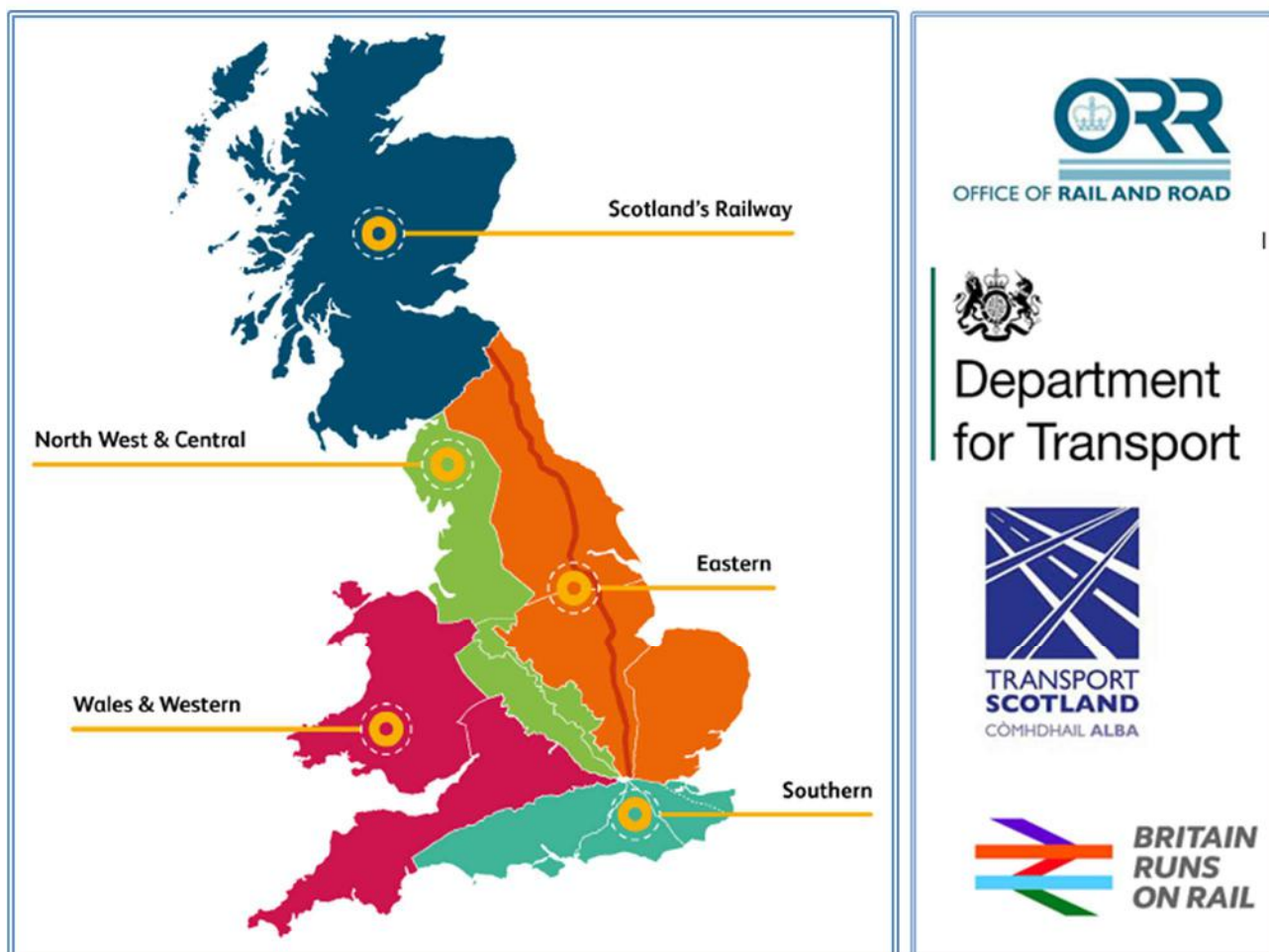




Network Rail Infrastructure Limited Regulatory Financial Statements

Year ended 31 March 2020



Directors' Review

In £m 2019/20 prices unless stated otherwise

Introduction

This financial year was the first year of Network Rail's five-year spending plan for CP6. This review will look back over the last year where the first 11½ months saw more efficient delivery, more services added to the timetable, increased asset management activities and improvements in train performance.

Network Rail made a good start with its ambitious £3.5bn five-year efficiency programme, to deliver its operating, maintenance and investment programmes within budget, and improve its activity-adjusted annual cost-base by £385m. This was also reflected in our Financial Performance Measures (FPM), which was ahead of regulatory targets for the first time since CP4.

