	(21)	-	18
	79	**59**	**(20)**	**-**	**54**
Property					
Property	-	1	1	-	1
	-	**1**	**1**	**-**	**1**
Other renewals					
ETCS	(1)	1	2	-	-
Digital Railway	2	5	3	-	5
Civils & Drainage - Insurance Fund	3	7	4	3	1
Buildings - Insurance Fund	1	4	3	-	1
OPEX/CAPEX Adjustment	(21)	(15)	6	-	(51)
Phasing overlay	-	90	90	-	-
System Operator	5	7	2	-	6
Other renewals	1	1	-	(1)	8
	(10)	**100**	**110**	**2**	**(30)**
Total centrally-managed renewals expenditure	**151**	**238**	**87**	**(2)**	**95**
TOTAL RENEWALS EXPENDITURE	**886**	**803**	**(83)**	**19**	**882**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	241	212	(29)	-
PL Replace Partial	247	101	(146)	-
PL High Output	126	134	8	-
PL Refurbishment	39	124	85	-
PL Track Slab Track	-	4	4	-
Switches & Crossing - Replace	127	64	(63)	-
Switches & Crossing - Other	34	56	22	-
Off Track	86	57	(29)	-
Track Other	38	6	(32)	-
	938	**758**	**(180)**	**(46)**
Signalling				
Signalling Full	347	542	195	-
Signalling Partial	18	15	(3)	-
Signalling Refurb	115	151	36	-
Level crossings	45	53	8	-
Minor works	180	239	59	-
Other	-	7	7	-
	705	**1,007**	**302**	**33**
Civils				
Underbridges	183	161	(22)	-
Overbridges	39	52	13	-
Major structures	-	20	20	-
Tunnels	41	49	8	-
Minor works	155	116	(39)	-
Other	53	50	(3)	-
	471	**448**	**(23)**	**(8)**
Earthworks				
Earthworks - Embankments	97	81	(16)	-
Earthworks - Soil Cuttings	108	93	(15)	-
Earthworks - Rock Cuttings	21	8	(13)	-
Earthworks - Other	33	14	(19)	-
	259	**196**	**(63)**	**-**
Buildings				
Managed stations	47	42	(5)	-
Franchised stations	239	171	(68)	-
Light maint depots	27	35	8	-
Depot plant	1	-	(1)	-
Lineside buildings	24	13	(11)	-
MDU buildings	19	15	(4)	-
Other	1	-	(1)	-
	358	**276**	**(82)**	**(26)**
Electrical power and fixed plant				
AC distribution	11	28	17	-
Overhead Line	155	59	(96)	-
DC distribution	33	19	(14)	-
Conductor rail	2	4	2	-
Signalling Power Supplies	140	61	(79)	-
Other	-	-	-	-
Fixed plant	23	6	(17)	-
	364	**177**	**(187)**	**(26)**
Drainage				
Drainage (Track)	126	107	(19)	-
Drainage (Earthworks)	24	16	(8)	-
Drainage (Resilience)	-	-	-	-
	150	**123**	**(27)**	**(45)**
Property				
Property	83	19	(64)	-
	83	**19**	**(64)**	**-**
Total Regionally-managed renewals expenditure	**3,328**	**3,004**	**(324)**	**(118)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	9	-	(9)	-
	9	**-**	**(9)**	**(4)**
Telecoms				
Operational communications	11	27	16	-
Network	39	20	(19)	-
SISS	14	24	10	-
Projects and other	4	1	(3)	-
Non-route capital expenditure	77	76	(1)	-
	145	**148**	**3**	**(7)**
Wheeled plant and machinery				
High output	18	15	(3)	-
Incident response	-	-	-	-
Infrastructure monitoring	5	17	12	-
Intervention	9	22	13	-
Materials delivery	9	32	23	-
On track plant	6	5	(1)	-
Seasonal	5	17	12	-
Other	22	3	(19)	-
	74	**111**	**37**	**-**
Route Services				
Business Improvement	81	31	(50)	-
IT Renewals	42	88	46	-
Asset Information	8	7	(1)	-
Other	9	10	1	-
	140	**136**	**(4)**	**-**
STE Renewals				
Intelligent infrastructure	66	51	(15)	-
Faster Isolations	74	90	16	-
Centrally Managed Signalling Costs	5	13	8	-
Research and development	55	61	6	-
Integrated Management System (Incl. BCR)	-	17	17	-
Other National SCADA Programmes	21	17	(4)	-
Small plant	8	10	2	-
Other	77	18	(59)	-
	306	**277**	**(29)**	**-**
Property				
Property	6	37	31	-
	6	**37**	**31**	**-**
Other renewals				
ETCS	7	20	13	-
Digital Railway	12	1	(11)	-
Civils & Drainage - Insurance Fund	7	32	25	23
Buildings - Insurance Fund	2	19	17	-
OPEX/CAPEX Adjustment	(155)	(80)	75	-
Phasing overlay	-	-	-	-
System Operator	20	24	4	-
Other renewals	24	8	(16)	11
	(83)	**24**	**107**	**34**
Total centrally-managed renewals expenditure	**597**	**733**	**136**	**23**
TOTAL RENEWALS EXPENDITURE	**3,925**	**3,737**	**(188)**	**(95)**

Statement 3.6: Analysis of renewals expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is higher than the regulatory baseline this year and across the control period as risk funds have been drawn down to invest. Costs are broadly in line with the previous year.

Regionally-managed renewals

(1) Regional renewals expenditure is lower than the regulatory baseline this year. This includes reclassifying some activity to opex, reflecting government decisions on the scope of the High Speed 2 programme. Investment across the control period is higher than the regulatory baseline as risk funds have been drawn down to support the core network and like-for-like project costs have been higher than expected. Spend is lower than the previous year, mainly due to the aforementioned accounting classification completed this year.

(2) Track – investment this year is higher than the regulatory baseline with extra investment in plain line partial works and switches & crossings. These additional costs add to the higher investment in the earlier years of the control period which includes higher like-for-like project costs as reported through financial underperformance and extra safety standard compliance expenses. This includes additional project costs from introducing the Track worker safety programme. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Financial underperformance had been recognised this control period. This underperformance includes: industrial action resulting in lost possessions and project prolongation, cancelled shifts from access constraints and conflicts with other works, high output safety stand-down cancelling volumes but still incurring fixed costs, delays in plain line campaigns causing project prolongation costs, invasive species impacting the work sites Covid-19 related costs (extra staff and vehicle costs), changes in workbank mix, loss of high output volumes from plant failure and unreliability. This year financial underperformance also includes sunk costs from cancelled projects and prolongation costs arising from funding constraints, discovery of an underground mine and underestimation of project costs in tunnels which are uncommon interventions by nature.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

(3) Signalling – expenditure was lower than the regulatory baseline this year, including reclassifying some renewals activity to opex as a result of government decisions on the scope of the High Speed 2 programme. Lower spend this control period also includes slippage on both the integrated Crewe hub and Rugely to Colwich resignalling programmes. In addition, funding shortages towards the end of CP5 resulted in less design work and so lower delivery activity in early years of CP6 with hasn't been caught up. Financial outperformance has been recognised this year which, along with savings last year has helped overcome additional costs recognised earlier in the control period. The outperformance includes: value engineering of gantry structures to deliver the outputs at a better price, better integration with supply chain to reduce frictional costs and harness expertise in design stage to improve delivery performance, savings from management modernisation programme and developing in-house expertise. Financial outperformance this year also included savings on the Birmingham New Street project from better access planning and testing, and favourable commercial settlements. Spend is lower this year compared to the previous year mostly due to the aforementioned reclassification of activity to opex.

(4) Civils – expenditure was higher than the regulatory baseline this year which has driven the slight overspend in the control period. Some minor financial underperformance has been recognised this control period resulting from difficulties in delivery of projects. Some key contributors to this are: changes in work methodology resulting in increased costs along with access difficulties to get to work sites, particularly around Easter 2023, extra environmental compliance costs and impact of working practices during Covid-19.

(5) Earthworks – expenditure in the year was higher than the regulatory baseline which compounds the position witnessed in earlier years of the control period. The extra spend this control period arises from drawing down from the risk fund as North West & Central prioritised work on this asset in light of more damaging weather to the network and the illustration of the risk of safety following the Stonehaven derailment in August 2020. There were also a greater proportion of emergency works recognised in the region, which is somewhat offset by the reduction in Insurance-funded works reported in the Centrally-managed section of this statement.

(6) Buildings – whilst spend is broadly similar to the prior year, investment this year was higher than the regulatory baseline which has added to the overspend across the control period. These higher costs include extra work at Franchised stations to improve the passenger experience and from higher like-for-like project costs. Financial underperformance recognised this control period includes: difficulties in the Carlisle Station re-surfacing of platforms 1-3 as trial hole investigations found no significant risks, but as the project progressed, serious faults were discovered, Watford High Street where a main steel truss was eroded more than anticipated, thus scope of the project was increased to allow this to be replaced, inaccurate designs for Greenfield and Moston sites and discovery of asbestos in Tamworth station which required remediation costs also contributed. Lost shifts due to industrial action and access difficulties along with reprioritisation of workbanks in the light of overall fiscal risks lead to project prolongation and sunk costs whilst reduced scope of some jobs increased average unit rates. Financial underperformance this year also included delivery difficulties on Birmingham New Street platform extensions, project prolongation the Newton Heath depot roof and abortive costs on Milton Keynes platforms as designs considered unsuitable.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

(7) Electrical power and fixed plant – investment this year has been significantly higher than the regulatory baseline, exacerbating the overspend delivered in earlier years of the control period. The higher costs in the control period include delivering Project Alpha, a scheme not included in the original delivery plan, but one that has been initiated by the Executive management team to improve performance and customer service. This scheme has led to additional spend in OLE investment to improve resilience. Other major projects this control period included DC cables replacement on the West Coast Main Line South, fixed plant at Goole swing bridge and Rugely to Colwich resignalling, and various power supply improvements to improve resilience. Financial underperformance has been recognised this control period. This includes Project Alpha works suffering however from curtailed possessions, subsequently allowing less output to be achieved. Additional troughing was also required in North West which was missed in project estimation leading to extra costs. Changes in scope and design works, to ensure renewals delivered meet compliance requirements also increased like-for-like costs as did the impact of cancelled and postponed possessions arising from industrial action, resulting in project prolongation and sunk costs, whilst increases in materials prices and shortages also increased project costs. Spend is higher than the previous year including recognition of additional costs for power cables on Birmingham New Street resignalling scheme.

(8) Drainage – whilst investment is similar to the prior year, investment this year was higher than the regulatory expectation adding to the overspend from earlier years in the control period. The main reason for the higher costs is higher like-for-like project costs. This financial underperformance includes: costs incurred which relate to site investigation works for drainage across different routes, as well as inefficient access due to site complexities, for example Bermuda Park which has had bad ground conditions. Reduced outputs at New Lane, where the lower volumes adversely effected unit rates compared to the target rates has also contributed as has additional intrusive investigations and surveys at Codsall, Harlesden and Townend Road. Complications with delivering Basford Hall resignalling project has resulted in higher costs across the project, including the Drainage element with access issues across a number of projects have also forced project costs higher. Underperformance this year also included discovering an unchartered mine during a project, requiring extensive redesign and a more expensive solution and late additions to the workbank.

(9) Property – expenditure is much higher than the regulatory assumption this year continuing the trend of earlier years of the control period. Following devolution of responsibility to the Regions, further opportunities have been identified within the portfolio for investment. This extra spend is partially offset by savings in the Centrally-managed property category. Significant projects this year included works at Euston station and roadside advertising sites to help generate additional venue in the future and updating office facilities at Crewe and Manchester Victoria.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the regions. Investment is higher than the previous year with the largest contributor being the variability in the opex/ capex adjustment category in the table, reflecting the nature of the overall renewals portfolio delivered this year and also increased investment in safety schemes.

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

(3) Telecoms – investment is higher than the regulatory baseline in the year which brings the control period expenditure in line with regulatory expectation. Financial underperformance has been reported this control period including project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

a. Infrastructure monitoring – costs are lower than the regulatory baseline across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

b. Intervention – costs were lower than the regulatory baseline across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

c. Materials delivery – investment was lower than the regulatory baseline assumption across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

d. Seasonal – expenditure is lower than the regulatory baseline across the control period. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

e. Other – at the time the baselines were set in 2019, it was expected that the Other category would include on track monitoring fitment to support the East Coast digital programme, meaning most of the baseline was allocated to different regions. Instead, most of the actual spend in this category relates to Fleet Support Plant which is allocated to regions based on the relative train miles in each region The overspend reported on this category for the control period offsets some of the underspend reported on other Wheeled plant & machinery lines.

(5) Route Services – expenditure this year is lower than the regulatory baseline but is broadly in line with the regulatory expectation across the control period. Spend was slightly lower than the previous year, including reduced IT spend as projects had been completed earlier in the control period.

(6) STE renewals – overall STE expenditure is higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

b. Faster isolations – costs are higher than the regulatory baseline this year but lower across the control period. Delays in identifying suitable programmes has resulted in slippage across the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought, although there has been a step up compared to the previous year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline once more this year but broadly in line with last year's outturn. The savings across the control period reflects a higher proportion of activity being undertaken in the regions compared to the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

f. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Cost is higher than the prior year as additional schemes have been identified and delivered in this area.

(7) Property – expenditure is broadly in line with the higher than the regulatory baseline this year but remains behind for the control period as fewer suitable schemes have been identified this control period in this region compared to the original baseline assumptions.

(8) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

g. System Operator – expenditure across the control period is slightly lower than the regulatory baseline as funding has been reprioritised throughout the organisation and fewer opportunities with compelling business cases in this category have been identified. As agreed with the regulator, no financial outperformance has been recognised from this cost saving, as the full outputs associated with the regulatory baselines have not been fully delivered.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m cash prices unless stated

h. Other renewals – expenditure this control period is higher than the regulatory baseline. This category includes various workforce safety schemes, including installation of new walkways and crossings, the scope of which were not included in the original CP6 baselines but were undertaken this control period as a way of improving workforce safety.

North West & Central
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	-	-	-	-	-	-
Great Western Electrification	-	-	-	-	-	-
Cardiff Central Operational Resilience	-	-	-	-	-	-
Brighton Mainline Upgrade Programme	-	-	-	-	-	-
West Anglia Main Line Capacity	-	-	-	-	-	-
Midland Main Line Programme	-	-	-	-	-	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	-	-	-	-	-
Trans Pennine Route Upgrade	-	-	-	-	-	-
Hope Valley Capacity	-	-	-	-	-	-
Cambridge South Station Dvpt 2	-	-	-	-	-	-
Funding allocation for key stations	-	1	-	-	1	-
Gatwick Station	-	-	-	-	-	-
East West Rail Phase 2	119	112	(1)	860	867	(1)
Oxford Corridor Capacity Phase 2	-	-	-	-	-	-
GWEP Distribution Network Operators clearance work	-	-	-	-	-	-
East Coast Main Line Enhancements Programme	-	-	-	-	-	-
Manchester Improvements	22	30	7	76	99	7
Reading Independent Feeder (Power Supply)	-	-	-	-	-	-
Bristol East Junction	-	-	-	-	-	-
Kings Lynn to Cambridge 8 Car	-	-	-	-	-	-
South West Rail Resilience Programme	-	-	-	-	-	-
St Albans Station Capacity	-	-	-	-	-	-
London Euston (in support of High Speed Rail Group scheme)	18	7	-	67	57	-
SFN-Freight Forecasts project	-	-	-	(2)	(1)	-
Access for All	22	16	-	47	60	-
Thameslink Resilience Programme	-	-	-	-	-	-
Midlands Hub - Continued Design and Early Development	8	8	-	19	20	-
Western Rail Access to Heathrow	-	-	-	-	-	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	-	-	-	-	-	-
Integrated Crewe Hub - HS2	-	1	-	6	7	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	-	-	-
Dr Days to Filton Abbey Wood Capacity	-	-	-	-	-	-
Portfolio Contingency (including T-12)	-	-	-	5	6	21
Depots & Stabling Fund	-	-	-	6	6	-
Northern Hub	-	1	(1)	47	51	(1)
Thames Valley EMU Capability	-	-	-	-	-	-
West Coast PSU	1	5	-	9	11	-
IEP Western Capability	-	-	-	-	-	-
West of England Plat Length	-	-	-	-	-	-
Feltham	-	-	-	-	-	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	3	6	(4)	13	19	(15)
Access to Assets	-	-	-	-	-	-
Restoring Your Railway	-	-	-	-	-	-
University Station	-	-	-	12	12	-
Energy Coast Rail Upgrade Project	-	-	-	6	6	-
GWML W10-W12 Gauge Enhancement	-	-	-	-	-	-
NWEP Phase 7 Lostock - Wigan	30	38	(3)	48	57	(3)
Crumlin River Bridge	-	-	-	-	-	-
W009 West of England DMU Capability	-	-	-	-	-	-
Anglia Traction PSU	-	-	-	-	-	-
EC Digital	-	-	-	-	-	-
Ely Area Capacity Enh	-	-	-	-	-	-
Ashford to Ramsgate	-	-	-	-	-	-
Clapham Junction Short-term	-	-	-	-	-	-
Darlington Station Improvements	-	-	-	-	-	-
Denmark Hill Congestion Relief	-	-	-	-	-	-
Tactile Paving Installation	18	17	-	23	22	-
New Stations Fund	-	-	-	-	-	-
River Irwell Fl Resil	-	-	-	3	5	-
W Mid New Stations	18	12	-	57	59	-
LNWS623 Bushey PSU	9	10	(5)	19	20	(5)
IRP Portfolio	9	2	-	9	7	-
Other	-	35	(5)	60	29	(1)
Total	**277**	**301**	**(12)**	**1,390**	**1,420**	**2**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	-	-	-
Aberdeen to Inverness	-	-	-	-	-	-
Kintore Station	-	-	-	-	-	-
Rolling Programme of Electrification	-	-	-	-	-	-
East Kilbride Barrhead	-	-	-	-	-	-
New Down Platform Dunbar	-	-	-	-	-	-
Highland ML JTI Ph 2	-	-	-	-	-	-
Dunblane to Perth	-	-	-	-	-	-
Cadder HST Depot	-	-	-	-	-	-
Hairmyres Land Purchase	-	-	-	-	-	-
Feeder St/Power Mod Ele	-	-	-	-	-	-
Edinburgh Waverley Western Approaches	-	-	-	-	-	-
Reston Station	-	-	-	-	-	-
North Hanover Street Development	-	-	-	-	-	-
West of Fife Enhancements	-	-	-	-	-	-
A9 Interface- Lynebeg Bridge	-	-	-	-	-	-
Far North Line Route Enhanceme	-	-	-	-	-	-
East Linton Station	-	-	-	-	-	-
Busby Jn to Barrhead Ele	-	-	-	-	-	-
Dalcross New Station	-	-	-	-	-	-
Levenmouth	-	-	-	-	-	-
GLAB Currie Feeder St	-	-	-	-	-	-
Cadder Buildings	-	-	-	-	-	-
Fife Decarbonisation	-	-	-	-	-	-
Millerhill Interventions	-	-	-	-	-	-
Barrhead Kilmarnock Ele	-	-	-	-	-	-
Aberdeen Cent Belt Elec	-	-	-	-	-	-
Portobello Junction	-	-	-	-	-	-
Aberdeen Cen Journey	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
	-	-	-	-	-	-
Other Capital Expenditure	1	-	-	23	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	118	-	-	831	-	-
Other third Party	46	-	-	288	-	-
Total	164	-	-	1,119	-	-
Total enhancements	**442**	**301**	**(12)**	**2,532**	**1,420**	**2**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**278**	**301**	**(12)**	**1,413**	**1,420**	**2**

Statement 3.7: Analysis of enhancement expenditure, North West & Central

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred in the Cumulative sections of the statement.

(3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by North West & Central's core funder (DfT).

(4) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(5) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(6) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with North West & Central's core funder (DfT).

(7) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funder, DfT, was £270m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£433m) less the PAYGO schemes funded by third parties (£163m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Minimal financial outperformance has been recognised this control period as noted below. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of the funder (DfT).

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is greater than the regulatory baseline which has bought the costs across the control period broadly in line with the regulatory baseline. Some notable variances at programme level include:

a. East West Rail Phase 2 – the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company. Expenditure across the control period is broadly in line with the funding provided by DfT.

b. Manchester Improvement Programme (MIP) – this programme includes improvements to increase capacity along the Castlefield corridor between Manchester' Piccadilly and Oxford Road stations; Northern Train Lengthening which consists of extending platforms at stations and provide increased capacity for passengers. Expenditure for the control period is lower than the regulatory baseline due to cost savings and cancellation of certain projects, such as Rochdale electrification, on affordability grounds and delays to platform length extension programmes to accommodate longer trains. Financial outperformance has been recognised through efficiencies made through competitive procurement and collaboration with design services framework contractors.

c. London Euston (in support of High Speed Rail Group scheme) – this project helps support the High Speed 2 programme being undertaken by DfT. Spend is higher in the current year than the baseline as progress on the programme has been quicker than expected.

d. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline but across the control period remains lower than the funding baseline due to delays in procurement and design works.

e. Portfolio Contingency (including T-12) this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. Favourable financial performance has been recognised which more than offsets financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m cash prices unless stated

f. Birmingham New Street Gateway – this project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Across the control period financial underperformance has been reported resulting from remediation in the steelworks of the Birmingham New Street atrium roof and compensation and associated costs relating to the multi-storey car park.

g. NWEP Phase 7 Lostock to Wigan – this programme aims to electrify the line between Bolton and Wigan so that CO2 emitting diesel trains are replaced by electric rolling stock. Platforms will also be lengthened to accommodate longer electric trains to boost capacity. Expenditure this year and so across the control period has been lower than the funding available due to project delays primarily due to the principal contractor entering administration and a new tender process being required. These delays have contributed to the financial underperformance on the project.

h. West Midlands New Stations – this is part of the West Midlands Rail Programme (WMRP) increasing connectivity and reducing road congestion. Package One consists of the development of new stations in Darlaston and Willenhall in the Black Country and Package Two focuses on the development of Camp Hill Line three stations in South Birmingham which are in Stirchley (Hazelwell), Kings Heath and Moseley. Expenditure this year is higher than the baseline which has brought the position across the control period broadly into line with the funding available.

i. Bushey PSU – this programme aims to improve power supply on the West Coast Main Line between Borne end and London Euston. Whilst spend is broadly in line with the regulatory baselines, financial underperformance has been recognised due to by emerging scope following early designs and industrial action prolongation as well as inflationary pressures.

j. IRP portfolio – expenditure on this portfolio is higher than the funding available this year which has bought the control period position broadly in line with baseline expectations.

k. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting rephasing assumptions across the whole DfT portfolio. Spend this year is lower than the baseline which reduces the variance across the control period.

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate High Speed 2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year includes Headbolt Lane rail interchange and work to develop Northampton station.

North West & Central
Statement 3.8: Analysis of renewals unit costs
Cash prices

			FY24			FY23		
		Unit	**AFC**	**AFV**	**Unit Costs**	**AFC**	**AFV**	**Unit Costs**
	PL Replace Full	km	78	39	2,000	66	33	2,000
	PL Replace Partial	km	93	158	589	74	137	540
	PL High Output	km	46	30	1,533	40	18	2,222
	PL Refurbishment	km	12	102	118	12	100	120
Track	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	24	55	436	31	68	456
	Switches & Crossing - Other	point ends	16	90	178	4	42	95
	Off Track	km/No.	23	120	192	17	139	122
	Track Other		-	-	-	-	-	-
	Total		**292**			**244**		
	Signalling Full	SEU	200	405	494	212	405	523
	Signalling Partial	SEU	- 1 -	2	500	- -	1	-
Signalling	Signalling Refurb	SEU	55	119	462	64	119	538
	Level crossings	No.	17	29	586	15	28	536
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**271**			**291**		
	Underbridges	m2	62	12,279	5	43	8,028	5
	Overbridges (incl BG3)	m2	14	1,512	9	2	1,247	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	17	15,582	1	9	13,995	1
	Culverts	m2	1	370	3	2	271	7
Civils	Footbridges	m2	-	50	-	6	429	14
	Coastal & Estuarial Defences	m2	-	500	-	1	596	2
	Retaining Walls	m2	2	1,265	2	3	948	3
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**96**			**66**		
	Earthworks - Embankments	No.	22	317	69	13	348	37
	Earthworks - Soil Cuttings	No.	30	514	58	22	278	79
Earthworks	Earthworks - Rock Cuttings	No.	5	105	48	2	93	22
	Earthworks - Other	No.	-	4	-	4	197	20
	Drainage - Earthworks	m	3	12,757	0	2	14,094	0
	Drainage - Other	m	63	33,352	2	54	25,791	2
	TOTAL		**123**			**97**		
	Buildings (MS)	m2	9	22,647	0	1	14,775	0
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	1	280	4	5	48,134	0
	Buildings (FS)	m2	2	446	4	-	153	-
	Platforms (FS)	m2	11	4,496	2	10	8,897	1
	Canopies (FS)	m2	11	3,102	4	7	4,143	2
Buildings	Train sheds (FS)	m2	-	440	-	1	1,790	1
	Footbridges (FS)	m2	3	401	7	1	148	7
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	3	14,549	0	2	19,000	0
	Light Maintenance Depots	m2	1	28,271	0	4	15,478	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	5	2,770	2	2	741	3
	MDU Buildings	m2	1	5,875	0	1	3,055	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**47**			**34**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	34	46	739	19	70	271
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	1	-	1	289	3
	other OLE		-	2	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	2	6	333	-	1	-
	HV Switchgear Renewal AC	No.	-	-	-	-	4	-
	HV Cables AC	No.	-	2	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	4	10	400	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	2	5	400	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	6	120	50	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	9	45	200	9	60	150
	Generator (#)	No.	1	2	500	-	-	-
	Auxillary Transformer (#)	No.	-	1	-	-	-	-
	Points Heaters	point end	-	-	-	2	29	69
	Signalling Power Cables	km	77	237	325	25	62	403
	Signalling Supply Points	point end	10	19	526	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**145**			**56**		
Telecoms	Customer Information Systems	No.	-	-	-	1	170	6
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	5	665	8	3	414	7
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	2	810	2	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	2	41	49	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	8	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		3	33	91	5	51	98
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**12**			**9**		

Statement 3.8: Analysis of renewals unit costs, North West & Central

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – PL High Output unit rate has decreased which can be attributed to additional volumes being delivered on the West Coast Mainline Ballast Cleaner System project because of effective delivery earlier in the project. The unit cost of Off Track has increased mainly due to costs associated with the North West Electrification Program. The project has incurred multiple snagging related issues, driving up the project cost and having a negative impact. Signalling and Crossing Other unit rate has risen due to the different work bank mix that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate.

(3) Signalling – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Statement 3.8: Analysis of renewals unit costs, North West & Central – continued

In £m cash prices unless stated

(4) Civils – Overbridges unit rate increased significantly which can be attributed to an increase in the amount of more expensive replace work. Last year repair work was cited as the main reason the unit rate decrease, however this has now reversed with there being a higher proportion of replace work so the unit rate has decreased. Civils has subcategories which deliver different life extension outcomes at scaled cost. For example, Replace work costs more than Repair work, but will last longer and prevent the need to further work in the near future. Tunnels unit cost has increased primarily due to delays to the Northchurch Fast Tunnel Shafts project. The project has experienced reduced possession time, isolation shift lost and additional works from the track removing rail road access point. The unit rate of Footbridges has decreased which has been driven by factors including fewer complex projects, for instance part of the High Speed 2 project has been cancelled following government decisions.

(5) Earthworks & Drainage – The unit rate for Earthworks Embankments has increased and can be attributed to a lower proportion of cheaper Maintain work being completed. Within Earthworks categories there are three subcategories; Maintain, Renew and Refurb. All three offer different life extension outcomes as well as different cost outcomes with Renew being the most expensive and Maintain being the cheapest. The most appropriate asset intervention is determined by local asset management teams. Earthworks Rock Cuttings unit rate has also increased and can be explained by similar work bank reasons with a lower proportion of cheaper Maintain work being completed. Earthworks Other unit rate decreased across the year. This is due to the different work bank mix that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Soil Cuttings unit cost decreased as final account negotiations resulted in savings on the Northchurch project. The unit cost of Drainage Earthworks increased which can primarily be attributed to the Little Oxhey Cutting project. Post-construction seepages were identified which necessitated the addition of counterfort drains, increasing the project delivery costs.

(6) Buildings – There has been an increase in the unit rate of Footbridges FS. This is primarily due to the cancellation of the Rugeley TV Footbridge project due to work bank funding constraints. Platforms FS unit cost has increased, primarily due to the Milton Keynes Station Platform project. Worsening ground conditions had caused work on the project to be aborted thus, the abortive costs, plus inefficiency of designs which have been shelved, have increased the projects costs for 2023/24. MS Building unit costs have increased significantly since projects have been subject to delays due to the end of the control period and the Birmingham New Street Concrete Repair Works project has experienced a drop in volumes as the asset has been found to be in better condition than originally thought, as well as additional access being required for the project. The unit rate of Other MS increased significantly however there were very few projects meaning the sample is too trivial to produce any meaningful analysis. Light Maintenance Depots unit rate decreased as a result of an increase in volumes without additional costs. This is due to key schemes such as Allerton Light Maintenance Depot and Newton Heath roof renewal & refurbishment projects. While the unit cost of FS Canopies increased due to a reduction in volumes on the Euston – Watford Lines Stations project as there was a change in scope on the project with one station removed. Other FS unit cost increased due to nonvolume the Buildings Oracle Time and Labour project producing higher than anticipated labour costs due to changes to the work bank. MDU Buildings unit rate has decreased due to volumes increasing, following the deferral of CP5 works because of funding constraints and additional MDU requirements in line with increased headcount.

Statement 3.8: Analysis of renewals unit costs, North West & Central – continued

In £m cash prices unless stated

(7) Electrification & Plant – Wiring unit rate has increased despite a higher proportion of cheaper refurb work being completed. This increase can be attributed to factors such as inflationary pressures relating to materials and the cost of third party contractors. The Conductor rail unit rate has increased, however there was only one project last year meaning the sample is too trivial to produce any meaningful analysis. UPS unit cost has increased as the UPS South project experienced increased project costs however, investment in the activity that improved the asset did not result in recognition of any extra volumes under the Network Rail Cost & Volume Handbook definitions.

(8) Telecoms – There was a decrease in the unit cost of Network which can be attributed to last years complex Macclesfield Resignalling project which featured the reassigning of control from Macclesfield to Manchester Route Operating Centre. Otherwise, telecoms unit rates across most key cost lines are broadly in line with the prior year values.

North West & Central
Statement 4: Regulatory financial position
Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 actual prices)	**18,159**
Indexation to 2023-24 prices	18,867
RAB additions	
Renewals expenditure	886
Enhancements expenditure	-
Less amortisation	(886)
Property Sales	(38)
Closing RAB	**18,829**

Net debt

	£m
Opening net debt	**12,360**
Income	(2,964)
Expenditure	2,407
Financing Costs - Government borrowing	180
Financing Costs - index linked debt	349
Financing Costs - Other	18
Corporation tax	0
Working capital	270
Closing net debt	**12,620**

Statement 4: Regulatory financial position, North West & Central

In £m cash prices unless stated

Notes:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

(2) From 2023/24, responsibility for the Trans Pennine Route Upgrade enhancement programme has transferred from Eastern to North West & Central. Given the importance of understanding multi-year enhancement spend as a single programme, investment in prior years has also transferred leading to a change in the opening debt reported in these Regulatory Financial Statements for North West & Central compared to the closing debt disclosed in the 2022/23 Regulatory Financial Statements.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the North West & Central part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £0.9bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to North West & Central and how it has moved during the year.

Statement 4: Regulatory financial position, North West & Central – continued

In £m cash prices unless stated

(8) Network Rail's debt attributable to North West & Central is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Southern
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	1,721	1,153	568	-	1,463
Franchised track access charges	810	804	6	13	714
Other Single Till Income	257	271	(14)	(14)	233
Total Income	**2,788**	**2,228**	**560**	**(1)**	**2,410**
Operating expenditure					
Network operations	205	191	(14)	(14)	186
Support costs	223	217	(6)	(5)	216
Traction electricity, industry costs and rates	238	326	88	2	310
Maintenance	525	383	(142)	(136)	501
Schedule 4	101	87	(14)	(28)	172
Schedule 8	(10)	4	14	14	(19)
	1,282	**1,208**	**(74)**	**(167)**	**1,366**
Capital expenditure					
Renewals	959	1,016	57	(54)	1,010
Enhancements	141	125	(16)	10	148
	1,100	**1,141**	**41**	**(44)**	**1,158**
Risk expenditure					
Risk (Centrally-held)	-	79	79	-	-
Risk (Route-controlled)	-	68	68	-	-
Risk (Contingent asset management funding)	-	92	92	-	-
	-	**239**	**239**	**-**	**-**
Other expenditure					
Financing costs	592	505	(87)	-	976
Corporation tax	-	23	23	-	(13)
	592	**528**	**(64)**	**-**	**963**
Total expenditure	**2,974**	**3,116**	**142**	**(211)**	**3,487**
Total Financial Out/(under) performance				**(212)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	7,366	7,780	(414)	-
Franchised track access charges	3,383	3,547	(164)	(12)
Other Single Till Income	1,165	1,210	(45)	(79)
Total Income	**11,914**	**12,537**	**(623)**	**(91)**
Operating expenditure				
Network operations	928	927	(1)	(2)
Support costs	975	993	18	66
Traction electricity, industry costs and rates	1,273	1,468	195	2
Maintenance	2,286	1,885	(401)	(404)
Schedule 4	532	410	(122)	(133)
Schedule 8	(308)	24	332	333
	5,686	**5,707**	**21**	**(138)**
Capital expenditure				
Renewals	4,530	4,410	(120)	(248)
Enhancements	855	804	(51)	15
Other	-	-	-	-
	5,385	**5,214**	**(171)**	**(233)**
Risk expenditure				
Risk (Centrally-held)	-	210	210	-
Risk (Route-controlled)	-	198	198	-
Risk (Contingent asset management funding)	-	263	263	-
	-	**671**	**671**	**-**
Other expenditure				
Financing costs	3,026	2,541	(485)	-
Corporation tax	1	69	68	-
	3,027	**2,610**	**(417)**	**-**
Total expenditure	**14,098**	**14,202**	**104**	**(371)**
Total Financial Out/(under) performance				**(462)**

Statement 1: Summary of regulatory financial performance, Southern

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Southern's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Southern’s net expenditure (Total income less Total expenditure) was around £0.7bn lower than the regulatory baseline and around £0.5bn higher across the control period. The higher net expenditure experienced this control period is mainly due to increased financing costs on inflation-linked debt instruments.

(2) This statement also shows that Southern has recognised financial underperformance of around £0.2bn this year and around £0.45bn across the control period. Underperformance this year includes extra maintenance expenses and higher like-for-like renewals projects costs. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, industrial action in 2022/23 and inflationary pressures.

(3) Income – Grant income is higher than the regulatory baseline this year, but lower across the control period. Grants are only paid as required and so lower interest and corporation tax costs have meant Network Rail has not required as much government grants across CP6. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the year was broadly in line with the baseline as lower traction electricity income was offset by contractual inflation benefits on charges made to operators. Income across the control period has been lower than the regulatory baseline mainly due to reduced electricity income and from running fewer trains due to Covid-19 and the consequent impacts on demand for trains. Franchised track access income is higher than the previous year mainly due to planned increases in fixed track access charges and from inflation benefits. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year’s November CPI (i.e. November 2022) which was exceptionally high. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental income, as a result of the Covid-19 pandemic and the changes this has caused to passenger footfall in and around stations. Whilst the situation is improving, it remains below the pre-Covid time. The control period income is below the regulatory baseline for the same reason. To support retail and commercial estate tenants during the pandemic Network Rail cancelled rent payments in the first quarter of 2020/21 from commercial estate tenants and all base rent payments from retailers in managed stations. This has been partly mitigated by identifying additional property disposal opportunities. Other single till income is higher than the previous year reflecting additional property sales and better property rental income. Other single till income is discussed in more detail in Statement 2.

(6) Operating expenditure – Network operations costs were higher than the regulatory expectation this year with adverse variances in almost all categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs have been broadly consistent with the regulatory expectation across the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are broadly similar to the regulatory baseline this year and the previous year. There have been savings across the control period mainly due to extra efficiencies on centrally-managed activities. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and across the control period mainly due to lower traction electricity charges which has been offset by lower income received from operators (refer to Statement 2). In addition, Business rates were lower than expected this control period as the government postponed quinquennial increases in the wake of Covid-19. In line with the ORR's Regulatory Accounting guidelines (December 2019), variances in Business rates, ORR licence costs and RSSB costs are all outside the scope of financial performance as these costs are considered to be outside Network Rail's control. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF, increased inspections to comply with CEFA and CAFA standards and extra costs to comply with track worker safety standards. Higher expenditure across the control period also includes strengthening capabilities and responsiveness by creating Inner and Outer maintenance delivery units, the introduction of Trespass and Welfare teams at stations across the route, and Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Costs are higher than the previous year, which includes additional activity delivered on the network. Maintenance costs are discussed in more detail in Statement 3.2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(10)Operating expenditure – Schedule 4 costs are higher than the regulatory baseline, including the impact of financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

(11)Operating expenditure – Schedule 8 outperformed the regulatory baseline this year resulting in a net inflow of revenue. Train performance in the region has remained strong throughout the control period, despite a number of challenges. This was most evident during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in reduced net compensation received from operators this. Schedule 8 costs are set out in more detail in Statement 3.5.

(12)Capital expenditure – Renewals expenditure was lower than the regulatory baseline this year but remains higher across the control period as risk funds have been utilised to improve the network. In setting the baseline, some renewals funding was ring-fenced as risk funds which could be then used to mitigate emerging risk or be restored to the renewals workbank. Investment this year is lower than the prior year as more of the CP6 renewals funding had been invested in earlier years of the control period. Renewals investment is discussed in more detail in Statement 3.6.

(13)Capital expenditure – Enhancements are undertaken at the directions of the funder (Department for Transport (DfT)) who specify outputs and funding for each programme. Expenditure this year and across the control period is slightly higher than the regulatory baseline. Enhancement investment is set out in more detail in Statement 3.7.

(14)Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m cash prices unless stated

(15)Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16)Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	368	337	31	-	272
Variable usage charge	53	60	(7)	(7)	48
Electrification asset usage charge	4	5	(1)	(1)	4
Capacity charge	-	-	-	-	-
Open access income	6	-	6	6	5
Managed stations long term charge	26	24	2	2	25
Franchised stations long term charge	63	58	5	5	59
Traction electricity charges	181	220	(39)	-	205
Schedule 4 access charge supplement	75	69	6	6	66
	776	**773**	**3**	**11**	**684**
Other single till income					
Freight income					
Freight variable usage charge	4	5	(1)	(1)	4
Freight other income	-	-	-	-	-
	4	**5**	**(1)**	**(1)**	**4**
Stations income					
Managed stations qualifying expenditure	42	40	2	2	37
Franchised stations lease income	31	28	3	3	32
	73	**68**	**5**	**5**	**69**
Facility and financing charges					
Facility charges	19	18	1	1	19
	19	**18**	**1**	**1**	**19**
Property income					
Property rental	96	111	(15)	(15)	82
Property sales	2	7	(5)	(5)	6
	98	**118**	**(20)**	**(20)**	**88**
Depots Income	**47**	**36**	**11**	**11**	**42**
Other income	**1**	**2**	**(1)**	**(1)**	**2**
Freight traction electricity charges	**3**	**3**	**-**	**-**	**6**
Total other single till income	**245**	**250**	**(5)**	**(5)**	**230**
Total Regionally-managed income	**1,021**	**1,023**	**(2)**	**6**	**914**
Centrally-managed income					
Network grant	1,373	760	613	-	1,161
Internal financing grant	164	225	(61)	-	152
External financing grant	154	114	40	-	130
BTP grant	30	31	(1)	-	34
Corporation tax grant	-	23	(23)	-	(14)
Infrastructure cost charges	15	14	1	-	12
Schedule 4 access charge supplement	19	17	2	2	18
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	1,755	**1,184**	**571**	**2**	1,493
Other single till income					
Property income					
Property rental	1	4	(3)	(3)	2
Property sales	11	17	(6)	(6)	1
	12	**21**	**(9)**	**(9)**	**3**
Total other single till income	**12**	**21**	**(9)**	**(9)**	**3**
Total centrally-managed income	**1,767**	**1,205**	**562**	**(7)**	**1,496**
Total income	**2,788**	**2,228**	**560**	**(1)**	**2,410**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,375	1,346	29	-
Variable usage charge	244	285	(41)	(41)
Electrification asset usage charge	20	23	(3)	(3)
Capacity charge	-	-	-	-
Open access income	21	-	21	21
Managed stations long term charge	115	114	1	1
Franchised stations long term charge	281	276	5	5
Traction electricity charges	531	635	(104)	-
Schedule 4 access charge supplement	351	348	3	3
	2,938	**3,027**	**(89)**	**(14)**
Other single till income				
Freight income				
Freight variable usage charge	19	22	(3)	(2)
Freight other income	-	-	-	-
	19	**22**	**(3)**	**(2)**
Stations income				
Managed stations qualifying expenditure	177	187	(10)	(10)
Franchised stations lease income	148	131	17	17
	325	**318**	**7**	**7**
Facility and financing charges				
Facility charges	89	88	1	1
	89	**88**	**1**	**1**
Property income				
Property rental	267	409	(142)	(142)
Property sales	64	19	45	14
	331	**428**	**(97)**	**(128)**
Depots Income	**195**	**169**	**26**	**25**
Other income	**9**	**9**	**-**	**1**
Freight traction electricity charges	**11**	**9**	**2**	**-**
Total other single till income	**979**	**1,043**	**(64)**	**(96)**
Total Regionally-managed income	**3,917**	**4,070**	**(153)**	**(110)**
Centrally-managed income				
Network grant	5,742	5,888	(146)	-
Internal financing grant	757	993	(236)	-
External financing grant	720	684	36	-
BTP grant	146	145	1	-
Corporation tax grant	1	70	(69)	-
Infrastructure cost charges	61	60	1	-
Schedule 4 access charge supplement	86	84	2	2
Traction electricity charges	298	376	(78)	-
Freight traction electricity charges	4	5	(1)	-
	7,815	**8,305**	**(490)**	**2**
Other single till income				
Property income				
Property rental	104	111	(7)	(7)
Property sales	78	51	27	24
	182	**162**	**20**	**17**
Total other single till income	**182**	**162**	**20**	**17**
Total centrally-managed income	**7,997**	**8,467**	**(470)**	**19**
Total income	**11,914**	**12,537**	**(623)**	**(91)**

Statement 2: Analysis of income, Southern

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is higher than the regulatory baseline in the current year mainly due to higher network grant recognition. Despite this, income is lower across the control period with the largest contribution from grants, but also due to lower than expected traction electricity charges income and reduced property income following Covid-19.

Regionally-managed income

(1) Total Regionally-managed income is broadly in line with the CP6 baseline this year, as higher inflation rates have resulted in higher income earned through track access contracts which has been offset by lower than expected electricity income. Across CP6, Regionally-managed income has been lower than expected as Covid and industrial action reduced variable track access income, Covid impacted property income and overall lower average electricity prices. Regionally-managed income is higher than last year mainly due to higher fixed income under track access contracts that was expected in the CP6 regulatory determination.

(2) Infrastructure cost charges – fixed charge income was higher than the regulatory expectation this year and is now slightly higher for the control period in total. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year, reflecting increases expected in the CP6 regulatory determination.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

(3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year adding to the control period shortfall. The current year was impacted by structural changes to the industry caused by Covid-19 reducing the demand for passenger train services. Whilst passengers continue to return, demand is still lower than before the pandemic. Consequently, many operators are running fewer services than 2019/20, whilst the regulatory baseline assumed year-on-year increases in the number of train services on the network. In addition, industrial action this year has led to service cancellations and reductions, meaning reduced income received by Network Rail as well as disruption for passengers. Lower income across the control period reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action over the final two years of the control period across the industry have also supressed revenue. Income is higher than the previous year. This is partly because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high. In addition, industrial action impacts this year were comparatively lower than 2022/23.

(4) Open access income – income is higher than the regulatory baseline in the current year and across the control period due to the income received by London Underground moving over from Eastern region to the Southern region. Income is consistent with the previous year.

(5) Franchised stations long term charge – income this year is higher than the regulatory baseline mainly due to higher cumulative inflation this year compared to the regulatory expectation when the baselines were set. Income is higher than the previous year. This is because the prior year comparatives have been uplifted using the November 2023 CPI in line with the Regulatory Accounting guidelines (December 2019), whereas the amounts payable by train operators under track access contracts are uplifted by the previous year's November CPI (i.e. November 2022) which was exceptionally high.

(6) Traction Electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is lower than the regulatory assumption due to widely-publicised increases in short term market prices in recent years. Despite these increases in the market price of electricity, revenue for the control period is lower than the regulator's expectation as expected price increases earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred to be passed on to train operators. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These income reductions are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

(7) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As part of setting the baselines for CP6, income earned through the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism. Income is higher than the previous year reflecting planned increases in Schedule 4 costs as reflected in the regulatory baseline for this year included in the regulator's CP6 determination.

(8) Managed stations qualifying expenditure – income is higher than the regulatory assumption this year, which partially offset reduced income in the earlier years of the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail's managed stations estate. The control period deficit is mainly due to disputes with operators over the level of costs Network Rail incur at the stations that should be recharged to them. The increase in income compared to the prior year is largely due to the higher inflation used in many of the agreements with operators compared to the inflationary uplift applied to the 2022/23 income, which uses the November 2023 CPI per the Regulatory Accounting guidelines (December 2019).

(9) Franchised stations lease income – income is higher than the regulatory assumption this year, adding to the higher underlying income throughout the control period. This year benefitted from higher cumulative inflation compared to the expectation when the regulatory baselines were set, which increased both costs and, therefore, the amount that could be recovered from train operators who use Network Rail's franchised stations estate.

(10) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

(11) Property sales – revenue is behind the regulatory baseline this year but remains ahead across the control period mostly due to the sale of the investment property Cannon Place in 2021/22. Property sales in any given year reflects the erratic nature of this income with sales only made when value can be unlocked.

(12) Depots income – revenue is higher than the regulator's assumptions this year, continuing the trend of the control period due to additional services offered to operators. The higher income this year also benefits from higher than expected inflation used to uplift contracts. Income is higher than the previous year which is partly due to inflationary benefits from many agreements with operators being linked to the previous year's March RPI (i.e. March 2022) which was exceptionally high, whereas the 2022/23 income has been uplifted using the November 2023 CPI, in line with the Regulatory Accounting guidelines (December 2019).

Statement 2: Analysis of income, Southern - continued

Centrally-managed income

(1) Aggregate Centrally-managed income is higher than the regulatory baseline in the current year but remains lower across the control period, mainly due to lower grant income. Increased income compared to the previous year is mainly due to higher Network grant revenue recognised this year.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payments and also with DfT for Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which reduces the overall variance for the control period as a whole. Network grant income allocated to Southern has been lower than the plan as more the of the risk money allocated to Southern in the regulatory baselines has been utilised by other England & Wales regions. Also, more of the additional funding provided by DfT in CP6 compared to the regulatory baseline relates to Southern.

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year’s Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

(7) Traction Electricity charges – from 2021/22 these charges have been re allocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(8) Property rental – income was lower than the regulatory baseline in the current year and across the control period as a result of the aforementioned Covid-19 consequences.

Statement 2: Analysis of income, Southern - continued

(9) Property sales – sales are lower than the regulatory baseline this year but higher across the control period as shortfalls in income elsewhere have been partly mitigated by identifying additional property disposal opportunities. Property sales by their nature are erratic as properties can only be sold once and, therefore, Network Rail needs to make sure any transaction is supported by strong business cases. The bespoke nature of many of the properties also mean there is a relatively limited market to sell to. Outperformance for the control period includes income from Blackfriars Station, Blackheath Station and James Forbes House. The increase compared to the previous year illustrates the erratic nature of the timing of sales.