The year ended with unprecedented measures in place to minimise the spread of the Coronavirus pandemic. The response to the pandemic has had changed the way of life of our passengers, suppliers and staff, impacting our operations, ways of working and project delivery. We have striven to keep the infrastructure running and the businesses in our supply chain in a position to return to normal service levels as soon as it is advisable to do so. The company remains on a firm financial footing and the action taken by the Department for Transport and Transport Scotland to support train operator franchises has secured the financial position of our key customers.

We now have five regional divisions, which are providing stronger local leadership in our Putting Passengers First programme, allowing us to work more closely with our key stakeholders, drive improved performance, and be more cost-efficient and cost competitive.

Running one of the safest railways in Europe, we continue to invest strongly to maintain and continue to improve this. Following the tragic events at Margam this year, the Safer Trackside Working (STW) Programme is designing and developing new protection and warning systems to protect our colleagues and comprise near-term risk reduction and longer-term solutions aligned to deployment of Digital Railway technologies. As a result we plan to spend over £140m in this control period in improving track worker safety.

This review will focus on the income and expenditure variances to the regulatory baseline experienced in 2019/20 as well as the financial outperformance achieved.

Directors' Review continued

In £m 2019/20 prices unless stated otherwise

Summary income and expenditure for 2019/20

	Actual	Regulatory baseline	Variance	FPM
Income				
Grant Income	5,260	5,887	(627)	0
Franchised track access charges	2,577	2,640	(63)	2
Other Single Till Income	1,144	653	491	15
Total Income	8,981	9,180	(199)	17
Operating expenditure				
Network operations	657	665	8	5
Support costs	662	873	211	97
Traction electricity, industry costs & rates	798	857	59	2
Maintenance	1,737	1,714	(23)	(43)
Schedule 4	303	315	12	25
Schedule 8	57	94	37	37
	4,214	4,518	304	123
Capital expenditure				
Renewals	2,908	2,964	56	(34)
Enhancements	1,824	1,905	81	(86)
	4,732	4,869	137	(120)
Other expenditure				
Risk expenditure	0	30	30	0
Financing costs	2,105	2,239	134	0
Corporation tax	0	9	9	0
Total expenditure	11,051	11,665	614	3
Total Financial Out/(under) performance				20

Income

Grant income was £0.6bn lower than the regulator assumed this year mainly as a result of other expenditure variances. Amounts received from government is driven by other net expenditure variances. Consequently, grant income variances are outside of the scope of FPM.

Income from train operators was lower than the regulator assumed mainly due to lower electricity traction revenue which is offset by lower prices paid by Network Rail to acquire electricity for operators. These variances are excluded from the assessment of financial performance.

Other single till income is higher than the regulatory baseline mainly due to the transfer of part of the network to Transport for Wales. This was excluded from the assessment of financial performance. Outperformance was recognised this year mainly from earning extra property revenue.

Directors' Review continued

In £m 2019/20 prices unless stated otherwise

Operating expenditure

Network Operations costs were broadly in line with budget as costs were controlled and regulatory baselines well planned.

Support costs were lower than the regulatory baseline. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Savings arising from the first two items are not included in FPM as the associated outputs have yet to be delivered and expenditure will be reprofiled into future years.

Traction electricity, industry costs and rates are lower than the regulator expected due to lower market electricity prices. As these costs are passed on to operators to power trains, there is a corresponding reduction in income. Both the cost and income variances are excluded from the assessment of financial performance to the extent they offset.

Maintenance costs are higher than the regulatory baseline which included investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. These extra costs, along with higher materials and haulage costs resulted in financial underperformance this year.

Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated

Payments to operators under the Schedule 8 performance regime were lower than expected, mainly due to better than expected train performance, with fewer passenger delays arising from infrastructure failures.

Capital expenditure

Over the previous five years Network Rail has delivered a huge rail investment programme that is in the process of being translated into new services for passengers. Over 5,300 new services per week have been introduced so far and that will increase by a further 6,000 by 2025.

We have also invested £2.9bn on renewals this year. This included £1.0bn of track renewals which delivered circa 1,100km of new track and replaced circa 700 switches and crossings. In addition £0.5bn was spent on signalling renewals, £0.5bn on structures (including around [50,000 square meters of underbridges], and [11,000 square meters of tunnels]), £0.2bn on electrification assets, £0.2bn on buildings (mostly on improving stations for passengers) and £0.6bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment. Whilst there were some ups and downs, like-for-like costs were broadly in line with the regulatory targets across the portfolio. In the year, Network Rail significantly exceeded delivery against its seven key renewal volumes.