Southern
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	200	187	(13)	(13)	182
Maintenance	511	373	(138)	(133)	477
Support costs	103	71	(32)	(32)	81
Traction electricity, industry costs and rates	229	317	88	2	302
Schedule 4	100	75	(25)	(39)	169
Schedule 8	(11)	2	13	13	(20)
	1,132	**1,025**	**(107)**	**(202)**	**1,191**
Capital expenditure					
Renewals	787	740	(47)	(46)	853
Enhancements	141	125	(16)	10	145
	928	**865**	**(63)**	**(36)**	**998**
Total Regionally-managed expenditure	**2,060**	**1,890**	**(170)**	**(238)**	**2,189**
Centrally-managed expenditure					
Operating expenditure					
Network operations	5	4	(1)	(1)	4
Maintenance	14	10	(4)	(3)	24
Support costs	120	146	26	27	135
Traction electricity, industry costs and rates	9	9	-	-	8
Schedule 4	1	12	11	11	3
Schedule 8	1	2	1	1	1
	150	**183**	**33**	**35**	**175**
Capital expenditure					
Renewals	172	276	104	(8)	157
Enhancements	-	-	-	-	3
	172	**276**	**104**	**(8)**	**160**
Risk Expenditure	**-**	**239**	**239**	**-**	**-**
Other					
Financing costs	592	505	(87)	-	976
Taxation	-	23	23	-	(13)
	592	**528**	**(64)**	**-**	**963**
Total centrally-managed expenditure	**914**	**1,226**	**312**	**27**	**1,298**
Total expenditure	**2,974**	**3,116**	**142**	**(211)**	**3,487**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	909	906	(3)	(3)
Maintenance	2,211	1,818	(393)	(395)
Support costs	378	303	(75)	(74)
Traction electricity, industry costs and rates	759	906	147	-
Schedule 4	537	351	(186)	(196)
Schedule 8	(306)	14	320	321
	4,488	**4,298**	**(190)**	**(347)**
Capital expenditure				
Renewals	3,869	3,483	(386)	(249)
Enhancements	813	798	(15)	1
	4,682	**4,281**	**(401)**	**(248)**
Total Regionally-managed expenditure	**9,170**	**8,579**	**(591)**	**(595)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	19	21	2	1
Maintenance	75	67	(8)	(9)
Support costs	597	690	93	140
Traction electricity, industry costs and rates	514	562	48	2
Schedule 4	(5)	59	64	63
Schedule 8	(2)	10	12	12
	1,198	**1,409**	**211**	**209**
Capital expenditure				
Renewals	661	927	266	1
Enhancements	42	6	(36)	14
Other	-	-	-	-
	703	**933**	**230**	**15**
Risk Expenditure	**-**	**671**	**671**	**-**
Other				
Financing costs	3,026	2,541	(485)	-
Taxation	1	69	68	-
	3,027	**2,610**	**(417)**	**-**
Total centrally-managed expenditure	**4,928**	**5,623**	**695**	**224**
Total expenditure	**14,098**	**14,202**	**104**	**(371)**

Statement 3: Analysis of expenditure, Southern

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is lower than the regulatory baseline this year as higher financing costs and operating expenses have been more than offset by reduced renewals and the presence of risk funds in the baseline. Expenditure has been lower across the control period as improved train performance and the presence of risk funds have offset higher operating costs and financing expenses. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year mainly due to higher operating expenses. Costs across the control period are higher with additional capital investment and operating costs being partly offset by better train performance and lower traction electricity. Expenses are lower than the previous year which included higher Schedule 4 costs from industrial action. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally- managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail’s index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Southern
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	66	57	(9)	(9)	61
Operations Management	21	12	(9)	(9)	16
Controllers	39	32	(7)	(7)	36
Electrical control room operators	11	8	(3)	(3)	9
	137	**109**	**(28)**	**(28)**	**122**
Non signaller expenditure					
Mobile operations managers	12	8	(4)	(4)	11
Managed stations	35	34	(1)	(1)	33
Performance	1	9	8	8	5
Other	15	27	12	12	11
Total Regionally-managed Operations expenditure	**200**	**187**	**(13)**	**(13)**	**182**
Centrally-managed Operations expenditure					
Network Services	5	4	(1)	(1)	4
Total centrally-managed Operations expenditure	**5**	**4**	**(1)**	**(1)**	**4**
Total operations expenditure	**205**	**191**	**(14)**	**(14)**	**186**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	302	287	(15)	(15)
Operations Management	67	59	(8)	(8)
Controllers	171	160	(11)	(11)
Electrical control room operators	45	39	(6)	(6)
	585	**545**	**(40)**	**(40)**
Non signaller expenditure				
Mobile operations managers	56	41	(15)	(15)
Managed stations	167	158	(9)	(7)
Performance	26	44	18	18
Other	75	118	43	41
Total Regionally-managed Operations expenditure	**909**	**906**	**(3)**	**(3)**
Centrally-managed Operations expenditure				
Network Services	19	21	2	1
Total centrally-managed Operations expenditure	**19**	**21**	**2**	**1**
Total operations expenditure	**928**	**927**	**(1)**	**(2)**

Statement 3.1: Analysis of operations expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed costs as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year with adverse variances in almost all categories. This includes additional recruitment to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. Costs have been broadly consistent with the regulatory expectation across the control period. Costs are higher than the previous year reflecting the additional recruitment as part of a company-wide strategy.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation this year which include extra fatigue management compliance costs and additional trainee and apprentice signallers recruited to improve resilience, reduce reliance on overtime and replenish a skilled but aging workforce. The higher costs for the control period incorporates the above but also includes increases in staff costs to ensure the railway kept moving throughout the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are higher than the previous year reflecting the aforementioned recruitment this year.

(3) Controllers – costs are higher in the current year and across the control period. This includes some responsibilities and activities (notably seasonal circuits) that were included in the regulatory baseline in the Other category but have been reported directly in these cost centres. Costs are broadly similar to the previous year.

(4) Mobile operations managers – costs across the control period are higher than the regulatory baseline. This is largely from additional recruitment to improve incident response times and support timetable resilience across the Southern network. In addition, many of the costs incurred to bolster train performance have been recognised in this heading, rather than the Performance category within this statement.

Statement 3.1: Analysis of operations expenditure, Southern – continued

In £m cash prices unless stated

(5) Managed stations – costs across the control period are higher than the regulatory baseline including extra staff at stations to offer a better service to the travelling public and higher underlying costs of running stations as inflation has risen faster than expected. Higher costs earlier in the control period included additional cleaning at stations in response to Covid-19 to keep the public safe. Costs are broadly similar to the previous year.

(6) Performance – costs across the control period are lower than the regulatory baseline. As noted above, many of the resilience costs incurred to bolster train performance have been recognised in other categories in this statement, such as the Mobile operations mangers heading. The savings in this category also help offset higher costs reported elsewhere in Operations.

(7) Other – costs are much lower than the regulatory target for this year and across the control period. Responsibilities and activities (notably seasonal circuits) that are included in the regulatory baseline in this category have been delivered by other functions within this statement, such as Controllers, pushing those costs higher but creating a saving in the Other line. The savings in this category also help offset higher costs reported elsewhere in Operations.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period, as well as the previous year.

Southern
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	210	165	(45)	(38)	191
Signalling & Telecoms	70	70	-	-	71
Civils	49	46	(3)	(21)	52
Buildings	46	29	(17)	(1)	39
Electrical power and fixed plant	26	30	4	4	28
Other network operations	110	33	(77)	(77)	96
	511	**373**	**(138)**	**(133)**	**477**
Centrally-managed maintenance expenditure					
Telecoms	7	8	1	1	6
Route Services - Asset Information	7	5	(2)	(2)	5
STE Maintenance	-	-	-	-	1
Property	-	-	-	-	-
Route Services - Other	-	(3)	(3)	(2)	10
Other	-	-	-	-	2
	14	**10**	**(4)**	**(3)**	**24**
Total maintenance expenditure	**525**	**383**	**(142)**	**(136)**	**501**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	896	795	(101)	(79)
Signalling & Telecoms	342	338	(4)	(5)
Civils	213	221	8	(48)
Buildings	178	146	(32)	(1)
Electrical power and fixed plant	131	145	14	14
Other network operations	451	173	(278)	(276)
	2,211	**1,818**	**(393)**	**(395)**
Centrally-managed maintenance expenditure				
Telecoms	27	34	7	8
Route Services - Asset Information	29	28	(1)	(2)
STE Maintenance	5	5	-	(1)
Property	4	6	2	2
Route Services - Other	10	(6)	(16)	(16)
Other	-	-	-	-
	75	**67**	**(8)**	**(9)**
Total maintenance expenditure	**2,286**	**1,885**	**(401)**	**(404)**

Statement 3.2: Analysis of maintenance expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year and across the control period mainly due to greater costs in the Regionally-managed category as set out below. Costs are higher than the prior year comparative, reflecting extra activity undertaken in Southern as set out below.

Regionally-managed maintenance costs

(1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year, with increases across most categories. The primary causes for the increase in costs are: additional works undertaken on the network to improve performance and safety, the re-organisation surrounding PPF, increased inspections to comply with CEFA and CAFA standards and extra costs to comply with track worker safety standards. Higher expenditure across the control period also includes strengthening capabilities and responsiveness by creating Inner and Outer maintenance delivery units, the introduction of Trespass and Welfare teams at stations across the route, and Covid-19 costs for vehicles and premium hours. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. Costs are 5 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 3 per cent compared to the previous year.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

(2) Track – track costs are the largest component of Southern's maintenance expenditure. This year, costs are higher than the regulatory baseline which includes performance improvement schemes, additional contractor costs under a two-year programme to resolve defects as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Furthermore, the higher costs this year include additional expenses arising from a new stoneblower contract. The costs of this are higher than the previous multi-year contract reflecting higher market prices but also a change in the outputs of the contract to deliver improved services. In addition, a fire at a supplier's quarry has increased ballast costs as alternative sources have had to be established. Costs are higher across the control period which includes the aforementioned higher costs in the year as well as investment in performance schemes, addressing track defects around London Bridge, additional expenditure required in response to Covid and delivery of additional maintenance volumes. Expenses are higher than the previous year arising from additional work undertaken on the network, from greater than inflation materials and contractor costs increases and from the aforementioned track defect programme, stoneblower and ballast cost increases.

(3) Civils – costs were similar to the regulatory baseline this year as additional inspections costs were offset by reduced reactive maintenance. The additional inspections related to both additional volumes, but also higher like-for-like costs as contracts were retendered at higher rates, reflecting difficult market conditions for specialist resource. These extra costs were mitigated by lower spend on reactive maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Despite the higher costs this year, overall expenses across the control period are lower than the regulatory baseline, predominantly because of lower reactive maintenance expenditure.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

(4) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year is higher than the regulatory assumption, due to higher levels of reactive maintenance. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs across the control period are higher than the regulatory baseline but this is almost all due to reactive maintenance activity variances. Costs are higher than the previous year illustrating the erratic nature of this activity.

(5) Electrical power and fixed plant – costs across the control period have been lower than the regulatory expectation. This is largely attributable to a delay in planned overhead line electrification assets as there has been a shortage of skilled, competent resource in the market to undertake these tasks. This has meant fewer maintenance volumes have been delivered compared to the regulatory baseline assumptions.

(6) Other network operations – costs are higher than the regulatory baseline this year, which continues the trend of the earlier years of the control period. Higher costs this control period include investing to comply with emerging engineering and safety standards, strengthening asset management teams and capabilities. In addition, extra investment was undertaken in performance improvement schemes including compliance investment contributing to this extra spend. This has included additional staff costs, procurement of Covid-19 secure services and increases in the premium hour costs. Additionally, there are various one-off expenses and other asset resilience initiatives to protect train performance, including a Performance scheme implemented in Wessex and the introduction of Trespass and Welfare teams across the route's stations. Costs are higher than the previous year reflecting higher than inflation cost rises in the supply chain and increased devegetation works including removal of trees designated as dead, dying or diseased.

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

(2) Telecoms – – costs are lower than the regulatory baseline across the Control Period, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment, lower performance-related pay, pay restraint and successful resolution of commercial claims.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

(3) Route services – other – costs are higher than the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

Southern
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	14	9	(5)	(5)	14
Finance	1	6	5	5	6
Accommodation	23	17	(6)	(6)	24
Utilities	51	18	(33)	(33)	22
Other	14	21	7	7	15
	103	**71**	**(32)**	**(32)**	**81**
Centrally-managed Support costs					
Finance & Legal	9	13	4	4	7
Communications	3	4	1	1	3
Human Resources	6	1	(5)	(5)	5
System Operator	10	18	8	8	9
Property	3	1	(2)	(2)	5
Telecoms	15	12	(3)	(3)	17
Network Services	-	-	-	-	-
Safety Technical and Engineering	9	9	-	-	8
RS - IT and Business Services	26	26	-	-	24
RS - Asset Information	4	6	2	(3)	3
RS - Directorate	7	8	1	1	-
Other corporate functions	1	1	-	1	-
Insurance	6	12	6	6	(2)
OPEX/CAPEX Adjustment	22	16	(6)	-	42
Group costs	(1)	19	20	19	14
	120	**146**	**26**	**27**	**135**
Total support costs	**223**	**217**	**(6)**	**(5)**	**216**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	55	45	(10)	(10)
Finance	18	30	12	11
Accommodation	107	87	(20)	(19)
Utilities	120	87	(33)	(34)
Other	78	54	(24)	(22)
	378	**303**	**(75)**	**(74)**
Centrally-managed Support costs				
Finance & Legal	40	58	18	18
Communications	15	20	5	6
Human Resources	25	25	-	(1)
System Operator	43	72	29	28
Property	30	5	(25)	(24)
Telecoms	77	72	(5)	(8)
Network Services	8	16	8	8
Safety Technical and Engineering	39	41	2	4
RS - IT and Business Services	118	125	7	6
RS - Asset Information	14	25	11	4
RS - Directorate	28	28	-	-
Other corporate functions	12	16	4	4
Insurance	23	50	27	27
OPEX/CAPEX Adjustment	124	64	(60)	-
Group costs	1	73	72	68
	597	**690**	**93**	**140**
Total support costs	**975**	**993**	**18**	**66**

Statement 3.3: Analysis of support costs, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

1) Support costs for the year are broadly consistent with the regulatory baseline with savings in Centrally-managed activities largely offset by higher costs in Regionally-managed categories as set out below. Across the control period there has been an overall saving due to savings in Centrally-managed activities. Costs are broadly consistent with the previous year.

Regionally-managed support costs

(1) Regionally-managed support costs are higher than the regulatory baseline this year mainly due to electricity prices driving up Utilities expenses. Across the control period, costs have been higher than the regulatory baseline due to the aforementioned increase in Utilities, the implementation of the PPF re-organisation programme, office relocation, inflationary pressures and the costs of responding to Covid-19. Costs are higher than the previous year mainly due to risking Utilities costs.

(2) Human resources – costs higher than the regulatory baseline this year and across the control period, reflecting Network Rail's devolution of central responsibilities to the regions, to align decision-making more closely with railway passengers and freight users. This has resulted in more local Human Resources staff to support this initiative.

(3) Finance – costs are lower than the regulatory baseline in the current year and across the control period. Headcount efficiencies, pay restraint and favourable settlement of commercial claims have all helped realise savings.

(4) Accommodation – costs are higher than the baseline expectation this year continuing the pattern across the control period. This is mainly due to a relocation to a new office to divest an older, larger site, inflationary pressures and additional expenditure on required Covid-19 compliance measures during the pandemic.

(5) Utilities – costs are higher than the baseline this year and across the control period reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices in recent years in the wake of geopolitical disruption and uncertainty. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(6) Other – costs were lower than the regulatory baseline this year primarily due to receiving some additional income from third parties for services provided along with the successful resolution of two commercial claims, which also accounts for the reduction compared to the previous year. The control period position remains higher than the regulatory baseline as the savings this year were more than offset by the implementation of the PPF programme which saw the transfer of many teams, such as Property, NRT, from national functions to regional ones and Covid-19 response expenses, such as PPE purchases, supplementary staff and cleaning.

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are favourable to the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been more than offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(3) Communications – costs this across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed.

(4) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings, as well as from extra training costs this year.

(5) System Operator – costs are lower than the regulatory baseline this year and across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in consultancy expenses as more of the required tasks were completed in-house. Savings across the control period also included reduced staff travel and accommodation costs during the pandemic. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(6) Property – costs are higher than the regulatory baseline this year continuing the trend from earlier years of the control period. This is mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(7) Telecoms – costs are higher than the regulatory target this year and across the control period in total. Whilst savings have been made through reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, inflationary pressures have been present in the supply chain, forcing costs up.

(8) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(9) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed.

(10) Route Services – IT and Business Services – costs are lower than the regulatory baseline across the control period. Savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and savings in travel and accommodation during Covid-19 have been achieved but have been offset by one-off costs during Covid-19 as this function supported a transition to back-office staff working from home and inflationary pressures in the supply chain.

(11) Route Services – Asset Information costs are lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories. The outperformance has arisen largely from headcount restraint, management modernisation, pay freezes and reduced performance related pay for staff.

(12) Route Services – Directorate – costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(13) Other Corporate Functions – costs are lower than the regulatory expectation across the control period. As noted in the 2022/23 Regulatory Financial Statements savings in the control period include the Putting Passenger First reorganisation costs which have been reported in the Group line this control period in this statement.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

(14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(15) Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

(16) Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year. As noted in the 2022/23 Regulatory Financial Statements, Group costs in that year included workforce reform credits given to the regions and functions.

Southern

Statement 3.4: Analysis of traction electricity, industry costs and rates

£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	178	223	45	2	212
Business rates	20	63	43	-	57
British transport police costs	31	31	-	-	33
	229	**317**	**88**	**2**	**302**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	6	5	(1)	-	6
RDG membership costs	-	1	1	-	-
RSSB costs	3	3	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	9	**9**	**-**	**-**	**8**
Total traction electricity, industry costs and rates	**238**	**326**	**88**	**2**	**310**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	537	644	107	2
Business rates	126	169	43	-
British transport police costs	96	93	(3)	(2)
	759	**906**	**147**	**-**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	305	381	76	-
Business rates	117	85	(32)	-
British transport police costs	51	53	2	2
ORR licence fee and railway safety levy	27	24	(3)	-
RDG membership costs	3	4	1	-
RSSB costs	11	12	1	-
Reporters fees	-	-	-	-
Other industry costs	-	3	3	-
	514	**562**	**48**	**2**
Total traction electricity, industry costs and rates	**1,273**	**1,468**	**195**	**2**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is lower than the regulator's assumption in the current year and across the control period mainly due to lower traction electricity costs which has been offset by lower income received from operators (refer to Statement 2) and lower business rates.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulatory assumption, which has been matched by reduced income from operators. Despite the increases in the market price of electricity, costs for the control period are lower than the regulator's expectation as expected price rises earlier in the control period did not materialise. Also, during and since the Covid-19 pandemic began, fewer train services were run than assumed in the regulatory baseline, therefore lower traction electricity costs were incurred. In addition, the increases in market prices witnessed in 2022/23 following Russian military aggression in eastern Europe did not fully impact operators immediately as many had elected to pre-purchase future energy requirements when prices were lower. These cost savings are broadly balanced by reduced income from recharging electricity to operators (as shown in Statement 2). Costs were lower than the previous year, matched by lower income from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Southern – continued

In £m cash prices unless stated

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and across the control period are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern
Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	100	75	(25)	(39)	169
Access charge supplement Income	(75)	(69)	6	6	(66)
Net (income)/cost	**25**	**6**	**(19)**	**(33)**	**103**
Schedule 8					
Performance element income	(11)	-	11	11	(20)
Performance element costs	-	2	2	2	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**(11)**	**2**	**13**	**13**	**(20)**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	12	11	11	3
Access charge supplement Income	(19)	(17)	2	-	(18)
Net (income)/cost	**(18)**	**(5)**	**13**	**11**	**(15)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	1	2	1	1	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**1**	**2**	**1**	**1**	**1**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	101	87	(14)	(28)	172
Access charge supplement Income	(94)	(86)	8	6	(84)
Net (income)/cost	**7**	**1**	**(6)**	**(22)**	**88**
Schedule 8					
Performance element income	(11)	-	11	11	(20)
Performance element costs	1	4	3	3	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**(10)**	**4**	**14**	**14**	**(19)**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	537	351	(186)	(196)
Access charge supplement Income	(351)	(348)	3	3
Net (income)/cost	**186**	**3**	**(183)**	**(193)**
Schedule 8				
Performance element income	(325)	-	325	325
Performance element costs	19	14	(5)	(4)
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(306)**	**14**	**320**	**321**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	(5)	59	64	63
Access charge supplement Income	(86)	(84)	2	-
Net (income)/cost	**(91)**	**(25)**	**66**	**63**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	(2)	10	12	12
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(2)**	**10**	**12**	**12**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	532	410	(122)	(133)
Access charge supplement Income	(437)	(432)	5	3
Net (income)/cost	**95**	**(22)**	**(117)**	**(130)**
Schedule 8				
Performance element income	(325)	-	325	325
Performance element costs	17	24	7	8
Access charge supplement Income	-	-	-	-
Net (income)/cost	**(308)**	**24**	**332**	**333**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are higher than the regulatory baseline, including the impact of financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 outperformed the regulatory baseline this year resulting in a net inflow of revenue. Train performance in the region has remained strong throughout the control period, despite a number of challenges. Across the control period, Schedule 8 remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in reduced net compensation received from operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). The Access charge supplement income is higher than the baseline this year, reflecting higher inflation during the control period compared to the regulatory expectation when the baselines were set five years ago. Any benefit is offset by higher compensation payments rates, which are also subject to contractual annual inflationary increases. Income is higher than the previous year, reflecting planned increases in the regulatory baseline included in ORR's CP6 determination. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events, including numerous landslips in the region. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Also, about 15 per cent of the financial underperformance this year has been due to higher inflation increasing the compensation rates paid to operators to higher than the regulatory baseline for 2023/24. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs.

(2) Schedule 8 outperformed the regulatory baseline this year resulting in a net inflow of revenue. Train performance in the region has remained strong throughout the control period, despite a number of challenges. Across the control period Schedule 8 remains significantly favourable to the regulatory baseline due to the exceptional performance during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in reduced net compensation received from operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

(2) Schedule 4 – Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed costs.

(3) Schedule 8 – costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow. In addition, across the control period, a lower than expected level of costs have been recognised in Centrally-managed areas, with more being reflected in the Regionally-managed section of this statement.