Directors' Review continued

In £m 2019/20 prices unless stated otherwise

This year we have also invested £1.8bn in Enhancements that will increase the capacity of the network. Major schemes included improvements on the Midland Mainline between London and Corby, Trans-Pennine improvements, substantial completion of the Great Western Electrification programme and Thameslink, East Coast mainline improvements, and in Scotland improvements relating to Inverness to Aberdeen and Edinburgh to Glasgow lines. There has been an increase in some programme costs, notably Great Western Electrification programme and Crossrail, which has resulted in recognition of financial underperformance this year.

Other expenditure

Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline due to a combination of lower RPI and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Due to the lack of influence Network Rail can exert on Financing costs they are outside the scope of financial performance.

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 £72.0bn to £72.5bn. In line with the regulatory financial framework, the RAB is inflated each year. Additions of £2.9bn were offset by amortisation of the same value. Reductions were then made for property disposals, including £0.5bn from divesting of part of the network to Transport for Wales.

Borrowing

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. From this year, investments are funded by grant and fresh borrowing is used for refinancing maturing loans.

The regulatory settlement provides strong security for future income and the Department for Transport (DfT) loan agreement provides a robust loan refinancing platform

During the year ended 31 March 2020, Network Rail borrowed £11.6bn to refinance maturing borrowing. RPI-linked bonds increased in line with at index. In the year Network Rail transferred the Core Valley Lines to Transport for Wales for £470m and reduced borrowing (and the size of its borrowing facility with DfT) accordingly. These items largely offset each other, meaning that the regulatory net debt of £53.5bn is broadly consistent with the previous year.

New financing arrangements

Network Rail is not expected to undertake any new net borrowing during 2019-2024. Instead its activities are largely funded by grants from the Department for Transport, Transport Scotland and revenue from customers. Network Rail has a loan facility with the Department for Transport for £31.9bn which will be used to refinance maturing Government and external debt in the period 2019-2024.

Directors' Review continued

In £m 2019/20 prices unless stated otherwise

The new loan facility between Network Rail and DfT was signed on 28 March 2019. On 1 April 2019, all borrowings under the previous (July 2014) facility agreement were transferred to the new facility agreement (with their existing interest rates and maturity dates) and the 2014 agreement was terminated. The 2019 facility is sized so that when the legacy bonds fall due for repayment, new money will be provided by borrowing under the 2019 facility (the first such borrowing will not be required until June 2020).

Developments since year end

The Coronavirus pandemic has resulted in a significant impact on rail revenues. The financial impact on Network Rail has been mitigated by the steps taken by the Department for Transport and Transport Scotland to change train operator franchises to emergency management contracts. This has secured the financial position of our key customers and we continue to be paid as normal. Network Rail immediately moved all its suppliers to immediate payment terms to improve liquidity during this time of crisis and continues to work closely with our supply chain partners to support them.

Summary

Rail is an increasingly important part of our national infrastructure. While the pandemic has had a dramatic effect on rail demand, as a long-term trend more and more people have been using rail travel between towns and cities, as the most efficient and environmentally sustainable option and we have been expanding services and investing to support this.

In the 2019/20 financial year, Network Rail delivered a broadly satisfactory outcome on its key financial targets, in particular in making a good start on the £3.5bn efficiency programme for the 2019-24 control period. Much remains to be done on this and we are extending this to our broader capital delivery programme.

While the Coronavirus pandemic has materially impacted some of our plans we remain committed to them and are working hard to recover or offset the financial impacts that this has brought.

The current global crisis means that we need to be prepared to adapt and change to meet the new requirements of our customers, at a cost that they and the country can afford. There are big challenges ahead, but we are determined to deliver a better, more reliable and cost-effective railway with passengers and freight users at the heart of everything we do.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 30th September 2020.

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 2020 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

INDEPENDENT AUDITOR'S REPORT TO THE OFFICE OF RAIL AND ROAD AND NETWORK RAIL INFRASTRUCTURE LIMITED

Opinion

I have audited the regulatory financial statements ("the Regulatory Accounts") of Network Rail Infrastructure Limited ("the Company") for the year ended 31 March 2020 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 "2019-20" 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.

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

For the avoidance of doubt, my independent opinion does not extend to any figure pertaining to “prior year”, “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.

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 2020 and its financial performance for the year then ended; and
- have been properly prepared 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 European Union (“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.

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

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.

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)*.

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

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.

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 2020, 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.

Matthew Kay (Senior Statutory Auditor)

1st October 2020



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 2020, which comprise:

- Statement 1: Summary Regulatory Financial Performance (FPM element only);
- Statement 2a: 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 2.19 of the Regulatory Accounting Guidelines (RAGs) dated December 2019, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory financial statements. This complements 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.



Mark Rudman

Named Independent Reporter

Ove Arup & Partners Ltd

1st October 2020

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 2020 which were approved by the Directors on 16 July 2020 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 issues 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 issues 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.