Southern
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	64	75	11	-	60
PL Replace Partial	22	17	(5)	-	31
PL High Output	-	-	-	-	-
PL Refurbishment	27	24	(3)	-	28
PL Track Slab Track	2	1	(1)	-	5
Switches & Crossing - Replace	43	63	20	-	47
Switches & Crossing - Other	12	15	3	-	20
Off Track	16	6	(10)	-	18
Track Other	11	5	(6)	-	(2)
	197	**206**	**9**	**(8)**	**207**
Signalling					
Signalling Full	112	107	(5)	0	132
Signalling Partial	49	46	(3)	0	26
Signalling Refurb	17	27	10	0	30
Level crossings	34	37	3	0	31
Minor works	31	17	(14)	0	29
Other	3	6	3	0	1
	246	**240**	**(6)**	**(41)**	**249**
Civils					
Underbridges	35	40	5	-	33
Overbridges	5	4	(1)	-	7
Major structures	3	12	9	-	13
Tunnels	1	1	-	-	4
Minor works	22	20	(2)	-	28
Other	6	7	1	-	6
	72	**84**	**12**	**4**	**91**
Earthworks					
Earthworks - Embankments	21	14	(7)	-	27
Earthworks - Soil Cuttings	50	7	(43)	-	32
Earthworks - Rock Cuttings	(2)	-	2	-	14
Earthworks - Other	5	-	(5)	-	2
	74	**21**	**(53)**	**(9)**	**75**
Buildings					
Managed stations	17	2	(15)	-	9
Franchised stations	29	25	(4)	-	50
Light maint depots	1	5	4	-	4
Depot plant	7	-	(7)	-	4
Lineside buildings	5	-	(5)	-	8
MDU buildings	14	2	(12)	-	14
Other	-	-	-	-	-
	73	**34**	**(39)**	**2**	**89**
Electrical power and fixed plant					
AC distribution	3	1	(2)	-	1
Overhead Line	2	-	(2)	-	1
DC distribution	44	32	(12)	-	55
Conductor rail	19	13	(6)	-	21
Signalling Power Supplies	4	11	7	-	2
Other	12	16	4	-	3
Fixed plant	4	3	(1)	-	5
	88	**76**	**(12)**	**9**	**88**
Drainage					
Drainage (Track)	8	14	6	-	18
Drainage (Earthworks)	7	2	(5)	-	8
Drainage (Resilience)	1	-	(1)	-	-
	16	**16**	**-**	**(3)**	**26**
Property					
Property	21	63	42	-	28
	21	**63**	**42**	**-**	**28**
Total Regionally-managed renewals expenditure	**787**	**740**	**(47)**	**(46)**	**853**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	4
	-	**-**	**-**	**-**	**4**
Telecoms					
Operational communications	10	8	(2)	-	7
Network	4	1	(3)	-	1
SISS	35	7	(28)	-	29
Projects and other	1	1	-	-	-
Non-route capital expenditure	11	11	-	-	14
	61	**28**	**(33)**	**(12)**	**51**
Wheeled plant and machinery					
High output	-	6	6	-	-
Incident response	-	-	-	-	-
Infrastructure monitoring	-	4	4	-	1
Intervention	2	4	2	-	1
Materials delivery	2	5	3	-	2
On track plant	5	4	(1)	-	2
Seasonal	4	9	5	-	3
Other	5	10	5	-	6
	18	**42**	**24**	**-**	**15**
Route Services					
Business Improvement	8	-	(8)	-	8
IT Renewals	3	17	14	-	4
Asset Information	1	-	(1)	-	1
Other	1	4	3	-	1
	13	**21**	**8**	**-**	**14**
STE Renewals					
Intelligent infrastructure	13	8	(5)	-	15
Faster Isolations	25	20	(5)	-	41
Centrally Managed Signalling Costs	2	3	1	-	1
Research and development	15	19	4	-	10
Integrated Management System (Incl. BCR)	-	5	5	-	-
Other National SCADA Programmes	5	2	(3)	-	1
Small plant	2	2	-	-	2
Other	20	5	(15)	-	18
	82	**64**	**(18)**	**-**	**88**
Property					
Property	1	11	10	-	1
	1	**11**	**10**	**-**	**1**
Other renewals					
ETCS	-	-	-	-	-
Digital Railway	2	5	3	-	5
Civils & Drainage - Insurance Fund	6	6	-	3	1
Buildings - Insurance Fund	1	3	2	-	1
OPEX/CAPEX Adjustment	(22)	(16)	6	-	(42)
Phasing overlay	-	105	105	-	-
System Operator	5	6	1	-	7
Other renewals	5	1	(4)	1	12
	(3)	**110**	**113**	**4**	**(16)**
Total centrally-managed renewals expenditure	**172**	**276**	**104**	**(8)**	**157**
TOTAL RENEWALS EXPENDITURE	**959**	**1,016**	**57**	**(54)**	**1,010**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	308	307	(1)	-
PL Replace Partial	128	94	(34)	-
PL High Output	19	21	2	-
PL Refurbishment	137	114	(23)	-
PL Track Slab Track	8	4	(4)	-
Switches & Crossing - Replace	233	282	49	-
Switches & Crossing - Other	86	73	(13)	-
Off Track	101	42	(59)	-
Track Other	43	38	(5)	-
	1,063	**975**	**(88)**	**2**
Signalling				
Signalling Full	559	550	(9)	-
Signalling Partial	106	71	(35)	-
Signalling Refurb	92	123	31	-
Level crossings	99	105	6	-
Minor works	154	101	(53)	-
Other	7	27	20	-
	1,017	**977**	**(40)**	**(121)**
Civils				
Underbridges	164	239	75	-
Overbridges	29	40	11	-
Major structures	22	31	9	-
Tunnels	9	16	7	-
Minor works	99	91	(8)	-
Other	27	37	10	-
	350	**454**	**104**	**(2)**
Earthworks				
Earthworks - Embankments	177	77	(100)	-
Earthworks - Soil Cuttings	206	73	(133)	-
Earthworks - Rock Cuttings	56	20	(36)	-
Earthworks - Other	12	1	(11)	-
	451	**171**	**(280)**	**(109)**
Buildings				
Managed stations	41	42	1	-
Franchised stations	271	169	(102)	-
Light maint depots	24	6	(18)	-
Depot plant	19	15	(4)	-
Lineside buildings	33	5	(28)	-
MDU buildings	55	21	(34)	-
Other	-	-	-	-
	443	**258**	**(185)**	**(21)**
Electrical power and fixed plant				
AC distribution	11	23	12	-
Overhead Line	3	1	(2)	-
DC distribution	196	157	(39)	-
Conductor rail	85	64	(21)	-
Signalling Power Supplies	17	55	38	-
Other	37	116	79	-
Fixed plant	20	24	4	-
	369	**440**	**71**	**16**
Drainage				
Drainage (Track)	60	67	7	-
Drainage (Earthworks)	22	15	(7)	-
Drainage (Resilience)	2	-	(2)	-
	84	**82**	**(2)**	**(14)**
Property				
Property	92	126	34	-
	92	**126**	**34**	**-**
Total Regionally-managed renewals expenditure	**3,869**	**3,483**	**(386)**	**(249)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	9	-	(9)	-
	9	**-**	**(9)**	**(4)**
Telecoms				
Operational communications	26	32	6	-
Network	7	12	5	-
SISS	80	104	24	-
Projects and other	3	5	2	-
Non-route capital expenditure	75	73	(2)	-
	191	**226**	**35**	**(20)**
Wheeled plant and machinery				
High output	-	26	26	-
Incident response	-	-	-	-
Infrastructure monitoring	4	17	13	-
Intervention	12	26	14	-
Materials delivery	7	26	19	-
On track plant	8	20	12	-
Seasonal	12	39	27	-
Other	22	23	1	-
	65	**177**	**112**	**-**
Route Services				
Business Improvement	59	31	(28)	-
IT Renewals	26	69	43	-
Asset Information	6	6	-	-
Other	7	9	2	-
	98	**115**	**17**	**-**
STE Renewals				
Intelligent infrastructure	69	49	(20)	-
Faster Isolations	122	138	16	-
Centrally Managed Signalling Costs	7	12	5	-
Research and development	54	58	4	-
Integrated Management System (Incl. BCR)	-	16	16	-
Other National SCADA Programmes	21	18	(3)	-
Small plant	7	10	3	-
Other	75	18	(57)	-
	355	**319**	**(36)**	**-**
Property				
Property	13	70	57	-
	13	**70**	**57**	**-**
Other renewals				
ETCS	9	16	7	-
Digital Railway	12	2	(10)	-
Civils & Drainage - Insurance Fund	9	29	20	22
Buildings - Insurance Fund	2	14	12	-
OPEX/CAPEX Adjustment	(121)	(64)	57	-
Phasing overlay	-	-	-	-
System Operator	22	23	1	-
Other renewals	(3)	0	3	3
	(70)	**20**	**90**	**25**
Total centrally-managed renewals expenditure	**661**	**927**	**266**	**1**
TOTAL RENEWALS EXPENDITURE	**4,530**	**4,410**	**(120)**	**(248)**

Statement 3.6: Analysis of renewals expenditure, Southern

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure this year is lower than the regulatory baseline which offsets some of the higher spend experienced in early years of the control period. The control period overspend was funded from drawing down on risk funds included in the regulatory baselines. As part of the CP6 determination process, some of the renewals funding was removed and held as risk (shown as risk funds in Statement 1), which could then be returned to the core plan if risk did not fully materialise. Expenditure is slightly lower than the previous year reflecting timing of renewals portfolio delivery during CP6.

Regionally-managed renewals

(1) Regional expenditure is higher than the regulatory baseline this year adding to additional investment witnessed earlier in the control period. This higher investment has been funded through reduced Centrally-managed renewals expenditure and by drawing down on risk funds included in the regulatory baselines (as shown in Statement 1). The extra spend is mostly from higher like-for-like project costs which manifests itself as adverse financial performance. Expenditure is slightly lower than the previous year reflecting timing of renewals portfolio delivery during CP6.

(2) Track – expenditure is broadly in line with the regulatory baseline this year but remains higher across the control period. This includes the impact of additional delivery costs relating to Track worker safety programme costs. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance. Costs of delivery in CP6 have been broadly in line expectation at project level, meaning minimal financial outperformance has been recognised. The underperformance this year includes the impact of workbank reprioritisation resulting in the loss of bult discounts in materials procurement. Costs are broadly consistent with the previous year.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(3) Signalling – expenditure is broadly in line with the regulatory baseline this year and slightly higher across the control period. The higher costs reflects higher like-for-like project costs partially offset by deferral of activity. The financial underperformance includes: life extension programme in Southampton having increased scope as well as higher unit rates than assumed, Relay Re-Servicing programmes have had increased complexity and consequentially increased use of access and contractors, impact of Covid-19, including delays caused to Hither Green commissioning in Easter 2020, higher tender and contractor prices compared to expectations, delays obtaining access from third parties, unfavourable settlement of commercial claims, technology integration issues and supply chain monopoly impacted the costs of the Tulse Hill resignalling project, delays in Farncombe to Petersfield commissioning and higher component market prices. Costs are similar to the prior year but there have been a change in the mix of programmes this year. There have been increases in the Farncombe to Petersfield project to renew life expired assets on this stretch and upgrading the three-aspect signalling to four-aspect to improve performance and increase capacity and replacing assets in the Victoria station area. These have been offset by reductions on the Balham & Clapham area resignalling project and Feltham programmes as these projects come towards the end of their life cycle.

(4) Civils – expenditure this year is lower than the regulatory baseline compounding the impact of lower delivery earlier in the control period. In CP6, there has been greater focus on other assets, notably Earthworks and Buildings, meaning funding has had to be reprioritised within the renewals portfolio to provide the optimal benefit for passengers. Expenditure is lower than the previous year. As last year's Regulatory Financial Statements noted, 2022/23 expenditure was higher than normal as it included significant investment for a project at Ryde Pier.

(5) Earthworks – investment was noticeably higher than the regulatory baseline this year, continuing the trend across the control period. This control period Southern have invested much more heavily in Earthworks than planned, including reacting to the Stonehaven tragedy and remedial works to mitigate risk of similar events in Southern. More volumes have been delivered to improve asset condition as the assets across the region are not in the required condition. Some of these extra costs have been offset by a reduction in Centrally-managed insurance costs disclosed elsewhere in Statement 3.6. However, the extra work has come at a higher than expected cost, meaning financial underperformance has been reported this control period. Inclement weather, namely storms Dudley, Eunice and Franklin, a large number of emergency and reactive works were required in 2021/22. This has seen a significant increase in volume which has led to this increase in spend but also financial underperformance. This is largely relating to access difficulties, for example Sussex route had difficulties due to the interface between assets and third party property being more involved than budgeted thus requiring bespoke delivery methods. Furthermore, access roads flooded and landowners prevented access in Bearhurst. Balcombe embankment has increased costs resulting from contractors proposing a change in their methodology. Asset condition has been a persistent issue across the control period with Kent route suffering over 15 landslips across various locations which put the safe running of the railway at risk. Higher like-for-like costs also included construction of ballast bag walls to catch falling material, challenging crest access, delays in material delivery to site prolongating projects and higher contractor costs on some schemes. Contractor performance, failed delivery requiring remediation and access difficulties have also helped cause higher like-for-like costs across the portfolio. Investment is broadly similar to the previous year.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(6) Buildings – investment exceeded the regulatory baseline again this year, continuing the trend of earlier years of the control period, with notably higher investment in Franchised stations. This includes projects directly delivered by Southeastern and Govia Thameslink Railway operators, full paint job and replacement decks, canopy repairs and enhanced tactiles to improve passenger journeys. Lower footfall during Covid-19 provided an opportunity to undertake work with minimal passenger disruption. Financial underperformance has been recognised this control period. This includes: The Brockley footbridge remedial works found that there had been greater deterioration than was expected and budgeted for, the accommodation upgrade in Sussex delivered fewer volumes than anticipated and higher contractor prices reflecting increased complexity and market pressures. Costs are lower than the prior year as more of the CP6 portfolio has been delivered in earlier years.

(7) Electrical power and fixed plant – investment in the year was lower than the regulatory expectation continuing the trend of earlier years in the control period as funding was reprioritised into alternative asset categories this control period. Financial outperformance has been recognised this year from benefits from earlier contractor involvement in design stages, development of in-house works delivery capabilities to provide more flexibility in delivery and better contracting integration, combining numerous projects into a single tender. Investment is consistent with the previous year.

(8) Drainage – expenditure this year and across the control period was broadly in line with the regulatory baseline. This has arisen from higher like-for-like costs offset by reduced activity. The financial underperformance this control period includes: worse asset condition than expected requiring more intrusive surveys and delays, difficulty securing access, higher number of contractor variations, lost volumes as the Queen's funeral necessitated cancelling activity whilst still incurring most of the costs, delays in agreeing contractor framework for CP6 and shortage of drainage plant in 2019/20. Spend is lower than the prior year before as control period activity was caught up in 2022/23.

(9) Property – expenditure is lower than the regulatory baseline this year and across the control period. Property schemes require robust business cases to ensure funding is invested optimally. In the economic uncertainty witnessed in CP6, fewer schemes have been identified. This year included investment in a balcony bar at Waterloo station and roadside advertising sites.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3. In addition, funding has been reprioritised across the organisation to fund additional net expenditure in the regions. Investment is higher than the previous year with the largest contributor being the variability in the opex/ capex adjustment category in the table, reflecting the nature of the overall renewals portfolio delivered this year.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to Regions this year.

(3) Telecoms – investment is higher than the regulatory baseline in the year but remains lower across the control period. Although activity has ramped up in recent years the regulatory baselines assumed a greater delivery in early years of the control period. Slippage on SISS is the primary reasons for the lower spend this control period. As noted in previous years Regulatory financial statements, SISS-CCTV rephasing is one of the main reasons for the different profile of spend as activity has been delivered later, which accounts for most of the step up in spend compared to the previous year. The overall lower investment in the control period is also due to Regional decisions to redeploy CP6 funding to different areas to produce more effective outcomes for passengers. Financial underperformance has been reported this year. This is mainly driven by stock purchased for programmes that have subsequently been cancelled and the suitability of this stock for future projects is questionable. Financial underperformance for the control period also includes project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

a. High output – investment was lower than the regulatory baseline this year and across the control period as funds have been redeployed elsewhere by Route Services Directorate into those areas the Regions most value. In particular, concerns over the suitability of High output plant as a delivery solution have resulted in a more cautious approach to investment.

b. Infrastructure monitoring – costs are lower than the regulatory baseline across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

c. Intervention – costs were lower than the regulatory baseline across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

d. Materials delivery – investment was lower than the regulatory baseline assumption across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

e. On track plant – whilst there was a step up in investment this year compared to the regulatory baseline, expenditure across the control period was lower. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred as Regions have identified better outputs that can be delivered elsewhere in the business and so funding has been reprioritised.

f. Seasonal – expenditure this year and across the control period is lower than the regulatory baseline. This has included a change in the delivery strategy for multi-purpose vehicle fleet from full replacement to life extension works following analysis to determine that this offers a more effective solution.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

(5) Route Services – expenditure this year is lower than the regulatory baseline and slightly lower across the control period. This reduction was partly due to a relatively lower headcount in Southern compared to the regulatory baseline, with headcount being one of the main drivers of how these renewals costs are allocated to regions. Spend was slightly lower than the previous year, including reduced IT spend as projects had been completed earlier in the control period.

(6) STE renewals – overall STE expenditure is higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline this year but slightly lower across the control period. Delays in identifying suitable programmes has resulted in slippage across the portfolio. Additionally, delays in designs and tendering processes have been incurred, as best value for the portfolio is sought. Spend is lower than the previous year as delivery across the portfolio was subdued. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Centrally-managed signalling costs – costs are lower than the regulatory baseline across the control period reflecting a higher proportion of activity being undertaken in the regions compared to the regulatory expectation. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

d. Research & Development – expenditure this year is lower than the regulatory baseline as project delivery has slowed as investment has become more targeted in those areas that will deliver the most advantageous business cases. This approach also accounts for the lower expenditure across the control period. Investment is higher than the prior year reflecting progress across a range of different projects. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs.

e. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

f. Other national SCADA programmes – investment is higher than the regulatory baseline this year which also accounts for the greater spend across the control period. The programme has required higher investment across the control period due to delays in delivering the CP5 outputs. Expenditure is higher than the previous year. As noted in the prior year Regulatory Financial Statements, 2022/23 is lower as a number of projects were classified as opex.

g. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Cost is broadly in line with the prior year.

(7) Property – expenditure is lower than the regulatory baseline this year and across the control period. This control period, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. Investment is higher than the previous year, due to the aforementioned acquisitions undertaken this year.

(8) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration.

b. Digital Railway – costs are lower than the regulatory baseline this year but higher across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor’s view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

g. Other renewals – expenditure this year is higher than the regulatory baselines and includes investment in new electric charging points at depots to help reduce the environmental impact of Network Rail. This category also includes various workforce safety schemes, including installation of new walkways and crossings which were not included in the original CP6 baselines. Overall expenditure across the control period is lower than the regulatory baseline. As set out in the previous year’s Regulatory Financial Statements, Southern benefitted from one-off savings in 2019/20.

Southern
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	7	6	(9)	156	158	(1)
Great Western Electrification	-	-	-	-	-	-
Cardiff Central Operational Resilience	-	-	-	-	-	-
Brighton Mainline Upgrade Programme	-	(1)	-	74	74	-
West Anglia Main Line Capacity	-	-	-	-	-	-
Midland Main Line Programme	-	-	-	-	-	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	1	-	13	14	-
Trans Pennine Route Upgrade	-	-	-	-	-	-
Hope Valley Capacity	-	-	-	-	-	-
Cambridge South Station Dvpt 2	-	-	-	-	-	-
Critical Stations Improvement Fund	22	10	4	49	48	5
Gatwick Station	33	33	21	199	201	-
East West Rail Phase 2	-	-	-	-	-	-
Oxford Corridor Capacity Phase 2	-	-	-	-	-	-
GWEP Distribution Network Operators clearance work	-	-	-	-	-	-
East Coast Main Line Enhancements Programme	-	-	-	-	-	-
Manchester Improvements	-	-	-	-	-	-
Reading Independent Feeder (Power Supply)	-	-	-	-	-	-
Bristol East Junction	-	-	-	-	-	-
Kings Lynn to Cambridge 8 Car	-	-	-	-	-	-
South West Rail Resilience Programme	-	-	-	-	-	-
St Albans Station Capacity	-	-	-	-	-	-
London Euston (in support of High Speed Rail Group scheme)	-	-	-	-	-	-
SFN-Freight Forecasts project	1	-	-	21	20	2
Access for All	55	36	-	124	120	-
Thameslink Resilience Programme	3	(3)	(3)	18	15	-
Midlands Hub - Continued Design and Early Development	-	-	-	-	-	-
Western Rail Access to Heathrow	-	-	-	-	-	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	-	-	-	-	-	-
Integrated Crewe Hub - HS2	-	-	-	-	-	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	15	15	-
Dr Days to Filton Abbey Wood Capacity	-	-	-	-	-	-
Portfolio Contingency (including T-12)	-	-	-	4	6	14
Depots & Stabling Fund	-	1	-	25	30	-
Northern Hub	-	-	-	-	-	-
Thames Valley EMU Capability	-	-	-	-	-	-
West Coast PSU	-	-	-	-	-	-
IEP Western Capability	-	-	-	-	-	-
West of England Plat Length	-	-	-	-	-	-
Feltham	-	-	-	9	10	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	-	-	-	-	-	-
Access to Assets	-	-	-	-	-	-
Restoring Your Railway	1	1	-	10	10	-
University Station	-	-	-	-	-	-
Energy Coast Rail Upgrade Project	-	-	-	-	-	-
GWML W10-W12 Gauge Enhancement	-	-	-	-	-	-
NWEP Phase 7 Lostock - Wigan	-	-	-	-	-	-
Crumlin River Bridge	-	-	-	-	-	-
W009 West of England DMU Capability	-	-	-	-	-	-
Anglia Traction PSU	-	-	-	-	-	-
EC Digital	-	-	-	-	-	-
Ely Area Capacity Enh	-	-	-	-	-	-
Ashford to Ramsgate	-	-	-	3	3	-
Clapham Junction Short-term	9	9	-	16	17	-
Darlington Station Improvements	-	-	-	-	-	-
Denmark Hill Congestion Relief	-	-	-	3	7	-
Tactile Paving Installation	2	2	-	9	9	-
New Stations Fund	-	-	-	2	5	-
River Irwell Fl Resil	-	-	-	-	-	-
W Mid New Stations	-	-	-	-	-	-
LNWS623 Bushey PSU	-	-	-	-	-	-
IRP Portfolio	-	-	-	-	-	-
Other	8	30	(3)	67	42	(5)
Total	**141**	**125**	**10**	**817**	**804**	**15**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	-	-	-
Aberdeen to Inverness	-	-	-	-	-	-
Kintore Station	-	-	-	-	-	-
Rolling Programme of Electrification	-	-	-	-	-	-
East Kilbride Barrhead	-	-	-	-	-	-
New Down Platform Dunbar	-	-	-	-	-	-
Highland ML JTI Ph 2	-	-	-	-	-	-
Dunblane to Perth	-	-	-	-	-	-
Cadder HST Depot	-	-	-	-	-	-
Hairmyres Land Purchase	-	-	-	-	-	-
Feeder St/Power Mod Ele	-	-	-	-	-	-
Edinburgh Waverley Western Approaches	-	-	-	-	-	-
Reston Station	-	-	-	-	-	-
North Hanover Street Development	-	-	-	-	-	-
West of Fife Enhancements	-	-	-	-	-	-
A9 Interface- Lynebeg Bridge	-	-	-	-	-	-
Far North Line Route Enhanceme	-	-	-	-	-	-
East Linton Station	-	-	-	-	-	-
Busby Jn to Barrhead Ele	-	-	-	-	-	-
Dalcross New Station	-	-	-	-	-	-
Levenmouth	-	-	-	-	-	-
GLAB Currie Feeder St	-	-	-	-	-	-
Cadder Buildings	-	-	-	-	-	-
Fife Decarbonisation	-	-	-	-	-	-
Millerhill Interventions	-	-	-	-	-	-
Barrhead Kilmarnock Ele	-	-	-	-	-	-
Aberdeen Cent Belt Elec	-	-	-	-	-	-
Portobello Junction	-	-	-	-	-	-
Aberdeen Cen Journey	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
	-	-	-	-	-	-
Other Capital Expenditure	-	-	-	38	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	-	-	-	-	-	-
Other third Party	37	-	-	136	-	-
Total	**37**	**-**	**-**	**136**	**-**	**-**
Total enhancements	**178**	**125**	**10**	**991**	**804**	**15**
	-	-	-	-	-	-
Total enhancements less Other third party funded schemes	**141**	**125**	**10**	**855**	**804**	**15**

Statement 3.7: Analysis of enhancement expenditure, Southern

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the Southern's core funder (DfT).

(3) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Southern's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funder DfT was £140m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£177m) less the PAYGO schemes funded by third parties (£38m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Minor financial outperformance has been recognised across the control period. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of the funder (DfT).

(3) Department for Transport funded schemes – expenditure this year is higher than the baseline which brings the investment across the control period broadly in line with the regulatory baseline. Some notable variances at programme level include:

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

a. Thameslink – the programme has delivered new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Financial underperformance has been recognised this year which has negated financial outperformance reported in early years of the control period. Whilst expenditure is broadly consistent with the regulatory baseline this control period the programme of works is now expected to complete in control period 7, incurring greater costs, particularly with difficulties around designing and introducing new Automatic Route Setting (ARS) technology.

b. Critical station improvements fund – the programme consists of projects to improve station capacity and accessibility at key London Stations which require critical station investment. This control period included improvements at London Victoria, Surbiton and Peckham Rye. Phasing of portfolio delivery means the extra spend this year has bought investment across the control period broadly into line with the funding available. Financial outperformance has been recognised this control period as woks at London Victoria have been delivered more effectively.

c. Gatwick Airport Station – the project has provided a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge and improved physical security at the station. Expenditure across the control period is broadly in line with the funding provided by DfT. Adverse financial performance recognised in last year's Regulatory Financial Statements has been mitigated this year following agreements with DfT to deliver extra scope to improve physical security at the station.

d. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. In year progress is greater than baseline which has brought the control period investment in line with the funding available.

e. Portfolio Contingency (including T-12) – this project included funding to provide cover against the risk of additional costs elsewhere in the portfolio, so the lower expenditure is to be expected. The favourable financial performance helps offset financial underperformance recognised this control period against other projects within the portfolio. Actual costs reported in this category this control period are for the element of possession costs caused by delays to timetable publications in 2018, as noted in previous years' Regulatory Financial Statements.

f. New Stations fund – expenditure on this portfolio is lower than the funding available across the control period as fewer projects than expected have been identified and progressed.

g. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

(4) Other capital expenditure – this category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year.

(5) Third party funded schemes – notable schemes delivered this control period include Thanet Parkway and Gatwick Station development.

Southern
Statement 3.8: Analysis of renewals unit costs
Cash prices

			FY24			FY23		
		Unit	**AFC**	**AFV**	**Unit Costs**	**AFC**	**AFV**	**Unit Costs**
Track	PL Replace Full	km	64	41	1,561	112	76	1,474
	PL Replace Partial	km	30	65	462	32	62	516
	PL High Output	km	-	-	-	-	-	-
	PL Refurbishment	km	50	180	278	36	131	275
	PL Track Slab Track	km	4	-	-	4	-	-
	Switches & Crossing - Replace	point ends	31	43	721	30	48	625
	Switches & Crossing - Other	point ends	18	110	164	19	147	129
	Off Track	km/No.	29	401	72	32	364	88
	Track Other		-	-	-	-	-	-
	Total		**226**			**265**		
Signalling	Signalling Full	SEU	151	257	588	161	258	624
	Signalling Partial	SEU	40	83	482	44	83	530
	Signalling Refurb	SEU	85	176	483	85	177	480
	Level crossings	No.	43	40	1,075	44	42	1,048
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**319**			**334**		
Civils	Underbridges	m2	43	13,276	3	44	14,575	3
	Overbridges (incl BG3)	m2	8	3,758	2	12	7,530	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	2	882	2	5	23,027	0
	Culverts	m2	-	-	-	1	135	7
	Footbridges	m2	2	900	2	4	1,114	4
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	1	195	5	-	-	-
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**56**			**66**		
Earthworks	Earthworks - Embankments	No.	33	503	66	56	525	107
	Earthworks - Soil Cuttings	No.	78	426	183	66	787	84
	Earthworks - Rock Cuttings	No.	8	63	127	28	141	199
	Earthworks - Other	No.	-	-	-	-	1	-
	Drainage - Earthworks	m	10	23,091	0	11	35,448	0
	Drainage - Other	m	40	61,991	1	55	92,887	1
	TOTAL		**169**			**216**		
Buildings	Buildings (MS)	m2	1	204	5	1	1,577	1
	Platforms (MS)	m2	-	-	-	1	1,104	1
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	2,655	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	2	2,100	1	-	-	-
	Buildings (FS)	m2	9	10,619	1	20	54,298	0
	Platforms (FS)	m2	3	6,321	0	4	6,935	1
	Canopies (FS)	m2	7	7,067	1	14	21,224	1
	Train sheds (FS)	m2	-	-	-	5	4,867	1
	Footbridges (FS)	m2	5	948	5	14	4,260	3
	Lifts & Escalators (FS)	m2	1	-	-	-	5	-
	Other (FS)	m2	11	94,375	0	22	198,306	0
	Light Maintenance Depots	m2	1	6,336	0	5	38,292	0
	Depot Plant	m2	4	13	308	4	13	308
	Lineside Buildings	m2	6	11,067	1	21	48,873	0
	MDU Buildings	m2	32	31,093	1	13	23,293	1
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**82**			**124**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	2	4	500	-	-	-
	other OLE		-	21	-	-	90	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	30	95	316	33	98	337
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	37	595	39	59	661
	HV cables DC	km	63	74	851	53	56	946
	LV cables DC	km	9	12	750	14	39	359
	Transformer Rectifiers DC	No.	10	6	1,667	6	4	1,500
	LV switchgear renewal DC	No.	19	87	218	9	35	257
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	4	58	69	5	62	81
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	4	53	75	9	109	83
	Signalling Power Cables	km	4	47	85	6	49	122
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		12	751	16	12	563	21
	Total		**179**			**186**		

Telecoms	Customer Information Systems	No.	32	1,401	23	24	1,157	21
	Public Address	No.	16	4,393	4	4	3,130	1
	CCTV	No.	54	8,189	7	19	3,702	5
	Other Surveillance	No.	-	-	-	-	5	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		10	495	20	3	207	14
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**112**			**50**		

Statement 3.8: Analysis of renewals unit costs, Southern

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track – PL Replace full and Switches & Crossing unit rates have increased across the year. This is due to the different work bank mix that was delivered in the year, particularly the 2023/24 Wessex Plain Line project. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. While there has been a decrease in the unit rate in Off Track in the year. However, Off Track includes disparate categories such as fencing, level crossing surfaces and longitudinal timbers. Therefore, each year there will be a different mix in the renewal work being done making it difficult to make any meaningful comparisons.

(3) Signalling – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(4) Civils – Overbridges unit rate increased due delays on the Wilbury Road and Eccleston Overbridge projects increasing costs. The unit cost of Tunnels increased with a key factor being that fiscal restraints led to activity reprioritisation, ultimately reducing volumes delivered on the 2023/24 Tunnels portfolio. While the unit rate of Footbridges decreased due efficiencies achieved in the Wessex route due to methodology (utilisation of existing materials) and management of scope.

Statement 3.8: Analysis of renewals unit costs, Southern - continued

In £m cash prices unless stated

(5) Earthworks & Drainage – the Earthworks Embankments unit rate has decreased. One reason is work bank mix because in 2023/24 a higher proportion of the cheaper maintain work was delivered compared to the previous year. Within Earthworks categories there are three subcategories; maintain, renew and refurb. All three offer different life extension outcomes as well as different cost outcomes with renew being the most expensive and maintain being the cheapest. Embankments Soil Cuttings unit rate has increased for similar work bank mix reasons. In addition, the Hointon Tunnel project costs increased due to contractors increasing spend to lift speed restrictions on the project, delays in securing land access to complete enabling works and emergency works had to be carried out to clear materials from the track because of heavy rain. Drainage unit rate increased which can also be attributed to the Hointon Tunnel project emergency works project. Moreover, a fall in volumes of Drainage projects, without a significant fall in costs, caused drainage unit rates to increase. The unit rate of rock cuttings has decreased due to a significantly lower unit cost as the work bank mix no longer includes the CP6 Sussex Earthworks & Drainage Minor Works and Wessex CP6 Monitoring Installation and Maintenance. Both projects had attracted project cost increases in 2022/23 caused by reactive volumes and additional monitoring visits which were not present this year to the same extent.

(6) Buildings – FS Canopies and FS Buildings unit costs increased as both key cost lines incurred additional costs due to the CP6 Station Refurbishment Works Kent with no additional volumes. This is a result of additional gutter work at Maidstone West, descoping of Dover Priory incurring mobilisation costs and extra work at Faversham, producing further costs with no additional volumes. The unit rate of FS Train Sheds has reduced due to the Waterloo Station Roof Renewal project incurring additional costs and volumes at an improved unit rate. FS Footbridges unit cost has increased because of additional funds being required on Claygate Bridge to make safe and install a temporary footbridge during an emergency closure of the bridge. The unit cost of MDU Buildings increased primarily due to the Accommodation Upgrade Kent project where additional large value contractor costs have been incurred. Furthermore, the project has been subject to cancellation costs at Hither Green and Herne Hill. MS Building unit costs have increased significantly which can be attributed to the Eccleston Overbridge project, as the project was elongated leading to abortive costs and additional scaffold costs.

(7) Electrification & Plant – LV Cables DC unit rate has increased which can be attributed to the DC Feeder Cable project where there is an ongoing legal process with the supplier who is going into administration, resulting in project prolongation and requirements to identify an alternative deliverer who will have to assess and possibly rectify any activity already undertaken on the project.

(8) Telecoms – there has been an increase to the unit rate of CCTV as volumes have fallen without a decrease in cost to negate this. Whilst Public Address and Power rate unit cost has risen which can be attributed to unexpected cost pressures and re-prioritisation of the work bank to meet funding availability.

Southern
Statement 4: Regulatory financial position
Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 actual prices)	**18,475**
Indexation to 2023-24 prices	19,196
RAB additions	
Renewals expenditure	959
Enhancements expenditure	-
Less amortisation	(959)
Property Sales	(13)
Closing RAB	**19,183**

Net debt

	£m
Opening net debt	**13,346**
Income	(2,788)
Expenditure	2,241
Financing Costs - Government borrowing	195
Financing Costs - index linked debt	377
Financing Costs - Other	20
Corporation tax	0
Working capital	206
Closing net debt	**13,597**

Statement 4: Regulatory financial position, Southern

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Southern part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £1.0bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Southern and how it has moved during the year.

(8) Network Rail's debt attributable to Southern is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2

(10) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Southern – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Wales & Western
Statement 1: Summary of regulatory financial performance
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Income					
Grant Income	1,304	1,258	46	-	1,110
Franchised track access charges	541	482	59	2	555
Other Single Till Income	182	93	89	89	92
Total Income	**2,027**	**1,833**	**194**	**91**	**1,757**
Operating expenditure					
Network operations	118	87	(31)	(31)	106
Support costs	166	144	(22)	(25)	160
Traction electricity, industry costs and rates	150	116	(34)	1	96
Maintenance	325	270	(55)	(59)	298
Schedule 4	80	28	(52)	(44)	131
Schedule 8	120	19	(101)	(101)	63
	959	**664**	**(295)**	**(259)**	**854**
Capital expenditure					
Renewals	675	606	(69)	20	735
Enhancements	170	177	7	(11)	167
	845	**783**	**(62)**	**9**	**902**
Risk expenditure					
Risk (Centrally-held)	-	53	53	-	-
Risk (Route-controlled)	-	27	27	-	-
Risk (Contingent asset management funding)	-	63	63	-	-
	-	**143**	**143**	**-**	**-**
Other expenditure					
Financing costs	495	439	(56)	-	818
Corporation tax	-	10	10	-	(7)
	495	**449**	**(46)**	**-**	**811**
Total expenditure	**2,299**	**2,039**	**(260)**	**(250)**	**2,567**
Total Financial Out/(under) performance				**(159)**	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	4,990	5,143	(153)	-
Franchised track access charges	2,375	2,410	(35)	(10)
Other Single Till Income	983	434	549	74
Total Income	**8,348**	**7,987**	**361**	**64**
Operating expenditure				
Network operations	498	427	(71)	(74)
Support costs	721	722	1	18
Traction electricity, industry costs and rates	498	512	14	2
Maintenance	1,410	1,300	(110)	(124)
Schedule 4	307	169	(138)	(144)
Schedule 8	104	57	(47)	(48)
	3,538	**3,187**	**(351)**	**(370)**
Capital expenditure				
Renewals	2,957	2,889	(68)	(92)
Enhancements	1,202	1,064	(138)	(137)
Other	-	-	-	-
	4,159	**3,953**	**(206)**	**(229)**
Risk expenditure				
Risk (Centrally-held)	-	150	150	-
Risk (Route-controlled)	-	108	108	-
Risk (Contingent asset management funding)	-	153	153	-
	-	**411**	**411**	**-**
Other expenditure				
Financing costs	2,548	2,212	(336)	-
Corporation tax	-	32	32	-
	2,548	**2,244**	**(304)**	**-**
Total expenditure	**10,245**	**9,795**	**(450)**	**(599)**
Total Financial Out/(under) performance				**(535)**

Statement 1: Summary of regulatory financial performance, Wales & Western

In £m cash prices unless stated

Notes:

(1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.

(2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.07bn higher than the regulatory baseline this year and around £0.1bn higher across the control period. Higher interest costs from inflation-linked debt instruments, additional maintenance activity and higher train performance costs have been partly offset by additional property disposals and the presence of risk funds in the baseline.

(2) This statement also shows that Network Rail Western has recognised financial underperformance of £0.2bn this year and around £0.6bn across the control period. Underperformance this year includes higher train performance regime costs and additional maintenance. Across the control period, the adverse financial performance includes: additional maintenance activity, impact of Covid-19, industrial action in 2022/23, inflationary pressures and costs of completing legacy CP5 enhancements.

(3) Income – Grant income is higher than the regulatory baseline this year, but lower across the control period. Grants are only paid as required and so lower interest and corporation tax costs have meant Network Rail has not required as much government grants across CP6. Grant income is discussed in more detail in Statement 2.

(4) Income – Franchised track access charges income in the year was higher than the baseline including higher traction electricity charges and higher-than-expected inflation resulting in increased payments by operators under track access charges. Income is slightly lower than the regulatory baseline across the control period, including the impact of disposing of part of the network in the first year of the control period. Not all the variance to baseline is included as financial performance. Variances in Traction electricity charges are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under the Traction electricity, industry costs and rates category). In addition, variances in fixed track access charges are outside of the calculation. Franchised track access income is lower than last year reflecting planned decreases in fixed track access payments, partly offset by higher traction electricity income. Franchised track access income is discussed in more detail in Statement 2.

(5) Income – Other single till income in the year is higher than the regulatory baseline this year due to additional property sales. These higher proceeds also account for the increase in Other single till income compared to the previous year. Across the control period income is much higher than the regulatory expectation due to the proceeds received from disposing of part of the network in Wales in 2019/20 (considered neutral when assessing financial performance). Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

(6) Operating expenditure – Network Operations costs were higher than the regulatory expectation this year, continuing the trend of the earlier years of the control period. These extra costs included the impact of fatigue management standards compliance, extra managed station services for travelling public, costs associated with the new Elizabeth Line and other supplementary services, additional costs incurred during Covid-19 and increased staff to offer better signalling and operational resilience across the network. As to be expected, this has led to financial underperformance for the control period. Costs are higher than the previous year with increases across most lines. This has been largely driven by increased recruitment to improve network resilience. Network Operations costs are discussed in more detail in Statement 3.1.

(7) Operating expenditure – Support costs are higher than the regulatory baseline this year mainly due to higher electricity prices driving utilities costs. Costs are broadly in line with regulatory expectation across the control period. Support costs are discussed in more detail in Statement 3.3.

(8) Operating expenditure – Traction electricity, industry costs and rates are higher than the regulator's assumption in the current year due to higher traction electricity costs following increases in market prices. Costs across the control period were lower than the regulatory baseline as recent increases in Traction electricity have been largely offset with lower prices earlier in the control period and savings arose on Business rates following delays to resetting values in the wake of Covid-19. Costs are higher than the previous year due to higher electricity prices. Variances on traction electricity costs this control period are broadly offset by changes in traction electricity income charged to operators (refer to Statement 2). Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.

(9) Operating expenditure – Maintenance costs are higher than the regulatory baseline this year, due to extra work undertaken to improve assets and address backlogs, inflationary pressures on materials and reduced renewals works undertaken by maintenance teams. The higher costs across the control period also include Network Rail's response to the Covid-19 pandemic, increased vegetation works and track worker safety compliance. Costs are higher than the previous year, which includes additional activity delivered on the network. Maintenance costs are discussed in more detail in Statement 3.2.

(10) Operating expenditure – Schedule 4 costs are higher than the regulatory baseline this year mostly reflecting financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year. Schedule 4 costs are set out in more detail in Statement 3.5.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

(11) Operating expenditure – Schedule 8 costs are higher than the regulatory baseline this year as train performance this year did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Missing performance levels in recent years has mitigated the benefits experienced during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year. Schedule 8 flows are set out in more detail in Statement 3.5.

(12) Capital expenditure – Renewals expenditure is higher than the regulatory baseline this year and broadly in line with expectation across the control period. However, there has been financial underperformance reported so far this control period which is due to multitude of factors, but primarily relates to delivery within the Track, Civils and Signalling portfolios. Spend is lower than the previous year as less funding was available to invest in renewals. Renewals investment is discussed in more detail in Statement 3.6.

(13) Capital expenditure – Enhancements expenditure this year is broadly consistent with the regulatory baseline but is higher than across the control period mainly due to the inclusion of additional Crossrail schemes that haven't been funded through the core DfT enhancements grant. Adverse financial performance has been reported mainly due to the finalising the delivery of legacy CP5 schemes, largely Crossrail and Great Western Electrification Programme. Enhancement investment is set out in more detail in Statement 3.7.

(14) Risk expenditure – the financial framework for CP6 removed some funding from core Renewals plans and included them within this risk category, to provide funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding was not required to alleviate emerging risks, it could be restored to the Renewals. No expenditure is reported against these categories. Actual expenditure is reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Wales & Western - continued

In £m cash prices unless stated

(15) Other expenditure Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that were issued prior to Network Rail being reclassified to be within government's budgets. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Inflation has been higher than the regulatory expectation this year which has caused a significant increase in the interest expense recognised in connection with these instruments. The high inflation in recent years is also driving the adverse control period position. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary as the control period progresses. Costs are lower than the previous year, when inflation was much higher, resulting in higher interest costs for the accreting debt items.

(16) Other expenditure – changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period. As there is no such adjustment this year, costs are higher compared to the previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western
Statement 2: Analysis of income
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	323	303	20	-	371
Variable usage charge	37	37	-	-	35
Electrification asset usage charge	2	3	(1)	(1)	2
Capacity charge	-	-	-	-	-
Open access income	13	11	2	2	12
Managed stations long term charge	9	8	1	1	9
Franchised stations long term charge	27	28	(1)	(1)	25
Traction electricity charges	95	58	37	-	50
Schedule 4 access charge supplement	20	19	1	1	29
	526	**467**	**59**	**2**	**533**
Other single till income					
Freight income					
Freight variable usage charge	13	14	(1)	(1)	10
Freight other income	-	-	-	-	-
	13	**14**	**(1)**	**(1)**	**10**
Stations income					
Managed stations qualifying expenditure	13	12	1	1	12
Franchised stations lease income	6	6	-	-	6
	19	**18**	**1**	**1**	**18**
Facility and financing charges					
Facility charges	18	16	2	2	17
	18	**16**	**2**	**2**	**17**
Property income					
Property rental	29	33	(4)	(4)	26
Property sales	-	2	(2)	(2)	1
	29	**35**	**(6)**	**(6)**	**27**
Depots Income	**15**	**12**	**3**	**3**	**11**
Other income	**1**	**-**	**1**	**1**	**2**
Freight traction electricity charges	**1**	**1**	**-**	**-**	**1**
Total other single till income	**96**	**96**	**-**	**-**	**86**
Total Regionally-managed income	**622**	**563**	**59**	**2**	**619**
Centrally-managed income					
Network grant	1,038	940	98	-	876
Internal financing grant	139	196	(57)	-	115
External financing grant	115	100	15	-	113
BTP grant	12	12	-	-	12
Corporation tax grant	-	10	(10)	-	(6)
Infrastructure cost charges	10	10	-	-	14
Schedule 4 access charge supplement	5	5	-	-	8
Traction electricity charges	-	-	-	-	-
Freight traction electricity charges	-	-	-	-	-
	1,319	**1,273**	**46**	**-**	1,132
Other single till income					
Property income					
Property rental	2	(2)	4	4	2
Property sales	84	(1)	85	85	4
	86	**(3)**	**89**	**89**	**6**
Total other single till income	**86**	**(3)**	**89**	**89**	**6**
Total centrally-managed income	**1,405**	**1,270**	**135**	**89**	**1,138**
Total income	**2,027**	**1,833**	**194**	**91**	**1,757**

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,495	1,520	(25)	-
Variable usage charge	167	172	(5)	(5)
Electrification asset usage charge	10	14	(4)	(4)
Capacity charge	2	-	2	2
Open access income	56	52	4	4
Managed stations long term charge	42	40	2	2
Franchised stations long term charge	124	134	(10)	(10)
Traction electricity charges	183	167	16	-
Schedule 4 access charge supplement	125	124	1	1
	2,204	**2,223**	**(19)**	**(10)**
Other single till income				
Freight income				
Freight variable usage charge	53	56	(3)	(4)
Freight other income	-	-	-	-
	53	**56**	**(3)**	**(4)**
Stations income				
Managed stations qualifying expenditure	58	55	3	3
Franchised stations lease income	27	27	-	-
	85	**82**	**3**	**3**
Facility and financing charges				
Facility charges	82	80	2	2
	82	**80**	**2**	**2**
Property income				
Property rental	85	115	(30)	(30)
Property sales	7	9	(2)	(2)
	92	**124**	**(32)**	**(32)**
Depots Income	**58**	**56**	**2**	**2**
Other income	**9**	**2**	**7**	**8**
Freight traction electricity charges	**4**	**3**	**1**	**-**
Total other single till income	**383**	**403**	**(20)**	**(21)**
Total Regionally-managed income	**2,587**	**2,626**	**(39)**	**(31)**
Centrally-managed income				
Network grant	3,687	3,594	93	-
Internal financing grant	640	865	(225)	-
External financing grant	608	597	11	-
BTP grant	55	55	-	-
Corporation tax grant	-	32	(32)	-
Infrastructure cost charges	54	55	(1)	-
Schedule 4 access charge supplement	31	31	-	-
Traction electricity charges	86	101	(15)	-
Freight traction electricity charges	2	1	1	-
	5,163	**5,331**	**(168)**	**-**
Other single till income				
Property income				
Property rental	35	24	11	12
Property sales	563	6	557	83
	598	**30**	**568**	**95**
Total other single till income	**598**	**30**	**568**	**95**
Total centrally-managed income	**5,761**	**5,361**	**400**	**95**
Total income	**8,348**	**7,987**	**361**	**64**

Statement 2: Analysis of income, Wales & Western

In £m cash prices unless stated

Notes:

(1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.

(2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, income is higher than the regulatory expectation due to higher grants, traction electricity charges and property sales. Income across the control period is higher than expected, mainly due to the divestment of the Cardiff Valley lines to Transport for Wales in 2019/20, which more than offsets reduced grant and operator income.

Regionally-managed income

(1) Total Regionally-managed income is higher than the CP6 baseline this year, as higher inflation rates have resulted in higher income earned through track access contracts and rising market prices have increased traction electricity income. Across CP6, Regionally-managed income has been lower than expected as, Covid impacted property income. Regionally-managed income is broadly in line with as planned reductions in infrastructure cost charges have been largely offset by higher market electricity prices.

(2) Infrastructure cost charges – fixed charge income was higher than the regulatory expectation this year but remain lower across the control peroid. The variance in the current year is due to higher inflation across the control period which is used to uplift operators' track access contract charges being higher than the regulatory expectation. This benefit is more than offset by higher inflationary pressures Network Rail has encountered across its' cost base during the control period. Across the control period income is lower reflecting the disposal of part of the network in 2019/20, which reduced income along with a higher proportion of infrastructure cost charges being earlier in the control period when inflation (and hence income) was lower than the regulatory baseline. In line with the CP6 Regulatory Accounting guidelines (December 2019), variances in this line are considered neutral when assessing financial performance. Income is lower than the previous year, reflecting changes expected in the CP6 regulatory determination profile of income.

(3) Variable usage charge – income from variable usage charges paid by train operators is broadly in line with the regulatory expectation this year but lower across the control period. This shortfall reflects the impact of Covid-19 with government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences all contributing to reduced demand. Industrial action was particularly disruptive to services in 2022/23.

(4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income reported in the cumulative position relates to residual income recognised in the first year of the control period.

Statement 2: Analysis of income, Wales & Western – continued

In £m cash prices unless stated

(5) Traction electricity charges – these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned. Since 2021/22, Network Rail has allocated out traction electricity costs and income from centrally-managed to the geographic regions those costs relate to so costs in the Cumulative section only relate to income recognised after that. Revenue this year is higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years, which also accounts for the higher income across CP6. These income movements compared to the regulatory expectation are broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. As agreed with the regulator, variances to the baseline arising from traction electricity income are considered alongside variances in costs with the net position included when assessing financial performance (refer to Statement 3.4).

(6) Property rental – income remains below the regulatory expectation again this year as passenger figures remain lower than the pre-Covid position. This has meant that the planned growth in rental income, particularly station income, has not fully materialised. However, in comparison to the previous year income is higher reflecting the return of passengers to the network this year. The control period rental income is significantly lower than the regulatory baseline due to Covid-19's impact on passenger numbers, and the subsequent changes to commuting and travelling habits.

Centrally-managed income

(1) Aggregate Centrally-managed income is higher than the regulatory baseline this year due to higher network grants and property disposals. Across the control period income is higher than the regulatory baseline as higher property disposals have offset lower grant income. Income is higher than the previous year as higher grant income was recognised and additional property sales made.

(2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken each year. This is different to previous control periods when grant payments were fixed at the start of the control period (subject to pre-defined indexation increases) with expenditure variances managed through debt issuances. There are separate grant income arrangements with DfT for Network grant payment, Internal financing (to cover the interest costs payable to DfT under the inter-company borrowing agreement), External financing, BTP (British Transport Police) and Corporation tax. As the grants are the method of funding the business operations and are a factor of net expenditure, variances to the regulatory baseline are considered neutral when assessing financial performance.

(3) Network grant – income is higher than the regulatory baseline for the year which has led to a higher level of income across the control period reflecting additional funding agreed with DfT.

Statement 2: Analysis of income, Wales & Western – continued

In £m cash prices unless stated

(4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates have been, on average, lower than the regulatory baseline expected so far this control period, meaning interest costs have been lower in the current year and across the control period, with corresponding grants also lower. Income is higher than the previous year reflecting higher debt levels and interest costs.

(5) External financing grants – grants received were higher than the regulatory baseline this year which has driven the higher income across the control period as interest costs have been higher than expected across this period and hence the grants received from DfT to meet these costs have increased. The current year is higher than the previous year reflecting accounting recognition of grants received across CP6.

(6) Corporation tax grant – grants are received from DfT to fund corporation tax Network Rail pays to HMRC. Changes in legislation and financial forecasts compared to the start of the control period means that the tax payable in the current year and across the control period is lower than planned, which results in reduced revenue grants required from DfT. As noted in last year's Regulatory Financial Statements, Network Rail recognised a rebate from HMRC for corporation tax overpaid earlier in the control period and consequently a reduction in the revenue recognised from DfT to pay this tax in 2023/24. As there is no such adjustment this year, revenue is higher compared to the previous year.

(7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country. Fixed charge income broadly in line with the regulatory expectation this year and across the control period. Income is lower than the prior year, as expected in the regulatory determination revenue profile.

(8) Traction Electricity charges – from 2021/22 these charges have been reallocated to the geographic region they reside in and narrative on variances are mentioned in the regionally-managed income section. The amounts across the control period represent income from when this was centrally-managed. The lower income is offset by reduced traction electricity costs as reported in Statement 3.4.