Statement 1: Summary of regulatory financial performance, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	5,260	5,887	(627)	-	4,187
Franchised track access charges	2,577	2,640	(63)	2	2,542
Other Single Till Income	1,144	653	491	15	2,233
Total Income	8,981	9,180	(199)	17	8,962
Operating expenditure					
Network operations	657	665	8	5	680
Support costs	662	873	211	97	491
Traction electricity, industry costs and rates	798	857	59	2	757
Maintenance	1,737	1,714	(23)	(43)	1,535
Schedule 4	303	315	12	25	340
Schedule 8	57	94	37	37	324
	4,214	4,518	304	123	4,127
Capital expenditure					
Renewals	2,908	2,964	56	(34)	3,128
Enhancements	1,824	1,905	81	(86)	3,211
	4,732	4,869	137	(120)	6,339
Risk expenditure					
Risk (Centrally-held)	-	(6)	(6)	-	-
Risk (Contingent asset management funding)	-	36	36	-	-
	-	30	30	-	-
Other expenditure					
Financing costs	2,105	2,239	134	-	2,354
Corporation tax	-	9	9	-	-
	2,105	2,248	143	-	2,354
Total expenditure	11,051	11,665	614	3	12,820
Total Financial Out/(under) performance				20	

Statement 1: Summary of regulatory financial performance, Great Britain

In £m 2019-20 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.4bn lower than the regulatory baseline. This was mostly due to the proceeds from disposing of part of the network to Transport for Wales.
- (2) This statement also shows that Network Rail made a solid start to the control period, beating the regulatory baselines this year, resulting in £20m of financial outperformance. This included lower operating expenditure and improvements in the train performance regime partly offset by higher like-for-like capital projects costs. The impact of Covid-19 will make continuing this outperformance in 2020/21 extremely challenging.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational, maintenance and renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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 mostly due to increases in traction electricity income, which is offset by higher costs in this category (as shown by the variance in the Traction electricity, industry costs and rates heading). Franchised track access income is discussed in more detail in Statement 2.

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

In £m 2019-20 prices unless stated

- (5) Income – Other single till income in the year is higher than the baseline mostly due to the divestment of part of the network in Wales. This transaction is not included in the assessment of financial performance. There are also some other elements of the variance to the baseline excluded from the scope of financial performance. Variances in Traction electricity for Freight operators is 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, the current year includes some revenue recognised in connection with the major divestment of Network Rail's commercial estate that occurred last year which has been treated as neutral when assessing financial performance (as was the case in the 2018/19 Regulatory Financial Statements). The financial outperformance reported this year mainly arises from additional property income, including extra disposals, and increased freight income. Income is noticeably lower than the previous year which includes the aforementioned disposal of large parts of the commercial estate in 2018/19 which makes comparisons with the previous year meaningless. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network Operations costs this year are marginally lower than the regulatory baseline which has resulted in some minor outperformance being reported this year. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements as well as recognition of commercial claims in 2018/19. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the regulatory baseline largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Costs are higher than the previous year due to higher market rates for electricity which has been offset by increases in income from operators for electricity provision. 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 which included investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. These extra costs, along with higher materials and haulage costs resulted in financial underperformance this year. Costs are higher than previous year as expected. As part of the control period 6 determination, the regulator has challenged Network Rail to deliver more work in this area. Maintenance costs are discussed in more detail in Statement 3.2.

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

In £m 2019-20 prices unless stated

- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Schedule 8 payments under this performance regime are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is slightly lower than the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE-managed projects and fewer insurable events were partly offset by acceleration of Track, Building and Earthworks. Some minor financial underperformance has been reported this year across the portfolio mainly arising from higher contractor costs, increases in complexity of works and access issues. Overall expenditure was slightly lower than the previous year, with the largest contribution from a change in accounting policy for CP6. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancements expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with increased Great Western Electrification Programme and Crossrail programme costs. 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). Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 (DfT and TS). Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure – Other 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.

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

In £m 2019-20 prices unless stated

- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was minimal values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so fewer risks for the forthcoming year would be anticipated. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
- (16) Other expenditure – Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline expected due to a combination of lower RPI and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax costs are lower than the regulatory baseline assumed. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,200	1,207	(7)	-	996
Variable usage charge	256	254	2	2	186
Electrification asset usage charge	22	22	-	-	19
Capacity charge	2	-	2	2	459
Open access income	29	29	-	-	29
Managed stations long term charge	72	72	-	-	40
Franchised stations long term charge	175	177	(2)	(2)	133
Schedule 4 access charge supplement	272	272	-	-	203
	2,028	2,033	(5)	2	2,065
Other single till income					
Freight income					
Freight variable usage charge	54	51	3	3	54
Freight other income	1	1	-	-	9
	55	52	3	3	63
Stations income					
Managed stations qualifying expenditure	90	96	(6)	(6)	75
Franchised stations lease income	53	51	2	2	51
	143	147	(4)	(4)	126
Facility and financing charges					
Facility charges	60	61	(1)	(1)	60
	60	61	(1)	(1)	60
Depots Income	94	90	4	4	92
Other income	6	4	2	2	4
Total other single till income	358	354	4	4	345
Total regionally-managed income	2,386	2,387	(1)	6	2,410
Centrally-managed income					
Network grant	3,764	4,338	(574)	-	4,187
Internal financing grant	700	734	(34)	-	-
External financing grant	702	713	(11)	-	-
BTP grant	94	93	1	-	-
Corporation tax grant	-	9	(9)	-	-
Infrastructure cost charges	54	54	-	-	58
Schedule 4 access charge supplement	57	57	-	-	15
Traction electricity charges	438	496	(58)	-	404
Freight traction electricity charges	7	7	-	-	8
	5,816	6,501	(685)	-	4,672
Other single till income					
Property income					
Property rental	254	248	6	6	322
Property sales	525	44	481	5	1,490
	779	292	487	11	1,812
Crossrail finance charge	-	-	-	-	68
Total other single till income	779	292	487	11	1,880
Total centrally-managed income	6,595	6,793	(198)	11	6,552
Total income	8,981	9,180	(199)	17	8,962

Statement 2: Analysis of income, Great Britain

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income offset by additional income arising from Property disposals. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6. This additional revenue more than offset lower Property sales income, where 2018/19 benefitted from the divestment of most of Network Rail's commercial property portfolio.

Regionally-managed income

- (1) Total Regionally-managed income is in line with the CP6 baseline. Income is lower than the previous year due to a change in the mix of income received directly from operators (Regionally-managed) and government grants (Centrally-managed).
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. The slight shortfall is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is generally in line with the regulatory target this year. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year. The income recognised this year represents successful close out of commercial claims from CP5 relating to this element of income.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (6) 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 the ORR use for the Regulatory financial statements. Income was higher than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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, Great Britain – continued

In £m 2019-20 prices unless stated

- (7) Freight Income – income is slightly ahead of the regulatory baseline this year which has benefitted from additional income from Drax power facility and removal of waste materials from HS2 construction. Turnover is lower than the previous year, mainly due to changes in the regulatory charging mechanism for CP6, including changes to the coal slippage charges and capacity charges to benefit operators.
- (8) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year. 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. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (9) Depots income – revenue is slightly higher than the regulator's assumptions this year due to additional services offered to operators.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income partly offset by additional income arising from Property disposals. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6. This additional revenue more than offset lower Property sales income, when 2018/19 benefitted from the divestment of most of Network Rail's commercial property portfolio. As reported in last year's Regulatory Financial Statements, this disposal was undertaken to fund the ambitious enhancement programme delivered in the previous control period.
- (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 in a given 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 was lower than the regulatory baseline as savings have been made compared to the net operating costs included in the regulatory baselines, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.

Statement 2: Analysis of income, Great Britain – continued

In £m 2019-20 prices unless stated

- (4) Internal financing grant – grants received this year are slightly 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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline is to be expected. Despite the new financial framework in place for CP6, income is broadly in line with the previous year as the charges payable by these centrally-managed franchises have not materially changed.
- (9) 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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Schedule 4 access charge supplement – 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 assumed in the CP6 baselines. Income is higher than the previous year. This largely reflects changes in funding in CP6 where the regulator has created a central fund for insurable events reflecting prior claims experience. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs (across the control period).
- (11) Property rental – additional income has been generated this year, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston. Given the challenging conditions arising from Covid-19 this outperformance is unlikely to recur in 2020/21. Rental is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.

Statement 2: Analysis of income, Great Britain – continued

In £m 2019-20 prices unless stated

- (12) Property sales – the current year includes the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales which distorts the comparison to the CP6 baselines. This transaction is excluded from the assessment of financial performance. In future years, the saving from this transaction and the reduced income will be excluded from the assessment of financial performance to the extent that income and cost adjustments are agreed with DfT and Transport for Wales. When assessing financial performance, there is also a neutralisation of income recognised in the current year relating to the disposal of most of the commercial estate in the previous year. Adjusting for these events, financial performance has still been achieved as additional commercial opportunities have been identified this year. Income is lower than the previous year due to the disposal of over 5,000 commercial units in 2018/19, as reported in last year's Regulatory Financial Statements. The magnitude of this single transaction at some £1.4bn makes comparisons with the previous year meaningless.
- (13) Crossrail finance income – there is no income earned through this classification this year under centrally-managed charges. This is consistent with the regulatory baseline. The value in the previous year related to contractual arrangements in place during Control Period 5 to compensate Network Rail for the borrowing costs associated with the construction of the new infrastructure. This arrangement came to an end during 2018/19.