(9) Property rental – income across CP6 has outperformed the regulatory baseline, which offsets some of the underperformance reported in the Regionally-managed section of this statement. Centrally-managed revenue streams outperformed in 2019/20 with only minimal amounts included in Centrally-managed since.

(10) Property sales – income in the current year is higher than the regulatory baseline following disposal of sites to support High Speed 2 construction, which also accounts for the higher income this year compared to 2022/23. Income across the control period is significantly higher than the regulatory baseline due to the disposal of part of the network in Wales as reported in 2019/20. This disposal was treated as neutral when assessing financial performance.

Wales & Western
Statement 3: Analysis of expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed expenditure					
Operating expenditure					
Network operations	114	82	(32)	(31)	103
Maintenance	312	261	(51)	(55)	278
Support costs	69	38	(31)	(31)	48
Traction electricity, industry costs and rates	142	108	(34)	1	88
Schedule 4	79	22	(57)	(49)	131
Schedule 8	119	18	(101)	(101)	60
	835	**529**	**(306)**	**(266)**	**708**
Capital expenditure					
Renewals	581	463	(118)	20	659
Enhancements	163	177	14	(11)	139
	744	**640**	**(104)**	**9**	**798**
Total Regionally-managed expenditure	**1,579**	**1,169**	**(410)**	**(257)**	**1,506**
Centrally-managed expenditure					
Operating expenditure					
Network operations	4	4	-	-	3
Maintenance	13	9	(4)	(4)	20
Support costs	97	106	9	6	112
Traction electricity, industry costs and rates	8	8	-	-	8
Schedule 4	1	6	5	5	-
Schedule 8	1	1	-	-	3
	124	**134**	**10**	**7**	**146**
Capital expenditure					
Renewals	94	143	49	-	76
Enhancements	7	-	(7)	-	28
	101	**143**	**42**	**-**	**104**
Risk Expenditure	**-**	**143**	**143**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**
Financing costs	495	439	(56)	-	818
Taxation	-	10	10	-	(7)
	495	**449**	**(46)**	**-**	**811**
Total centrally-managed expenditure	**720**	**869**	**149**	**7**	**1,061**
Total expenditure	**2,299**	**2,038**	**(261)**	**(250)**	**2,567**

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	481	407	(74)	(76)
Maintenance	1,349	1,253	(96)	(111)
Support costs	258	201	(57)	(57)
Traction electricity, industry costs and rates	304	303	(1)	-
Schedule 4	305	140	(165)	(172)
Schedule 8	101	52	(49)	(50)
	2,798	**2,356**	**(442)**	**(466)**
Capital expenditure				
Renewals	2,570	2,479	(91)	(108)
Enhancements	1,041	1,063	22	(139)
	3,611	**3,542**	**(69)**	**(247)**
Total Regionally-managed expenditure	**6,409**	**5,898**	**(511)**	**(713)**
Centrally-managed expenditure				
Operating expenditure				
Network operations	17	20	3	2
Maintenance	61	47	(14)	(13)
Support costs	463	521	58	75
Traction electricity, industry costs and rates	194	209	15	2
Schedule 4	2	29	27	28
Schedule 8	3	5	2	2
	740	**831**	**91**	**96**
Capital expenditure				
Renewals	387	410	23	16
Enhancements	161	1	(160)	2
Other	-	-	-	-
	548	**411**	**(137)**	**18**
Risk Expenditure	**-**	**411**	**411**	**-**
Other				
Financing costs	2,548	2,212	(336)	-
Taxation	-	32	32	-
	2,548	**2,244**	**(304)**	**-**
Total centrally-managed expenditure	**3,836**	**3,897**	**61**	**114**
Total expenditure	**10,245**	**9,795**	**(450)**	**(599)**

Statement 3: Analysis of expenditure, Wales & Western

In £m cash prices unless stated

Comments:

(1) Overall, expenditure is higher than the regulatory baseline this year, with the contributions from higher financing costs, additional maintenance activity and performance regime costs more than offsetting the risk funds included in the baseline. Expenditure has been higher across the control period for similar reasons. Costs are lower than the previous year mainly due to lower financing costs for debt items linked to inflation.

Regionally-managed expenditure

(1) Regionally-managed costs are higher than the regulatory baseline assumed this year with additional expenses across almost all categories. Costs across the control period are higher with additional train performance regime expenses and operating costs. Expenses are higher than previous year with the largest contribution from Schedule 8 costs. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

(1) Centrally managed costs are lower than the regulatory baseline mainly due to those baselines including a renewals phasing adjustment and risk funds, the latter were largely invested in Regions, contributing to the higher costs shown in that section of this statement. Across the control period Centrally-managed expenditure has been lower than the regulatory baselines, as the majority of the risk funds in have been invested in the Regions, savings have been made in central functions and taxation has been lower which has more than offset higher interest costs arising from rising inflation impacting Network Rail's index-linked debt. Expenditure was lower than the previous year which included higher interest costs on index-linked debt instruments as higher inflation in 2022/23 was higher compared to the current year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Wales & Western
Statement 3.1: Analysis of operations expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	51	42	(9)	(9)	49
Operations Management	9	5	(4)	(4)	6
Controllers	11	12	1	1	9
Electrical control room operators	2	1	(1)	(1)	2
	73	**60**	**(13)**	**(13)**	**66**
Non signaller expenditure					
Mobile operations managers	9	6	(3)	(3)	8
Managed stations	12	11	(1)	(1)	15
Performance	3	3	-	-	2
Other	17	3	(14)	(14)	12
Total Regionally-managed Operations expenditure	**114**	**83**	**(31)**	**(31)**	**103**
Centrally-managed Operations expenditure					
Network Services	4	4	-	-	3
Total centrally-managed Operations expenditure	**4**	**4**	**-**	**-**	**3**
Total operations expenditure	**118**	**87**	**(31)**	**(31)**	**106**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	228	203	(25)	(25)
Operations Management	31	25	(6)	(6)
Controllers	48	58	10	10
Electrical control room operators	9	6	(3)	(3)
	316	**292**	**(24)**	**(24)**
Non signaller expenditure				
Mobile operations managers	36	29	(7)	(7)
Managed stations	65	55	(10)	(10)
Performance	11	15	4	4
Other	53	16	(37)	(39)
Total Regionally-managed Operations expenditure	**481**	**407**	**(74)**	**(76)**
Centrally-managed Operations expenditure				
Network Services	17	20	3	2
Total centrally-managed Operations expenditure	**17**	**20**	**3**	**2**
Total operations expenditure	**498**	**427**	**(71)**	**(74)**

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, operations costs variances to the baselines are due to higher Regionally-managed expenses as explained below.

Regionally-managed operations expenditure

(1) Total Regionally-managed costs were higher than the regulatory expectation this year, continuing the trend of the earlier years of the control period. These extra costs included the impact of fatigue management standards compliance, extra managed station services for travelling public, costs associated with the new Elizabeth Line and other supplementary services, additional costs incurred during Covid-19 and increased staff to offer better signalling and operational resilience across the network. As to be expected, this has led to financial underperformance for the control period. Costs are higher than the previous year with increases across most lines. This has been largely driven by increased recruitment to improve network resilience.

(2) Signaller and level crossing keepers – costs are higher than the regulatory expectation for this year and the across the control period. There has been an increase in staff numbers to provide extra resilience on the network and to comply with fatigue management standards as well as for additional signaller posts in Cornwall following successful implementation of resignalling programme. Higher costs earlier in the control period also included expenses to ensure the railway kept moving during the Covid-19 pandemic by rostering extra key staff to mitigate illness and government social distancing rules. Costs are broadly similar to the previous year.

(3) Mobile-operations managers – costs are higher than the regulatory baseline for the year and the across the control period. This is largely from additional recruitment to improve incident response times and support timetable resilience across the Wales & Western network. Costs are broadly consistent with the previous year.

(4) Managed Stations – costs are higher than the regulatory baseline across the control period. This includes extra staff at stations to offer a better service to the travelling public and extra expenditure such as additional cleaning and personnel at stations in response to Covid-19 to keep the public safe.

Statement 3.1: Analysis of operations expenditure, Wales & Western – continued

In £m cash prices unless stated

(5) Other – costs are higher than the regulatory target this year and across the control period in total. This has included additional investment in weather-management strategies to drive performance in the current year along with higher consultancy costs, access charges to the new Elizabeth lines, additional staff for handling route crime and increased training costs to meet fatigue management standards.

Centrally-managed operations expenditure

(1) Network Services – costs are broadly consistent with the regulatory expectation for the current year and across the control period, as well as the previous year.

Wales & Western
Statement 3.2: Analysis of maintenance expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed maintenance expenditure					
Track	127	93	(34)	(31)	115
Signalling & Telecoms	51	47	(4)	(4)	52
Civils	30	32	2	(8)	28
Buildings	16	14	(2)	1	14
Electrical power and fixed plant	19	21	2	2	17
Other network operations	69	54	(15)	(15)	52
	312	**261**	**(51)**	**(55)**	**278**
Centrally-managed maintenance expenditure					
Telecoms	5	5	-	-	4
Route Services - Asset Information	8	6	(2)	(2)	5
STE Maintenance	1	-	(1)	(1)	1
Property	-	-	-	-	-
Route Services - Other	(1)	(2)	(1)	(1)	8
Other	-	-	-	-	2
	13	**9**	**(4)**	**(4)**	**20**
Total maintenance expenditure	**325**	**270**	**(55)**	**(59)**	**298**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	536	458	(78)	(64)
Signalling & Telecoms	252	226	(26)	(26)
Civils	130	154	24	(5)
Buildings	69	70	1	2
Electrical power and fixed plant	86	99	13	13
Other network operations	276	246	(30)	(31)
	1,349	**1,253**	**(96)**	**(111)**
Centrally-managed maintenance expenditure				
Telecoms	17	21	4	4
Route Services - Asset Information	29	29	-	(1)
STE Maintenance	4	3	(1)	(1)
Property	1	(2)	(3)	(3)
Route Services - Other	8	(4)	(12)	(12)
Other	2	-	(2)	-
	61	**47**	**(14)**	**(13)**
Total maintenance expenditure	**1,410**	**1,300**	**(110)**	**(124)**

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall maintenance costs are higher than the regulatory baseline this year and across the control period mainly due to greater costs in the Regionally-managed category as described below. Costs are higher than the prior year comparative, reflecting extra activity undertaken in the Region as set out below.

Regionally-managed maintenance costs

(1) Total regionally-managed maintenance costs are higher than the regulatory baseline this year, due to extra work undertaken to improve assets and address backlogs, inflationary pressures on materials and reduced renewals works undertaken by maintenance teams. The higher costs across the control period also include Network Rail's response to the Covid-19 pandemic, increased vegetation works and track worker safety compliance. Costs are 12 per cent higher than the previous year, which includes additional activity delivered on the network. Funding constraints chiefly caused by the highest inflation in 40 years has necessitated a recalibration of asset management intervention policy away from renewals to maintenance in the current year and the forthcoming control period. Reportable weighted volume activity increased by around 4 per cent compared to the previous year.

(2) Track – track costs are the largest component of Wales & Western's maintenance expenditure. This year costs are, once again, higher than the regulatory baseline which includes specific performance improvement schemes as well as the impact of track worker safety compliance costs. The latter was an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. As agreed with the regulator this is considered neutral when assessing financial performance in the current year and across the control period. Furthermore, the higher costs this year include additional expenses arising from a new stoneblower contract. The costs of this are higher than the previous multi-year contract reflecting higher market prices but also a change in the outputs of the contract to deliver improved services. In addition, a fire at a supplier's quarry has increased ballast costs as alternative sources have had to be established. The overspend across the control period is also largely due to the aforementioned factors along with the additional costs responding to Covid-19 to keep the network functional during trying circumstances and from delivering extra volumes compared to the regulatory assumption. Expenses are higher than the previous year arising from additional work undertaken on the network, from greater than inflation materials and contractor costs increases and from the aforementioned stoneblower and ballast cost increases.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western - continued

In £m cash prices unless stated

(3) Signalling & telecoms – costs are higher than the regulatory baseline across the control period. The increased spend includes extra works undertaken to improve performance and tackle backlogs. In addition, increased costs arose during the response to Covid-19 including additional vehicle costs to increase the number of vehicles and include partitions to comply with social distancing rules as well as requiring contingent labour to cover illness.

(4) Civils – costs were lower than the regulatory baseline this year, mainly due to reduced levels of reactive maintenance. These additional costs have been partly mitigated by lower-than-expected reactive maintenance activity which can, by its very nature, fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial performance guidelines which have been agreed with ORR. Costs across the control Period are lower than the regulatory baseline mainly due to lower reactive maintenance spend.

(5) Electrical power and fixed plant – costs across the control period are lower than regulatory baseline with some additional efficiencies being achieved, including reduced headcount and overtime control. In addition, there has been less maintenance activity required on these assets compared to the regulatory expectation.

(6) Other network operations – costs this year are higher than regulatory baseline, continuing the trend of previous years this control period. The higher costs this year included reduced capital delivery works by teams, meaning a higher proportion of their costs were reported as maintenance and additional training costs for front line staff. Higher costs across the control period also includes additional devegetation works undertaken and costs associated with Covid-19 mitigation measures to keep the railway operational during that period. Costs are higher than the previous year due to reduced capital works undertaken by maintenance teams. Funding constraints and investment in certain large, externally-delivered schemes resulted in less capital works being completed by maintenance staff this year.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western - continued

In £m cash prices unless stated

Centrally-managed maintenance costs

(1) Overall aggregate Centrally-managed maintenance costs variances in the current year and across the control period are predominantly due to Route services – other variances which are explained below.

(2) Route services – other – costs are broadly in line with the regulatory baseline this year. Normally, the costs incurred by this department are off-charged to the Regions as the team provides services (such as materials and haulage) to the Regions. Due to the lag in the planning cycle between Route services providing price lists to the business in advance of the year starting and the real understanding of costs, including contractual uplifts by inflation, coming later there is usually some variance. However, in recent years the significant increases in inflation, fuel costs and materials prices has led to Route Services significantly under recovering their input costs from the Regions. This means that although costs in the control period have been higher in Route services, costs across other maintenance lines in this statement are lower than they would have been if the real costs were passed onto the Regions. In addition, haulage issues and availability have increased underlying costs. Finally, there has been a reclassification of activity between Maintenance and Renewals. This has been treated as neutral when calculating financial performance in both Maintenance and Renewals. As reported in the 2022/23 Regulatory financial Statements there was considerable extra costs recognised last year which has reduced this year as more of the costs have been off-charged to the Regions.

Wales & Western
Statement 3.3: Analysis of support expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed Support costs					
Human resources	3	5	2	2	3
Finance	4	3	(1)	(1)	3
Accommodation	11	9	(2)	(2)	12
Utilities	34	12	(22)	(22)	16
Other	17	9	(8)	(8)	14
	69	**38**	**(31)**	**(31)**	**48**
Centrally-managed Support costs					
Finance & Legal	8	10	2	2	6
Communications	3	3	-	-	3
Human Resources	4	-	(4)	(4)	3
System Operator	10	11	1	1	8
Property	1	3	2	2	1
Telecoms	10	8	(2)	(2)	10
Network Services	-	-	-	-	-
Safety Technical and Engineering	7	8	1	1	6
RS - IT and Business Services	20	19	(1)	(1)	20
RS - Asset Information	3	6	3	(2)	3
RS - Directorate	5	5	-	-	-
Other corporate functions	-	1	1	-	-
Insurance	4	8	4	4	(3)
OPEX/CAPEX Adjustment	13	9	(4)	-	35
Group costs	9	15	6	5	20
	97	**106**	**9**	**6**	**112**
Total support costs	**166**	**144**	**(22)**	**(25)**	**160**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	24	24	-	1
Finance	18	15	(3)	(3)
Accommodation	58	46	(12)	(12)
Utilities	86	62	(24)	(26)
Other	72	54	(18)	(17)
	258	**201**	**(57)**	**(57)**
Centrally-managed Support costs				
Finance & Legal	34	45	11	11
Communications	13	15	2	1
Human Resources	19	17	(2)	(2)
System Operator	37	46	9	10
Property	(11)	9	20	19
Telecoms	47	43	(4)	(5)
Network Services	6	8	2	2
Safety Technical and Engineering	31	35	4	7
RS - IT and Business Services	96	95	(1)	(2)
RS - Asset Information	13	25	12	(23)
RS - Directorate	19	20	1	2
Other corporate functions	9	12	3	2
Insurance	14	35	21	21
OPEX/CAPEX Adjustment	115	60	(55)	-
Group costs	21	56	35	32
	463	**521**	**58**	**75**
Total support costs	**721**	**722**	**1**	**18**

Statement 3.3: Analysis of support costs, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.

(2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Support costs are higher than the regulatory baseline this year due to additional costs in Regionally-managed activities, mostly caused by higher electricity prices. Costs across the control period are broadly in line with the regulatory baseline as greater Regionally-managed expenses have been offset by savings in Centrally-managed categories.

Regionally-managed support costs

(1) Total Regionally-managed support costs are higher than the regulatory baseline, primarily due to higher electricity prices driving utilities costs and also the implementation of the PPF re-organisation programme. Higher costs across the control period also include costs associated with managing the impact of Covid-19 and inflationary pressures.

(2) Accommodation – whilst costs are broadly in line with baseline expectation this year they are higher across the control period including required expenditure on Covid-19 compliance at Network Rail sites during the pandemic and inflationary pressures in the second-half of the control period.

(3) Utilities – costs are higher than the baseline this year and across the control period reflecting higher market prices for utilities across the estate. This is in line with the widely-publicised increase in electricity prices in recent years in the wake of geopolitical disruption and uncertainty. Costs are higher than the previous year when costs were supressed by Network Rail pre-purchasing some of the 2022/23 electricity requirement prior to the spike in market prices.

(4) Other – costs were higher than the regulatory baseline this year and across the control period. This has largely been driven by implementing new PPF organisational design have led to additional resources in the Region in excess of the amount included in the original regulatory baseline. Costs across the control period also include additional expenses to mitigate Covid-19 impact in the Region, graffiti clearance funds and higher than expected inflation across the control period.

Statement 3.3: Analysis of support costs, Wales & Western - continued

In £m cash prices unless stated

Centrally-managed support costs

(1) Aggregate Centrally-managed support costs are broadly in line with the regulatory baselines this year as a greater number of projects being classified as opex rather than capex and higher Human Resources costs have been largely offset by savings arising from workforce reform initiatives and evaluation of insurance liabilities. Costs across the control period are lower than the regulatory baseline, with savings across almost all categories which have offset a greater number of projects being classified as opex rather than capex.

(2) Finance & legal – costs this year and across the control period are lower than the regulatory baseline as the department continues to make efficiencies. Savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all contributed. Reduced travel expenses during the pandemic and its aftermath have also delivered savings.

(3) Human Resources – costs this year are higher than the regulatory baseline, resulting in higher costs across the control period. Whilst savings from pay restraint, reductions in performance-related pay and headcount savings from reorganisations have all been delivered there have been additional programmes, including support of the Network Rail's Simpler, Better, Greener strategy and the Systems Thinking project.

(4) System Operator – costs are lower than the regulatory baseline across the control period. These savings include benefits from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, savings in consultancy expenses as more of the required tasks were completed in-house and reduced staff travel and accommodation costs during the pandemic.

(5) Property – costs are lower than the regulatory baseline across the control period in total. These savings include savings from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes as well as benefits from the favourable settlement of a long-running commercial dispute in the 2019/20.

(6) Telecoms – costs are higher than the regulatory target this year and across the control period in total. Whilst savings have been made through reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes, inflationary pressures have been present in the supply chain, forcing costs up.

(7) Network Services – this function no longer exists and has been devolved out to other functions within this statement. In is still included in the Cumulative section, reflecting costs incurred earlier in the control period when the function was operational.

(8) Technical Authority – costs are lower than the regulatory baseline across the control period mainly due to efficiencies from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes and reduced staff travel during Covid-19. This has been partly offset by support offered to railways in Ukraine as directed by government which have been excluded from the assessment of financial performance. Inflationary pressures in the supply chain, particularly towards the end of the control period have also had to be absorbed.

Statement 3.3: Analysis of support costs, Wales & Western – continued

In £m cash prices unless stated

(9) Route Services – Asset Information – Asset Information costs are lower than the regulatory baseline this year, continuing the trend of earlier years of the control period. The regulatory baseline assumed a certain split of activity between opex and capex. However, this split was different, with a higher proportion of activity classified as capex. Therefore, the financial performance reported across the control period is restricted to the net underspend across these categories.

(10)Route Services – Directorate costs are broadly in line with the regulatory expectation for the current year and across CP6. Savings have been made this control period from reductions in performance related pay-outs, pay freezes, reduced management headcount following reform programmes which has offset some of overspends arising from Covid-19 related costs, commercial disputes and inflationary pressures in the supply chain. Costs are higher than the previous year, which benefitted from some non-recurring performance-related pay savings.

(11)Other Corporate Functions – costs are lower than the regulatory expectation across the control period. As noted in the 2022/23 Regulatory Financial Statements savings in the control period include the Putting Passenger First reorganisation costs which have been reported in the Group line this control period in this statement.

(12)Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited as well as from fewer major insurable incidents occurring on the network this year. There have been similar benefits across the control period, reflecting the volatile nature of insurance claims but also the benefits of managing this risk within the Network Rail group, rather than paying external parties' insurance premiums. Costs are higher than the previous year due to variability in the benefits arising from actuarial reassessments which led to non-recurring benefits in 2022/23.

(13)Opex/capex Adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the regulatory baseline but lower than the previous year. The year-on-year movements are largely due to the profiling of individual projects and investment programmes.

(14)Group – costs are lower than the regulatory baseline this year and the control period as a whole mainly due to savings against from investing the Crossrail Supplementary Access Charge. These costs have been recognised elsewhere in the accounts, including delivering additional renewals, additional maintenance and schedule 4 costs. Costs are lower than the previous year. As noted in the 2022/23 Regulatory Financial Statements, Group costs in that year included workforce reform credits given to the regions and functions.

Wales & Western
Statement 3.4: Analysis of traction electricity, industry costs and rates
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed traction electricity, industry costs and rates					
Traction electricity	105	58	(47)	-	47
Business rates	26	38	12	-	28
British transport police costs	11	12	1	1	13
	142	**108**	**(34)**	**1**	**88**
Centrally-managed traction electrivity, industry costs and rates					
Traction electricity	-	-	-	-	-
Business rates	-	-	-	-	-
British transport police costs	-	-	-	-	-
ORR licence fee and railway safety levy	6	5	(1)	-	6
RDG membership costs	-	-	-	-	-
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	1	1	-	-
	8	**8**	**-**	**-**	**8**
Total traction electricity, industry costs and rates	**150**	**116 -**	**34**	**1**	**96**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
Traction electricity	190	167	(23)	-
Business rates	79	101	22	-
British transport police costs	35	35	-	-
	304	**303**	**(1)**	**-**
Centrally-managed traction electrivity, industry costs and rates				
Traction electricity	82	103	21	1
Business rates	55	51	(4)	-
British transport police costs	20	20	-	1
ORR licence fee and railway safety levy	27	24	(3)	-
RDG membership costs	-	-	-	-
RSSB costs	10	11	1	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	194	**209**	**15**	**2**
Total traction electricity, industry costs and rates	**498**	**512**	**14**	**2**

Statement 3.4: Analysis of traction electricity, industry costs and rates, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.

(2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

(1) This category of costs is higher than the regulator's assumption in the current year due to higher Traction electricity costs, which are generally recovered from operators (refer to Statement 2). Costs are higher than the previous year mainly due to rising market prices for electricity.

Regionally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to, reflecting where services run. Therefore, the Cumulative section only covers costs from that year onwards. Traction electricity costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are higher than the regulatory assumption due to widely-publicised increases in short term market prices in recent years which has led to the higher costs across the control period. These extra costs are broadly balanced by increased income from recharging electricity to operators (as shown in Statement 2). Costs were higher than the previous year reflecting market price increases. Whilst many of the train operators were largely protected from the price increases in 2022/23 by pre-purchasing energy requirements before the Russian invasion of Ukraine, 2023/24 requirements had not been. Movements in electricity costs are largely offset by movements in traction electricity income received from operators (as shown in Statement 2). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards. Costs this year were lower than expected. The increases in business rates determined by the Valuation Agency Office for the uplift from 1 April 2023 were much lower than assumed at the time of the determination. The lower costs across the control period also arises from Covid-caused delays in the Valuation Agency Office uplifting the rates which usually occurs every five years, being postponed by a year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Wales & Western – continued

In £m cash prices unless stated

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British transport police costs from centrally-managed to the geographic regions those costs relate to. Therefore, the Cumulative section only covers costs from that year onwards.

Centrally-managed traction electricity, industry costs and rates

(1) Traction electricity – from 2021/22, Network Rail has allocated traction electricity costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(2) Business rates – from 2021/22, Network Rail has allocated business rates from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(3) British Transport Police costs – from 2021/22, Network Rail has allocated British Transport Police costs from centrally-managed to the geographic regions those costs relate to. Therefore, there are no values for the current or prior year, but there are amounts included in the Cumulative section relating to 2019/20 and 2020/21.

(4) ORR licence fee and railway safety – costs this year and across the control period are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

(6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). Costs are broadly in line with the baseline and previous year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs

£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	79	22	(57)	(49)	131
Access charge supplement Income	(20)	(19)	1	1	(29)
Net (income)/cost	**59**	**3**	**(56)**	**(48)**	**102**
Schedule 8					
Performance element income	119	-	(119)	(119)	60
Performance element costs	-	18	18	18	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**119**	**18**	**(101)**	**(101)**	**60**
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	6	5	5	-
Access charge supplement Income	(5)	(5)	-	-	(8)
Net (income)/cost	**(4)**	**1**	**5**	**5**	**(8)**
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	1	1	-	-	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**1**	**1**	**-**	**-**	**3**
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	80	28	(52)	(44)	131
Access charge supplement Income	(25)	(24)	1	1	(37)
Net (income)/cost	**55**	**4**	**(51)**	**(43)**	**94**
Schedule 8					
Performance element income	119	-	(119)	(119)	60
Performance element costs	1	19	18	18	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	**120**	**19**	**(101)**	**(101)**	**63**

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	305	140	(165)	(172)
Access charge supplement Income	(125)	(124)	1	1
Net (income)/cost	**180**	**16**	**(164)**	**(171)**
Schedule 8				
Performance element income	90	-	(90)	(90)
Performance element costs	11	52	41	40
Access charge supplement Income	-	-	-	-
Net (income)/cost	**101**	**52**	**(49)**	**(50)**
Centrally managed				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	2	29	27	28
Access charge supplement Income	(31)	(31)	-	-
Net (income)/cost	**(29)**	**(2)**	**27**	**28**
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	3	5	2	2
Access charge supplement Income	-	-	-	-
Net (income)/cost	**3**	**5**	**2**	**2**
Total				
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	307	169	(138)	(144)
Access charge supplement Income	(156)	(155)	1	1
Net (income)/cost	**151**	**14**	**(137)**	**(143)**
Schedule 8				
Performance element income	90	-	(90)	(90)
Performance element costs	14	57	43	42
Access charge supplement Income	-	-	-	-
Net (income)/cost	**104**	**57**	**(47)**	**(48)**

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Wales & Western

In £m cash prices unless stated

Notes:

(1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.

(2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.

(3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

(1) Total Schedule 4 costs are higher than the regulatory baseline this year mostly reflecting financial underperformance in the region. Net costs have been higher across the control period mainly due to the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers. Net Schedule 4 costs are lower than the previous year due to the aforementioned impact of industrial action last year.

(2) Overall Schedule 8 costs are higher than the regulatory baseline this year as train performance this year did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Missing performance levels in recent years has mitigated the benefits experienced during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Wales & Western – continued

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

(1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). Income is lower than the previous year, reflecting planned reductions in the regulatory baseline set by ORR in 2018. Performance element costs are higher than the regulatory baseline this year. This has been driven by more activity delivered this year compared to the regulatory baselines. This extra activity is adjusted for when assessing Financial performance. In addition, there have been a number of disruptive events, including weather and the highly-publicised closing of part of the network where a bridge near Nuneham required corrective intervention after being considered unsafe to support trains. Possessions this year have been less productive than the regulatory baseline expected, with reduced volumes on certain possessions delivered due to funding constraints increasing average possession costs. Costs for the control period are higher than the regulator expected, which include the impact of industrial action in 2022/23. Under the schedule 4 mechanism Network Rail has had to compensate train operators where it has not been able to deliver the agreed timetable for passengers so cancelling services, often at relatively short notice, proved expensive. Costs are lower than the previous year when the aforementioned industrial action resulted in exceptionally high costs which more than offset the higher costs from the aforementioned Nuneham viaduct closure this year.

(2) Schedule 8 costs are higher than the regulatory baseline this year as train performance this year did not meet the regulatory targets set by ORR as part of their CP6 determination in 2018. Issues this year included a higher number of asset failures across the infrastructure and more disruptive weather. This year included 13 named storms impacting the UK, the most since the current naming system commenced began in 2015/16 along with heat in the summer necessitating speed restrictions on the network to ensure passenger safety. The issues in train performance in Wales & Western in recent years has resulted in the regulator launching an official investigation and whilst Network Rail has developed a plan including more frequent inspections, replacing some overhead electrification lines and using better data to understand where faults are, the benefits may require some time to be realised. Missing performance levels in recent years has mitigated the benefits experienced during Covid times where fewer passengers and services resulted in increased punctuality and timetable resilience. Train performance this year declined compared to 2022/23 resulting in increased net compensation paid to operators this year.

Centrally-managed schedule 4 and schedule 8 income and costs

(1) Centrally-managed schedule 4 costs cover amounts held centrally to mitigate the risk of large one-off incidents distorting the understanding of the underlying performance in each of the Regions.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Wales & Western – continued

(2) Schedule 4 – Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events that have qualified as insurable events. Whilst there have been some significant events on the network that year that have increased Schedule 4 costs, notably the aforementioned Nuneham viaduct closure, these costs have been absorbed in the Regionally-managed costs, rather than in the Centrally-managed costs due to the nature of the disruption. The control period shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20, along with lower proportion of Schedule 4 compensation being recognised within Centrally-managed costs.

(3) Schedule 8 – this year's cost is lower than the regulatory baseline, with fewer incidents than expected eligible for inclusion in this category, instead remaining in the Regionally-managed section. Schedule 8 costs are lower than the regulatory baseline across the control period. As noted in previous CP6 Regulatory Financial Statements, there was a favourable settlement in 2020/21 leading to recognition of a schedule 8 inflow.

Wales & Western
Statement 3.6: Analysis of renewals expenditure
£m, Cash prices

2023-24	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2022-23 actual (rebased to 23/24 prices)
Regionally-managed					
Track					
PL Replace Full	64	35	(29)	-	71
PL Replace Partial	32	25	(7)	-	36
PL High Output	30	19	(11)	-	47
PL Refurbishment	8	13	5	-	5
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	34	37	3	-	35
Switches & Crossing - Other	9	2	(7)	-	14
Off Track	15	40	25	-	17
Track Other	8	(1)	(9)	-	8
	200	**170**	**(30)**	**30**	**233**
Signalling					
Signalling Full	56	17	(39)	-	65
Signalling Partial	3	5	2	-	18
Signalling Refurb	27	63	36	-	29
Level crossings	21	17	(4)	-	24
Minor works	22	23	1	-	15
Other	0	0	0	-	-
	129	**125**	**(4)**	**(4)**	**151**
Civils					
Underbridges	40	30	(10)	-	51
Overbridges	14	7	(7)	-	23
Major structures	18	-	(18)	-	6
Tunnels	4	4	-	-	4
Minor works	24	16	(8)	-	24
Other	8	8	-	-	12
	108	**65**	**(43)**	**(5)**	**120**
Earthworks					
Earthworks - Embankments	14	9	(5)	-	14
Earthworks - Soil Cuttings	12	14	2	-	16
Earthworks - Rock Cuttings	11	4	(7)	-	15
Earthworks - Other	-	4	4	-	-
	37	**31**	**(6)**	**-**	**45**
Buildings					
Managed stations	21	1	(20)	-	16
Franchised stations	19	13	(6)	-	20
Light maint depots	2	2	-	-	4
Depot plant	3	4	1	-	2
Lineside buildings	2	3	1	-	2
MDU buildings	10	6	(4)	-	15
Other	-	-	-	-	-
	57	**29**	**(28)**	**(2)**	**59**
Electrical power and fixed plant					
AC distribution	3	-	(3)	-	2
Overhead Line	1	3	2	-	2
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	16	9	(7)	-	15
Other	2	1	(1)	-	6
Fixed plant	7	7	-	-	7
	29	**20**	**(9)**	**-**	**32**
Drainage					
Drainage (Track)	11	4	(7)	-	9
Drainage (Earthworks)	2	3	1	-	4
Drainage (Resilience)	-	-	-	-	-
	13	**7**	**(6)**	**1**	**13**
Property					
Property	8	16	8	-	6
	8	**16**	**8**	**-**	**6**
Total Regionally-managed renewals expenditure	**581**	**463**	**(118)**	**20**	**659**

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	5
	-	**-**	**-**	**-**	**5**
Telecoms					
Operational communications	5	3	(2)	-	4
Network	1	1	-	-	3
SISS	6	2	(4)	-	6
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	7	7	-	-	9
	20	**13**	**(7)**	**(2)**	**23**
Wheeled plant and machinery					
High output	3	5	2	-	3
Incident response	-	-	-	-	-
Infrastructure monitoring	1	3	2	-	-
Intervention	1	3	2	-	1
Materials delivery	2	3	1	-	2
On track plant	1	1	-	-	-
Seasonal	-	-	-	-	-
Other	4	1	(3)	-	3
	12	**16**	**4**	**-**	**9**
Route Services					
Business Improvement	7	-	(7)	-	7
IT Renewals	4	12	8	-	4
Asset Information	2	-	(2)	-	1
Other	-	3	3	-	2
	13	**15**	**2**	**-**	**14**
STE Renewals					
Intelligent infrastructure	9	5	(4)	-	9
Faster Isolations	3	3	-	-	3
Centrally Managed Signalling Costs	1	2	1	-	1
Research and development	10	12	2	-	7
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	3	1	(2)	-	1
Small plant	3	1	(2)	-	1
Other	14	3	(11)	-	19
	43	**30**	**(13)**	**-**	**41**
Property					
Property	10	(11)	(21)	-	-
	10	**(11)**	**(21)**	**-**	**-**
Other renewals					
ETCS	-	1	1	-	-
Digital Railway	2	3	1	-	3
Civils & Drainage - Insurance Fund	3	5	2	2	1
Buildings - Insurance Fund	-	3	3	-	1
OPEX/CAPEX Adjustment	(13)	(9)	4	-	(35)
Phasing overlay	-	72	72	-	-
System Operator	3	4	1	-	4
Other renewals	1	1	-	-	10
	(4)	**80**	**84**	**2**	**(16)**
Total centrally-managed renewals expenditure	**94**	**143**	**49**	**-**	**76**
TOTAL RENEWALS EXPENDITURE	**675**	**606**	**(69)**	**20**	**735**

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	249	171	(78)	-
PL Replace Partial	178	126	(52)	-
PL High Output	177	153	(24)	-
PL Refurbishment	24	55	31	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	147	134	(13)	-
Switches & Crossing - Other	41	15	(26)	-
Off Track	60	108	48	-
Track Other	36	(2)	(38)	-
	912	**760**	**(152)**	**(30)**
Signalling				
Signalling Full	166	143	(23)	-
Signalling Partial	36	31	(5)	-
Signalling Refurb	181	340	159	-
Level crossings	75	113	38	-
Minor works	86	100	14	-
Other	-	-	-	-
	544	**727**	**183**	**(35)**
Civils				
Underbridges	189	168	(21)	-
Overbridges	65	47	(18)	-
Major structures	42	24	(18)	-
Tunnels	20	33	13	-
Minor works	86	54	(32)	-
Other	42	45	3	-
	444	**371**	**(73)**	**(28)**
Earthworks				
Earthworks - Embankments	82	61	(21)	-
Earthworks - Soil Cuttings	64	72	8	-
Earthworks - Rock Cuttings	55	31	(24)	-
Earthworks - Other	1	16	15	-
	202	**180**	**(22)**	**(2)**
Buildings				
Managed stations	68	71	3	-
Franchised stations	93	86	(7)	-
Light maint depots	10	13	3	-
Depot plant	8	14	6	-
Lineside buildings	10	14	4	-
MDU buildings	39	43	4	-
Other	-	-	-	-
	228	**241**	**13**	**(6)**
Electrical power and fixed plant				
AC distribution	13	7	(6)	-
Overhead Line	13	16	3	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	49	67	18	-
Other	31	5	(26)	-
Fixed plant	46	32	(14)	-
	152	**127**	**(25)**	**(11)**
Drainage				
Drainage (Track)	48	21	(27)	-
Drainage (Earthworks)	10	16	6	-
Drainage (Resilience)	1	-	(1)	-
	59	**37**	**(22)**	**4**
Property				
Property	29	36	7	-
	29	**36**	**7**	**-**
Total Regionally-managed renewals expenditure	**2,570**	**2,479**	**(91)**	**(108)**

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	4	-	(4)	-
	4	**-**	**(4)**	**(4)**
Telecoms				
Operational communications	10	15	5	-
Network	8	8	-	-
SISS	16	14	(2)	-
Projects and other	5	1	(4)	-
Non-route capital expenditure	47	44	(3)	-
	86	**82**	**(4)**	**(6)**
Wheeled plant and machinery				
High output	22	25	3	-
Incident response	1	-	(1)	-
Infrastructure monitoring	2	11	9	-
Intervention	7	20	13	-
Materials delivery	8	25	17	-
On track plant	1	3	2	-
Seasonal	2	-	(2)	-
Other	13	3	(10)	-
	56	**87**	**31**	**-**
Route Services				
Business Improvement	50	18	(32)	-
IT Renewals	24	51	27	-
Asset Information	6	4	(2)	-
Other	4	6	2	-
	84	**79**	**(5)**	**-**
STE Renewals				
Intelligent infrastructure	42	30	(12)	-
Faster Isolations	36	23	(13)	-
Centrally Managed Signalling Costs	4	8	4	-
Research and development	33	36	3	-
Integrated Management System (Incl. BCR)	-	9	9	-
Other National SCADA Programmes	12	11	(1)	-
Small plant	7	5	(2)	-
Other	60	10	(50)	-
	194	**132**	**(62)**	**-**
Property				
Property	21	1	(20)	-
	21	**1**	**(20)**	**-**
Other renewals				
ETCS	5	34	29	(1)
Digital Railway	8	1	(7)	-
Civils & Drainage - Insurance Fund	6	24	18	17
Buildings - Insurance Fund	1	14	13	-
OPEX/CAPEX Adjustment	(102)	(60)	42	-
Phasing overlay	-	-	-	-
System Operator	13	14	1	-
Other renewals	11	2	(9)	10
	(58)	**29**	**87**	**26**
Total centrally-managed renewals expenditure	**387**	**410**	**23**	**16**
TOTAL RENEWALS EXPENDITURE	**2,957**	**2,889**	**(68)**	**(92)**

Statement 3.6: Analysis of renewals expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).

(2) Financial performance is reported at asset level rather than Key Cost Line.

(3) The baseline in this statement has been restated due the Putting Passenger First and other major internal reorganisations. The prior year numbers have not been restated.

Comments:

(1) Overall, Renewals expenditure is higher than the regulatory baseline this year and broadly in line with expectation across the control period. However, there has been financial underperformance reported so far this control period which is due to multitude of factors, but primarily relates to delivery within the Track, Civils and Signalling portfolios. Spend is lower than the previous year as less funding was available to invest in renewals.

Regionally-managed renewals

(1) Total Regionally-managed renewals were higher than the regulatory assumption this year which brings the position across the control period slightly higher than the regulatory baseline. Expenditure is lower than the previous year with reductions across almost all categories reflecting lower renewals funding available in 2023/24 to invest in renewals.

(2) Track – overall, costs in the year were higher than the regulatory baseline, continuing the trend of the previous years of the control period as the region has utilised risk funds available to investment more in the assets. Financial underperformance has been recognised this control period. This is largely a result of difficulties in High Output delivery. The main causes for this include difficulty with access received for a re-laying High Output campaign causing a subsequent reduction in scope whilst still incurring fixed costs and a change in workbank in Western’s Ballast Cleaning campaign from larger areas to smaller sites which have higher cost per volume but means more sites can be targeted, allowing better asset management outcomes. Ballast Cleaning also suffered from plant failure and a safety incident that resulted in front line workers standing down and a subsequent loss of volumes. Covid-19 also led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs in 2020/21. At the start of the pandemic operators were stranded in eastern Europe due to travelling restrictions which also disrupted productivity. Industrial action and the impact of the Queens funeral also caused higher project costs this control period. In addition, financial underperformance was recognised from difficulties in introducing a new technological solution. Whilst future efficiencies are expected in the medium term, implementation issues resulted in higher costs in CP6. When assessing financial performance costs arising from the Track worker safety are classified as neutral. This is an industry-endorsed change in the way Network Rail undertook work in an operational rail environment which has improved the safety of front line staff but increased the running costs of the business. Spend is lower than the previous year reflecting lower renewals funding available in 2023/24 to invest in renewals.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(3) Signalling – although costs were broadly in line with the regulatory expectation this year, they remain lower across the control period. Delivery in the control period has been lower than the ambitious targets in the regulatory baseline as funding has been reprioritised, alternative solutions sought and the workbank rephased to reflect resource and access constraints. In addition, funding shortages at the end of CP5 resulted in lower levels of design works meaning overall programmes have been pushed back into later years. Financial underperformance has been recognised this control period. This includes persistent contractor delivery issues on ETCS programme leading to delays and increased contractor support required, increased power scope in the Vamos safety intervention project has resulted in a descoping of projects to keep project costs within the funding available. Port Talbot project has been prolonged as a result of a major commissioning missed in March 2023, principally due to contractor under delivery earlier in the project augmented by a number of costly interventions to try to return project to timetable and achieve commissioning date. The project also suffered from higher contractor prices earlier in the control period as did Tondu project. Delays to the Bristol Area Resignalling programmes also increased costs on that project. There have been some offsetting efficiencies such as implementation of modular signalling technology in Devon and Cornwall. Further to this, the use of innovative technology in MSL crossings has allowed all the benefits of the usual implementation to be achieved without incurring all the anticipated costs. Costs are lower than the previous year. A step up in the delivery of the Devon and Cornwall resignalling programme this year has been more than offset by reductions in Port Talbot resignalling scheme and projects around Paddington as they near completion.

(4) Civils – spend is higher than the regulatory baseline this year and across the control period in total. This includes costs this year to remediate Nuneham viaduct which resulted in widely-publicised line closures in the early part of 2023/24 and higher like-for-like projects costs. This financial underperformance includes access difficulties across a number of projects such as road closures for bridge work only being allowed at night, shorter possession windows necessitating multiple visits and industrial action resulting in project prolongation. Working collaboratively with stakeholders and the public has also influenced how some projects can be delivered, with road access for motorists a consideration on the Paignton Road overbridge renewal. Deferrals of projects to CP7 due to funding constraints have also lead to prolongation or sunk costs, whilst assets being in worse condition than surveys suggested have also added to project expenses, such as at London Steet. Prolongation costs have also emerged due to environmental factors such as the presence of nesting peregrine falcons and badger presence at different sites. Contractor financial failure resulting in administration has also resulted in many due diligence checks, time extensions and project postponements. Financial underperformance has also been impacted by higher tender prices and materials costs reflecting macro-economic conditions. Despite the one-off costs relating to the aforementioned Nuneham viaduct works this year, spend is lower than the previous year which included some significant projects such as London Street overbridge project, river Neath swing bridge and Windsor viaduct.

(5) Earthworks – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. The higher investment reflects increased investment in environmental resilience works to offset increased issues caused by climate change as well as Wales & Western's response to the Stonehaven tragedy by increasing efforts in this area. Expenditure is lower than the previous year reflecting lower renewals funding available in 2023/24 to invest in renewals.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(6) Buildings – investment this year is higher than the regulatory baseline which has offset some of the underspend experienced in earlier years of the control period and brought the CP6 expenditure broadly into line with the regulatory expectation. Some minor financial underperformance has been reported in the control period due to asset conditions being worse than anticipated at Chester, Holyhead, Cambourn and Penance which drove additional spending on materials and design as well as Bristol Temple Meads where the level of steel defects were worse than expected in the baseline. Expenditure is consistent with the previous year.

(7) Electrical power and fixed plant – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period as the Wales & Western prioritise resilience of these assets. Financial underperformance has been recognised this control period. This includes: requirement to retender elements of the SCADA programme due to poor contractor performance resulting in project prolongation and higher contractor costs, additional contractor costs on signalling cable projects owing to design delays and difficulties acquiring the required access, costs from cancelled and deferred projects due to funding constraints meaning reprioritisation of activity and higher contractor tender prices. Expenditure is consistent with the previous year.

(8) Drainage – spend is higher than the regulatory baseline this year, continuing the trend of earlier years of the control period. The higher investment reflects increased investment in environmental resilience works to offset increased issues caused by climate change as well as Wales & Western's response to the Stonehaven tragedy by increasing efforts in this area. Some minor financial outperformance has been achieved including better workbank planning and combining multiple jobs into single tenders to reduce contractors' overheads. Expenditure is consistent with the previous year.

(9) Property – spend is lower than the regulatory baseline this year, causing the position across the control period to be lower than the regulatory baseline. This illustrates the variable nature of property investment where robust business cases need to be present to make sure funds are utilised in the most appropriate way. Investment this year included setting up new occupational health centres for staff and investment in roadside advertising sites.

Centrally-managed renewals

(1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, mostly due to the impact of the Phasing overlay in the regulatory baseline increasing the baseline. Across the control period Centrally-managed renewals expenditure has been lower than the regulatory assumption as a higher value of projects which have been opex in nature and so have been reclassified to Statement 3.3.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(2) Track – costs were recognised in this category in the previous year arising from the under-recovery of cost from central teams. This was due to higher inflationary pressures on input prices as recharge rates are set before the start of the year when the inflation outlook was lower, in line with the regulatory expectation. These generational-level increases in inflation and the impact on Network Rail's costs have been treated as financial underperformance. Costs across the control period also includes costs incurred in the first year of the control period. Delays in finalising the CP6 Business Plan meant certain sunk costs were incurred that could not be charged to individual track projects in the regions' portfolios. As these costs are incurred for the construction of assets, they require capitalisation. These extra costs are treated as neutral to the extent that they are offset in Maintenance costs. Expenditure is lower than the prior year which arose as noted above, as the higher costs for materials have been off-charged to the Region this year.

(3) Telecoms – investment is higher than the regulatory baseline in the year which brings the control period position broadly in line with the regulatory expectation. Financial underperformance has been reported this control period including project delays from resource shortage and reprioritisation, increased project complexity necessitating re-engineering and re-architecting which increases time and costs on project, extra expenses to comply with safety standards and additional procurement compliance rules causing project prolongation.

(4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline in both the current year and across the control period. No financial outperformance has been recognised for this category. As agreed with the regulator, assessing financial performance for plant & machinery is usually not possible as the outputs of the programme are not possible to be fully assessed. Significant variances at Key Cost Line include:

   a. Infrastructure monitoring – costs are lower than the regulatory baseline across the control period. This is mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus. A fleet strategy review and assessment of fleet requirements is currently ongoing to determine requirements for the network to help deliver the CP7 strategy.

   b. Intervention – costs were lower than the regulatory baseline in the current year and across the control period. This is mainly due to delays in replacing track plain line stoneblower machines which has resulted in activity and investment being rephased from CP6 into CP7.

   c. Materials delivery – investment was lower than the regulatory baseline assumption across the control period. The primary cause of the underspend for the control period is the cancellation of constructing a new concrete sleeper factory in Bescot. Another notable contribution is from delays in replacing rail delivery vehicles which have been rescheduled into CP7. Network Rail has been able to utilise existing vehicles for longer through more detailed maintenance activities.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

d. Other – at the time the baselines were set in 2019, it was expected that the Other category would include on track monitoring fitment to support the East Coast digital programme, meaning most of the baseline was allocated to different regions. Instead, most of the actual spend in this category relates to Fleet Support Plant which is allocated to regions based on the relative train miles in each region The overspend reported on this category for the control period offsets some of the underspend reported on other Wheeled plant & machinery lines.

(5) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation in both the current year and across the control period, mainly due to investment in track worker safety schemes. Notable variances at Key Cost Line include:

a. Intelligent infrastructure – costs are higher than the regulatory baseline this year and across the control period. This increased spend due to additional scope of works. More initiatives than baselined were undertaken, namely, to support asset management in Civils. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

b. Faster isolations – costs are higher than the regulatory baseline across the control period. Wales & Western have been successful in identifying suitable programmes in their Region that deliver the safety benefits and performance efficiencies that the Faster isolations programme can deliver. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

c. Integrated Management System – as noted in previous year's Regulatory Financial Statements, there has been minimal activity on this programme this control period, as spend has been reprioritised on other areas within STE. No financial outperformance has been recognised this year as the outputs have not been fully delivered.

d. Other – investment is significantly higher than the regulatory baseline once again this year. The primary reason for these additional costs is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail utilised some of the risk fund included in the CP6 baselines to invest heavily in workforce safety schemes to an extent not included in the regulatory baseline. Cost is lower than the prior year as many of the required improvements have been delivered earlier in the control period.