Statement 3: Analysis of expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	637	638	1	1	661
Maintenance	1,663	1,640	(23)	(18)	1,493
Support costs	212	221	9	9	166
Traction electricity, industry costs and rates	3	2	(1)	(1)	2
Schedule 4	317	264	(53)	(39)	249
Schedule 8	48	84	36	36	323
	2,880	2,849	(31)	(12)	2,894
Capital expenditure					
Renewals	2,468	2,408	(60)	(60)	2,511
Enhancements	1,633	1,855	222	(126)	3,131
	4,101	4,263	162	(186)	5,642
Total regionally-managed expenditure	6,981	7,112	131	(198)	8,536
Centrally-managed expenditure					
Operating expenditure					
Network operations	20	27	7	4	19
Maintenance	74	74	-	(25)	42
Support costs	450	652	202	88	325
Traction electricity, industry costs and rates	795	855	60	3	755
Schedule 4	(14)	51	65	64	91
Schedule 8	9	10	1	1	1
	1,334	1,669	335	135	1,233
Capital expenditure					
Renewals	440	556	116	26	617
Enhancements	191	50	(141)	40	80
	631	606	(25)	66	697
Risk Expenditure	-	30	30	-	-
Other					
Financing costs	2,105	2,239	134	-	2,354
Taxation	-	9	9	-	-
	2,105	2,248	143	-	2,354
Total centrally-managed expenditure	4,070	4,553	483	201	4,284
Total expenditure	11,051	11,665	614	3	12,820

Statement 3: Analysis of expenditure, Great Britain

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of Enhancement activity to later in the control period. There has also been operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by funders (Department for Transport and Transport Scotland).

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year, which has been partly offset by acceleration of Renewals, higher operating expenditure and extra performance regime costs. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by funders (Department for Transport and Transport Scotland). 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 operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Financing costs, following the removal of the Financial Indemnity Mechanism fee for CP6. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	276	282	6	6	275
Operations Management	69	71	2	2	57
Controllers	64	66	2	2	63
Electrical control room operators	16	19	3	3	16
	425	438	13	13	411
Non signaller expenditure					
Mobile operations managers	43	41	(2)	(2)	42
Managed stations	77	78	1	1	67
Performance	11	14	3	3	14
Other	81	67	(14)	(14)	127
Total regionally-managed operations expenditure	637	638	1	1	661
Centrally-managed operations expenditure					
Network Services	20	27	7	4	19
Total centrally-managed operations expenditure	20	27	7	4	19
Total operations expenditure	657	665	8	5	680

Statement 3.1: Analysis of operations expenditure, Great Britain

In £m 2019-20 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.

Comments:

- (1) Overall, operations costs are slightly lower than the regulatory baseline mainly due to reduced Centrally-managed costs. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements as well as commercial claims recognised in 2018/19.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were broadly in line with the regulatory expectation this year as costs were controlled in line with plans and some additional efficiencies were achieved. There were some savings in signaller costs due to reduced recruitment and constraining pay awards. The reduced recruitment was partly offset by higher overtime costs and increased staff resource is planned to address these shortfalls. Overall savings were partly mitigated by additional expenditure on performance improvement schemes to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements as well as commercial claims recognised in 2018/19.

Centrally-managed operations expenditure

- (1) Network Services – costs are lower than the regulatory baseline this year. This includes lower expenditure on the Performance Innovation Fund, a ring-fenced allowance in the regulator's determination to invest new approaches to improve collaboration between Network and passenger operators to benefit customers. However, progress has been slower due to delays in setting up necessary governance and approvals process along with a dearth of suitable schemes identified so far. This underspend has been treated as neutral when assessing financial performance. There have also been delays to the charter train toilet emissions project which have been treated as neutral when assessing financial performance. Other savings include benefits from through contract negotiation, reductions in pay-outs to staff under performance-related pay schemes and tight headcount control. Costs are consistent with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	710	709	(1)	(1)	607
Signalling & Telecoms	291	274	(17)	(17)	261
Civils	191	203	12	13	189
Buildings	97	94	(3)	1	71
Electrical power and fixed plant	123	126	3	3	114
Other network operations	251	234	(17)	(17)	251
	1,663	1,640	(23)	(18)	1,493
Centrally-managed maintenance expenditure					
Telecoms	19	25	6	6	20
Route Services - Asset Information	32	28	(4)	(4)	28
STE Maintenance	8	9	1	1	8
Property	9	6	(3)	(3)	6
Route Services - Other	19	6	(13)	(32)	2
Other	(13)	-	13	7	(22)
	74	74	-	(25)	42
Total maintenance expenditure	1,737	1,714	(23)	(43)	1,535