(6) Property – expenditure is higher than the regulatory baseline this year which offsets some of the savings from earlier in the control period. Notable schemes this year include investment adjacent to Leeds stations as well as in East London as part of wider regeneration programmes for the areas. Despite the additional investment this year, across the control period expenditure has been lower than the regulatory baseline. This control period, fewer investment opportunities with compelling business cases have been identified, which has been affected by macro-economic uncertainties in the wake of covid and inflationary pressures. Investment is higher than the previous year, due to the aforementioned acquisitions undertaken this year.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

(7) Other – investment is lower than the regulatory baseline in the current year due to the impact of the Phasing overlay and lower across the control period due to more projects being identified as being opex in substance. Notable items in the Other category include:

a. ETCS – expenditure is lower than the regulatory baseline across the control period as the programme has been reevaluated in light of technical options available and industry direction as it recovers from Covid. The project has also experienced slippages due to configuration issues as inputs are highly dependent on technical architecture and integration.

b. Digital Railway – costs are lower than the regulatory baseline across the control period. This is because the regulatory baseline included a adjustment to rephase ETCS activity. The higher costs in the control period is also largely offset by the reduction reported in Statement 3.3 in Route Services – Asset information as more of the activity has been reported in this statement compared to the regulatory baseline's expectation, as a higher proportion of the work has been renewals in nature.

c. Civils – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Civils budgets meaning minimal draw down against this funding category has been required. The financial outperformance recognised across the control period has been limited to the difference between the funding available and the independent loss adjustor's view of the remediation costs that Network Rail will incur when the assets are restored for incidents they have assessed.

d. Buildings – insurance funded – as part of the regulatory settlement, Network Rail were provided with some funding to cover remediation works in the wake of damage to the network. Rather than obtain insurance externally (with an associated opex cost), Network Rail manage this risk internally through a "self-insurance" arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline depending on the number and severity of incidents that arise in any given year. Whilst there have been a number of weather incidents that have impacted the network this control period, many of these have been lower than the threshold to qualify as an insurance funded project or have been adsorbed within the core Region Buildings budgets meaning minimal draw down against this funding category has been required.

Statement 3.6: Analysis of renewals expenditure, Wales & Western – continued

In £m cash prices unless stated

e. Opex/ capex adjustment – Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan. This single line acts as a reconciling item to align total capex investment to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in opex costs). As with other years this control period, the adjustment is greater than the regulatory baseline, as more schemes that qualify as OPEX in nature have been delivered. The adjustment was lower than the previous year, reflecting the phasing of applicable capital programmes in the control period.

f. Phasing adjustment – this was an adjustment included in the regulatory baselines to reflect the expected different phasing of the locally-developed renewals plans the centrally-managed expectation. Over the course of the control period the cumulative position is £nil.

g. Other renewals – expenditure this control period includes electric charging points along with various workforce safety schemes, including installation of new walkways and crossings. Investment in these areas are also the main driver behind the higher spend across the control period as they were not included in the original CP6 baselines.

Wales & Western
Statement 3.7: Analysis of enhancements expenditure

	2023-24			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	-	-	-	-	-	-
Great Western Electrification	-	1	-	252	252	(55)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	-	-	-	-	-	-
West Anglia Main Line Capacity	-	-	-	-	-	-
Midland Main Line Programme	-	-	-	-	-	-
Wessex Enhancements (Waterloo and South London HV Grid)	-	-	-	-	-	-
Trans Pennine Route Upgrade	-	-	-	-	-	-
Hope Valley Capacity	-	-	-	-	-	-
Cambridge South Station Dvpt 2	-	-	-	-	-	-
Funding allocation for key stations	-	-	-	-	-	-
Gatwick Station	-	-	-	-	-	-
East West Rail Phase 2	-	-	-	-	-	-
Oxford Corridor Capacity Phase 2	53	53	(10)	105	104	(10)
GWEP Distribution Network Operators clearance work	-	-	-	(6)	(7)	-
East Coast Main Line Enhancements Programme	-	-	-	-	-	-
Manchester Improvements	-	-	-	-	-	-
Reading Independent Feeder (Power Supply)	11	11	1	59	58	(2)
Bristol East Junction	-	-	1	92	93	27
Kings Lynn to Cambridge 8 Car	-	-	-	-	-	-
South West Rail Resilience Programme	29	31	(4)	163	163	(14)
St Albans Station Capacity	-	-	-	-	-	-
London Euston (in support of High Speed Rail Group scheme)	-	-	-	-	-	-
SFN-Freight Forecasts project	-	-	-	-	-	-
Access for All	24	13	-	40	35	-
Thameslink Resilience Programme	-	-	-	-	-	-
Midlands Hub - Continued Design and Early Development	-	-	-	-	-	-
Western Rail Access to Heathrow	-	-	-	15	16	-
Welsh Valleys	-	-	-	-	-	-
Crossrail	3	-	(2)	104	115	(88)
Integrated Crewe Hub - HS2	-	-	-	-	-	-
Reading, Ascot to Waterloo Train Lengthening	-	-	-	-	-	-
Dr Days to Filton Abbey Wood Capacity	-	(1)	-	9	9	-
Portfolio Contingency (including T-12)	-	-	-	1	1	2
Depots & Stabling Fund	-	-	-	-	-	-
Northern Hub	-	-	-	-	-	-
Thames Valley EMU Capability	-	-	-	10	11	-
West Coast PSU	-	-	-	-	-	-
IEP Western Capability	-	(3)	-	17	17	-
West of England Plat Length	-	-	-	4	4	-
Feltham	-	-	-	-	-	-
High Speed 2	-	-	-	-	-	-
Birmingham New Street Gateway	-	-	-	-	-	-
Access to Assets	-	1	-	11	14	-
Restoring Your Railway	7	28	-	53	77	-
University Station	-	-	-	-	-	-
Energy Coast Rail Upgrade Project	-	-	-	-	-	-
GWML W10-W12 Gauge Enhancement	-	-	-	11	11	-
NWEP Phase 7 Lostock - Wigan	-	-	-	-	-	-
Crumlin River Bridge	-	(1)	-	4	4	1
W009 West of England DMU Capability	-	-	1	6	5	1
Anglia Traction PSU	-	-	-	-	-	-
EC Digital	-	-	-	-	-	-
Ely Area Capacity Enh	-	-	-	-	-	-
Ashford to Ramsgate	-	-	-	-	-	-
Clapham Junction Short-term	-	-	-	-	-	-
Darlington Station Improvements	-	-	-	-	-	-
Denmark Hill Congestion Relief	-	-	-	-	-	-
Tactile Paving Installation	7	6	-	10	9	-
New Stations Fund	-	1	-	1	6	-
River Irwell Fl Resil	-	-	-	-	-	-
W Mid New Stations	-	-	-	-	-	-
LNWS623 Bushey PSU	-	-	-	-	-	-
IRP Portfolio	-	-	-	-	-	-
Other	29	37	2	65	50	1
Total	**163**	**177**	**(11)**	**1,042**	**1,064**	**(137)**

Statement 3.7: Analysis of enhancements expenditure - continued

Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	-	-	-	-	-	-
Aberdeen to Inverness	-	-	-	-	-	-
Kintore Station	-	-	-	-	-	-
Rolling Programme of Electrification	-	-	-	-	-	-
East Kilbride Barrhead	-	-	-	-	-	-
New Down Platform Dunbar	-	-	-	-	-	-
Highland ML JTI Ph 2	-	-	-	-	-	-
Dunblane to Perth	-	-	-	-	-	-
Cadder HST Depot	-	-	-	-	-	-
Hairmyres Land Purchase	-	-	-	-	-	-
Feeder St/Power Mod Ele	-	-	-	-	-	-
Edinburgh Waverley Western Approaches	-	-	-	-	-	-
Reston Station	-	-	-	-	-	-
North Hanover Street Development	-	-	-	-	-	-
West of Fife Enhancements	-	-	-	-	-	-
A9 Interface- Lynebeg Bridge	-	-	-	-	-	-
Far North Line Route Enhanceme	-	-	-	-	-	-
East Linton Station	-	-	-	-	-	-
Busby Jn to Barrhead Ele	-	-	-	-	-	-
Dalcross New Station	-	-	-	-	-	-
Levenmouth	-	-	-	-	-	-
GLAB Currie Feeder St	-	-	-	-	-	-
Cadder Buildings	-	-	-	-	-	-
Fife Decarbonisation	-	-	-	-	-	-
Millerhill Interventions	-	-	-	-	-	-
Barrhead Kilmarnock Ele	-	-	-	-	-	-
Aberdeen Cent Belt Elec	-	-	-	-	-	-
Portobello Junction	-	-	-	-	-	-
Aberdeen Cen Journey	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
	-	-	-	-	-	-
Other Capital Expenditure	7	-	-	160	-	-
	-	-	-	-	-	-
Other third party funded schemes	-	-	-	-	-	-
HS2	36	-	-	167	-	-
Other third Party	62	-	-	180	-	-
Total	**98**	**-**	**-**	**347**	**-**	**-**
Total enhancements	**268**	**177**	**(11)**	**1,549**	**1,064**	**(137)**
	-	**-**	**-**	**-**	**-**	**-**
Total enhancements less Other third party funded schemes	**170**	**177**	**(11)**	**1,202**	**1,064**	**(137)**

Statement 3.7: Analysis of enhancement expenditure, Wales & Western

In £m cash prices unless stated

Notes:

(1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan and any agreed changes in scope, outputs and price agreed through the change control process with funder (DfT). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes. The CP6 cumulative baseline incorporates outcomes from the Spending Review 2020 (SR20) and Spending Review 2021 (SR21) and has been restated from the initial CP6 baseline set at the start of the control period.

(2) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather by the Wales & Western's core funder (DfT).

(3) In line with the Regulatory Accounting guidelines (December 2019), there is no comparative provided for the programmes listed in this statement. Programmes are managed across their life span so including annual baselines, which are subject to change control by government funders creates an artificial baseline.

(4) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.

(5) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with Wale & Western's core funder (DfT).

(6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

(1) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £170m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£269m) less the PAYGO schemes funded by third parties (£98m).

(2) Enhancement expenditure this year and across the control period is greater than the regulatory baseline. The CP6 cumulative baseline, as agreed with the DfT, incorporates the outcomes from the Spending Review 2021 (SR21) and Spending Review (SR22). The extra expenditure is due to additional works which has been funded by DfT outside of their normal core enhancements grant programme or funded by third parties. Financial underperformance has been recognised across the control period, mainly due to completion of legacy CP5 schemes, such as Crossrail and Great Western Electrification Programme. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with the funder (DfT). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of the funder (DfT).

Statement 3.7: Analysis of enhancement expenditure, Wales & Western – continued

In £m cash prices unless stated

(3) Department for Transport funded schemes – expenditure this year is slightly lower than the regulatory baseline with the largest contribution from the Restoring your Railway programme, which is also behind the underspend across the control period. Some notable variances at programme level include:

a. Great Western Electrification – this was a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Financial underperformance has been recognised this control period adding to the extra costs recognised in the previous control period. The financial underperformance this control period resulted from programme delays, various costs pressures to close out the programme and substantiation of disputed costs.

b. Oxford Corridor Capacity Phase 2 – the project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. Whilst overall expenditure so far has been in line with the regulatory baseline there is financial underperformance arising from additional costs associated with Botley Road Complexities of inverted arch and associated utility diversion works.

c. Bristol East Junction – this project has delivered upgrade works to Bristol East Junction, which serves Bristol Temple Meads station. Financial outperformance has been recognised this control period as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control, contingency management, and final claim settlements allowing the total funding allocated for the project by DfT to decrease, as reflected in the baseline for the control period.

d. South West Rail Resilience Programme – this programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Financial underperformance reported this control period is due to programme anticipated final costs greater than baseline, as a result of earthworks risks necessitating extra surveys, design and remediation works.

e. Access for All – the Access for All (AfA) programme aims to provides an obstacle free, accessible route to and between platforms across the network. Investment this year is higher than the baseline as additional schemes have been identified and delivered. This means that for the control period, spend has been higher than the regulatory baseline. This is because more suitable schemes than expected have been identified in Wales & Western to utilise this fund, which is managed at an England & Wales, rather than a region level.

f. Crossrail – this project has delivered a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the South East. The programme has recognised adverse financial performance this control period as a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. This has included prolongation costs associated with design alignment, strenuous safety testing and delays from Covid-19.

Statement 3.7: Analysis of enhancement expenditure, Wales & Western – continued

In £m cash prices unless stated

g. IEP Western Capability – this year, the baseline has been reduced, reflecting changes in the outputs and funding made available by DfT. Expenditure across the control period is in line with the funding DfT have provided.

h. Restoring your Railway – this programme aims to reinstate lines and stations that had previously been closed. The largest programme this control period in Wales & Western was the re-opening of the Dartmoor line. Expenditure this year and across the control period has been lower than the funding available as fewer suitable projects with robust cases have been identified and progressed.

i. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). In addition, the funding baseline includes overlays reflecting slippage assumptions across the whole DfT portfolio.

(4) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements. Across the control period this category also includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent. There was no significant movement in the year on this balance.

(5) Third party funded schemes – a significant proportion of expenditure in this category relates to works completed on the network to facilitate High Speed 2 which is paid for by High Speed 2 Limited, an arm's length body of DfT. The size of these works lends itself to separate disclosure. Other notable schemes delivered this year includes: Ebbw Vale integration to increase the number of services, including new lines, infrastructure and platforms and a new station at Ashely Down as part of the larger MetroWest Phase 2 rail programme.

Wales & Western
Statement 3.8: Analysis of renewals unit costs
Cash prices

			FY24			FY23		
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	47	23	2,043	66	36	1,833
	PL Replace Partial	km	58	94	617	58	96	604
	PL High Output	km	32	16	2,000	66	36	1,833
	PL Refurbishment	km	10	63	159	9	79	114
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	16	26	615	19	39	487
	Switches & Crossing - Other	point ends	32	117	274	8	79	101
	Off Track	km/No.	17	147	116	22	175	126
	Track Other		-	-	-	-	-	-
	Total		**212**			**248**		
Signalling	Signalling Full	SEU	-	-	-	-	-	-
	Signalling Partial	SEU	5	8	625	5	8	625
	Signalling Refurb	SEU	6	227	26	7	16	438
	Level crossings	No.	22	87	253	23	92	250
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**33**			**35**		
Civils	Underbridges	m2	65	12,444	5	77	22,454	3
	Overbridges (incl BG3)	m2	7	827	8	20	3,655	5
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	2	3,343	1	6	5,556	1
	Culverts	m2	-	52	-	2	596	3
	Footbridges	m2	3	226	13	-	35	-
	Coastal & Estuarial Defences	m2	9	1,078	8	8	2,487	3
	Retaining Walls	m2	5	570	9	8	2,230	4
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**91**			**121**		
Earthworks	Earthworks - Embankments	No.	16	713	22	12	823	15
	Earthworks - Soil Cuttings	No.	16	847	19	27	1,039	26
	Earthworks - Rock Cuttings	No.	25	239	105	28	289	97
	Earthworks - Other	No.	-	-	-	-	23	-
	Drainage - Earthworks	m	5	14,411	0	7	33,170	0
	Drainage - Other	m	14	44,026	0	14	37,507	0
	TOTAL		**76**			**88**		
Buildings	Buildings (MS)	m2	-	-	-	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	33	12,612	3	-	-	-
	Train sheds (MS)	m2	25	6,102	4	-	-	-
	Footbridges (MS)	m2	-	-	-	1	240	4
	Other (MS)	m2	19	60,000	0	-	-	-
	Buildings (FS)	m2	-	-	-	-	212	-
	Platforms (FS)	m2	-	205	-	-	2,139	-
	Canopies (FS)	m2	5	4,345	1	1	982	1
	Train sheds (FS)	m2	-	-	-	3	6,011	0
	Footbridges (FS)	m2	5	307	16	-	65	-
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	12	73,422	0	19	88,932	0
	Light Maintenance Depots	m2	-	-	-	-	-	-
	Depot Plant	m2	5	3	1,667	-	-	-
	Lineside Buildings	m2	-	-	-	3	1,729	2
	MDU Buildings	m2	7	9,736	1	17	14,838	1
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		**111**			**44**		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	21	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	1	37	27
	Generator (#)	No.	-	-	-	-	-	-
	Auxillary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	18	56	1	6	167
	Signalling Power Cables	km	29	208	139	14	117	120
	Signalling Supply Points	point end	7	13	538	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		**37**			**16**		
Telecoms	Customer Information Systems	No.	3	320	9	1	41	24
	Public Address	No.	-	-	-	1	45	22
	CCTV	No.	7	893	8	8	1,054	8
	Other Surveillance	No.	3	232	13	-	-	-
	PABX Concentrator	No.	-	2	-	-	-	-
	Processor Controlled Concentrator	No.	2	561	4	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	10	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		1	14	71	-	-	-
	Power		3	140	21	2	86	23
	Other comms		-	-	-	-	-	-
	Network		3	54	56	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		**22**			**12**		

Statement 3.8: Analysis of renewals unit costs, Wales & Western

In £m cash prices unless stated

Notes:

(1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.

(2) In line with the ORR's Regulatory Accounting guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2023/24 (or 2022/23 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 3.6, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 3.6 include incidences where an accrual made at 2022/23 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2023/24, they would be excluded from the scope of this statement.

Comments:

(1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes to better understand financial performance assessments are made at individual project level (refer to Statement 3.6).

(2) Track –PL Replace Partial and PL High Output unit costs have increased in 2023/24 which can be attributed to work bank mix, job complexity and inflationary pressures in the supply chain. Switches and Crossing Replace unit rate has increased due to job complexity. This can be explained by the S&C renewals CP6 work bank which has been focused on higher speed sections of the network which require faster turnouts and longer S&C which are more expensive. PL Refurbishment unit costs have increased which can be attributed to the Wales North Medium Refurbishment project experiencing cost increases based on run rates due to difficult locations and time overrun. Switches and Crossing Other unit cost has increased due to the Phase 2 of the Port Talbot West Resignalling project which has incurred additional costs. This was caused by the failure of the main contractor to meet the original programme schedule thus the project has incurred prolongation costs as the project has been extended to 2025. This also provoked additional costs in other projects, such as the Llanelli refurb works.

(3) Signalling – Signalling Refurb unit rate decreased across the year. This is due to the different work bank mix that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small.

Statement 3.8: Analysis of renewals unit costs, Wales & Western - continued

In £m cash prices unless stated

(4) Civils – Coastal & Estuarial Defences unit rate has increased as a different work bank mix has been delivered in the year, this includes projects such as Coastal Planned Preventative Maintenance Phase 2. Location as well as complexity of the job can have a strong influence on unit rate when the sample size is so small, with only two Coastal & Estuarial Defences projects delivered in Wales and Western in 2023/24. The unit cost of Retaining Walls has increased as a different work bank mix has been delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Overbridges unit rate increased with the main driver being the Paignton Road project costs rising as a result of claims for design changes and access issues due to road closures. The unit cost of Underbridges increased primarily due to an increase to project costs on the River Biss project driven by flooding on site following poor weather conditions.

(5) Earthworks & Drainage – Earthworks Embankments unit rate has increased and can be explained by a change in work bank mix with a larger proportion of expensive maintain work being delivered than renew or refurb. Within Earthworks categories there are three subcategories; maintain, renew and refurb. All three offer different life extension outcomes as well as different cost outcomes with renew being the most expensive and maintain being the cheapest. The Earthworks Rock Cuttings unit rate has increased due to work bank complexity and inflationary pressure related to third party contractors which caused unit rates to exceed expectations. Drainage Earthworks unit cost increased which can be attributed to the reactive nature of the work banks on the Western Route Capital Delivery project meaning that costs can be inherently variable.

(6) Buildings – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

(7) Electrification & Plant – Signalling power cables unit rate has increased as a result of a reduction in scope to avoid duplication of feeder renewals on the Totnes and Penzance project. Whilst, shorter than required possession times and delay of material deliveries has also contributed to the project costs to increase.

(8) Telecoms – there hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Wales & Western
Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2022-23 actual prices)	**15,298**
Indexation to 2023-24 prices	15,894
RAB additions	
Renewals expenditure	675
Enhancements expenditure	-
Less amortisation	(675)
Property Sales	(84)
Closing RAB	**15,810**

Net debt

	£m
Opening net debt	**11,125**
Income	(2,027)
Expenditure	1,634
Financing Costs - Government borrowing	164
Financing Costs - index linked debt	315
Financing Costs - Other	16
Corporation tax	0
Working capital	160
Closing net debt	**11,387**

Statement 4: Regulatory financial position, Wales & Western – continued

In £m cash prices unless stated

(11) Financing costs – Network Rail has a number of debt instruments with different terms and conditions. The majority of Network Rail's debt relates to debt drawn down from DfT under an intercompany loan arrangement. There are also nominal bonds and index-linked bonds that have been issued prior to Network Rail being reclassified as a Central Government Body in 2014. For index-linked bonds, part of the interest expense is added to the principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (expect for the aforementioned accretion as well as working capital movements) but the mix between DfT-funded and market issued debt will vary compared to previous years.

(12) Working capital – this largely relates to timing differences between when government grants are received from Department for Transport to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Statement 4: Regulatory financial position, Wales & Western

In £m cash prices unless stated

Note:

(1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals efficiency at part of their procedures undertaken after the conclusion of CP6.

Comments:

(1) Part 1 of this schedule shows the **Regulatory Asset Base (RAB)** of the Wales & Western part of the network and how it has moved during the year.

(2) In accordance with the determination and the regulator's published Regulatory Accounting guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2022/23 prices and is inflated by the November 2023 CPI (3.9 per cent).

(3) Renewals – renewals added to the RAB was £0.7bn. This is shown in more detail in Statement 3.6.

(4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.

(5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.

(6) Disposals – in line with the regulator's published Regulatory Accounting guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).

(7) Part 2 of this schedule shows the **Regulatory debt.** Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable Wales & Western and how it has moved this year.

(8) Network Rail's debt attributable to Wales & Western is higher than the opening debt mainly due to increases in index-linked debt liabilities. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures. Until that point no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052.

(9) Income is set out in more detail in Statement 2.

(10) Expenditure is set out in more detail in Statement 3.

Appendices to the Regulatory financial statements – Reconciliations between Regulatory financial statements and statutory accounts*

*Note: The reconciliations are made to Network Rail Limited's statutory accounts as no consolidated statutory accounts are prepared or published for the Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2024

	£m
RAB valuation at 31 March 2024 (Statement 4)	87,577
Investment properties included in the Regulatory Asset Base	(204)
Adjustment for cash flow differences the CP7 Business Plan compared to Periodic Review 2023	(100)
Assets held for resale	(3)
Reclassification of deferred capital grants	(387)
Property, plant and equipment per NRL statutory accounts at 31 March 2024	**86,883**

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2024

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2024 per the regulatory Statements (Statement 1)	3,072	2,290	5,362
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets	2,179		2,179
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	66		66
IFRS16 Leases adjustment	(125)		(125)
Other, including GBR Transition Team costs	42		42
Operating and maintenance expenditure for year ended 31 March 2024 per NRL statutory accounts	**5,234**	**2,290**	**7,524**

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2024

	£m
Regulatory income for year ended 31 March 2024 (Statement 1)	12,370
Differences between regulatory income and statutory turnover	
Performance regime (Schedule 4 & 8)	(671)
Great British Rail Transition Team grant from DfT	42
Income from property sales and other asset divestments	(161)
Turnover per NRL statutory accounts for year ended 31 March 2024	**11,580**

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2024

	£m
Regulatory debt at 31 March 2024 (Statement 4)	59,465
Differences between regulatory debt and statutory net debt	
Impact of IAS32 and IAS39: Fair value hedging and fair value through profit & loss adjustment	324
IFRS 16 Leases adjustment	356
Net debt per NRL statutory accounts at 31 March 2024	**60,145**

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2024

	£m
Regulatory capital expenditure for the year ended 31 March 2024 (Statement 1)	6,197
Differences between regulatory capital expenditure and statutory capital expenditure	
Third party funded capex	434
Impairment of HS2 related works included as a reduction in capital expenditure in Regulatory Financial Statements	145
Investment property schemes	(4)
Other	(3)
Capital expenditure per NRL statutory accounts for the year ended 31 March 2024	**6,769**

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2024

	£m
Total financing costs for the year ended 31 March 2024 (Statement 1)	2,583
Differences between regulatory interest expense and statutory interest expense	
Net finance costs relating to defined pension schemes assets and liabilities	8
IFRS 16 Leases adjustment	13
Investment revenue disclosed separately in statutory accounts	15
Interest expense per NRL statutory accounts for the year ended 31 March 2024	**2,619**