Statement 3.2: Analysis of maintenance expenditure, Great Britain

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year. This includes investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. Costs are higher than the previous year. This was largely foreseen in the regulator's CP6 determination which had increased maintenance funding allowances to meet the outputs and asset management challenges of the new control period.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year. This included investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. Costs are higher than the previous year. This was largely foreseen in the regulator's CP6 determination which had increased maintenance funding allowances to meet the outputs and asset management challenges of the new control period.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are broadly in line with regulatory baseline. Costs have increased compared with the previous year reflecting the additional outputs and asset management required for CP6. This is demonstrated by the increase in the regulatory baseline compared to the previous year.
- (3) Signalling & telecoms – costs are higher than the regulatory assumption this year, as with all Regions spending more than expected. This was primarily due to additional resilience works undertaken to support train performance. Signalling failures can be the cause of long train delays and frustration for passengers so extra preventive works, especially at key hot spots, can help mitigate this risk. In addition, adverse weather, including the extreme heat in the summer and the flooding in February caused unforeseen damage to the network which required remediation. Costs are higher than the previous year, reflecting the increased allowances in the regulatory baselines due to the asset management requirements of CP6 along with the aforementioned additional costs in the year.

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

In £m 2019-20 prices unless stated

- (4) Civils – costs were lower than the regulatory baseline mainly as a result of savings in civils inspection costs whilst reactive maintenance expenses were broadly in line with expectation across the network. Inspection costs have been saved through better contract negotiations and planning of works, allowing more productive working patterns. 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. Costs are broadly in line with the previous year.
- (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 in this category is higher than the regulator assumed. 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 are higher than the previous year, which is also attributable to the inherent variability of Buildings reactive maintenance.
- (6) Electrical power and fixed plant – costs for the current year are in line with the regulatory expectation but are higher than the previous year. The increase is across most Regions and was expected in the regulatory baselines for 2019/20. This reflects the asset management and outputs required for CP6.
- (7) Other network operations – costs are higher than the regulatory baseline this year. There are numerous contributory factors including additional vegetation management schemes to help minimise train service delays, various one-off expenses and other asset resilience initiatives to protect train performance. Costs are similar to the previous year..

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

In £m 2019-20 prices unless stated

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are consistent with the regulatory baseline as higher logistic costs partially off-set by some non-recurring benefits in the year. As expected by the regulatory baselines, costs were higher than the previous year, reflecting the aforementioned higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.
- (2) Telecoms – costs are lower than the regulatory baseline, mainly arising from successful resolution of commercial claims, where costs had been recognised in the previous year. Costs are broadly consistent with the previous year, reflecting the extra scope of the department in CP6, as shown by the increase in the regulatory baseline, offset by the aforementioned close out of commercial claims.
- (3) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. As discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year, assuming constant supplier prices and an assumed level of activity to allocate the fixed costs of the Route Services supply chain organisation against. The excess costs this year reflects a lower than expected level of activity in the current year compared to the expectations that Route Services included in their CP6 plan along with higher supplier prices than expected. A write down in stock values was recognised this year following a reorganisation of logistic operations and a requirement to stockpile certain items in light of supplier closure. Alternative solutions, such as constructing an in-house railway sleeper factory are being sought to mitigate any future risk on materials availability. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance. Costs are higher than the previous year mostly due to the aforementioned issues in the current year. In addition, as noted in the previous year's Regulatory Financial Statements, 2018/19 benefitted from extra work undertaken (and so a higher proportion of central costs re-charged to Regions) and additional income from scrap rail disposal.
- (4) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline assumed this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	21	20	(1)	(1)	16
Finance	14	15	1	1	10
Accommodation	75	75	-	-	69
Utilities	74	72	(2)	(2)	71
Other	28	39	11	11	-
	212	221	9	9	166
Centrally-managed support costs					
Finance & Legal	34	40	6	6	35
Communications	11	12	1	1	10
Human Resources	20	20	-	-	19
System Operator	39	54	15	15	31
Property	(10)	(1)	9	9	10
Telecoms	53	62	9	4	49
Network Services	20	27	7	7	9
Safety Technical and Engineering	34	38	4	4	44
RS - IT and Business Services	109	116	7	7	96
RS - Asset Information	14	16	2	2	10
RS - Directorate	18	20	2	2	20
Other corporate functions	27	60	33	(3)	21
Insurance	26	40	14	14	19
Opex/capex Adjustment	77	70	(7)	-	-
Group costs	(22)	78	100	20	(48)
	450	652	202	88	325
Total support costs	662	873	211	97	491

Statement 3.3: Analysis of support costs, Great Britain

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs are higher than the previous year mainly reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are lower than the regulatory baselines, mainly due to reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs were higher than the previous year, reflecting the determination assumptions as the business reshapes to meet the challenges of the Putting Passengers First programme. This was augmented by additional Property costs in Scotland.
- (2) Human resources – costs in the current year are broadly consistent with the baseline expectation. Costs are higher than the previous year reflecting Network Rail's continued devolution 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, as expected by the higher regulatory baseline.
- (3) Finance – costs in the current year are broadly consistent with the baseline expectation. Costs are higher than the previous year reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative, as expected by the higher regulatory baseline.
- (4) Accommodation – costs are broadly in line with expectation but higher than the previous year mainly due to increased costs in Scotland, as foreseen in the CP6 regulatory baselines.
- (5) Other – costs were favourable to the regulatory baseline this year, mainly due to savings in the North West & Central and Wales & Western Regions, reflecting additional efficiencies. Costs are higher than the previous year. This was anticipated by the higher allowances provided in the regulatory baseline this year, reflecting the outputs and challenges for CP6.

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

In £m 2019-20 prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year mainly reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) Finance & legal – costs are favourable compared to the regulatory baseline mostly due to reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs are broadly consistent with the previous year.
- (3) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are higher than the previous year due to the increased prominence and capability of this department. In response to the Glaister review published in 2018 and DfT direction, the size and scope of this department has been enhanced to deliver additional outputs for the rail industry as a whole.
- (4) Property – the favourable position this year compared to the regulatory position is largely due to the favourable settlement of a long-running commercial dispute. The saving compared to the previous year arises from a combination of the aforementioned settlement of a commercial dispute and a reduction in the scope of the department. This is mostly due to the divestment of most of the commercial estate towards the end of 2018/19 meaning there is nearly a full year of costs in the previous year, but major reductions this year.
- (5) Telecoms – costs are lower than the regulatory baseline this year. This includes slower rollout of the cab radio programme along with additional efficiencies mostly arising from headcount control, contract negotiation and reductions in performance-related pay. Rollout of the cab radio programme is to improve safety and performance by ameliorating signal interference. When assessing financial performance, the saving been treated as neutral as the core outputs have not been delivered. Costs are slightly higher than the previous year, reflecting the increased scope and deliverables of Telecoms in this control period partly offset by the cost reductions noted above.
- (6) Network Services – costs are lower than the regulatory assumption this year. These savings have been achieved through a combination of reduced use of consultants with internal staff stretched to deliver more, better utilisation of consultant frameworks to enhance productivity reductions in pay-outs under performance-related pay schemes, headcount control and favourable settlement of claims. Costs are higher than the previous year, the majority of which was expected through the regulatory baseline increase to reflect the scope of this department in CP6.
- (7) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year with the main contribution coming from reductions in pay outs under performance-related pay schemes. Costs are lower than the previous year. In CP5 there were some specific projects being delivered by this department, such as Interdisciplinary Standards Programme, Integrated Management System and Whole Life Cost modelling which are now all funded through the Renewals allowances (refer to Statement 3.6).

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

In £m 2019-20 prices unless stated

- (8) Route Services – IT and Business Services – costs were lower this year than the regulatory baseline. This was mainly due to savings in the Business Services part of the organisation. This included savings in training costs by increased in-house delivery and utilising courses eligible under the government Apprentice Levy funding source and acceleration of some efficiency initiatives, including successful re-negotiation of contracts. Costs are higher than the previous year. This includes a change in accounting policy under the ORR's CP6 Regulatory Reporting Guidelines so that a greater proportion of IT expenditure qualifies as opex rather than capex.
- (9) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (10) 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. Costs are broadly in line with the previous year. As noted in last year's Regulatory financial statements, 2018/19 also benefitted from actuarial updates to Network Rail's liabilities to third parties.
- (11) 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.

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

In £m 2019-20 prices unless stated

(12) Group – there are noticeable savings this year compared to the regulatory expectation. Over three-quarters of the saving is due to not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. This has been partly offset by non-utilisation of risk credits (offset in Regionally-managed costs). Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Variances in risk credit utilisation have also been treated in neutral as the credits have been rephased into future years of control period 6. The level of credits reported in Group is lower than the previous year (in other words, costs are higher). This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	3	2	(1)	(1)	2
	3	2	(1)	(1)	2
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	441	502	61	3	411
Business rates	228	228	-	-	226
British transport police costs	91	91	-	-	87
ORR licence fee and railway safety levy	20	19	(1)	-	16
RDG membership costs	3	3	-	-	4
RSSB costs	11	11	-	-	10
Reporters fees	1	-	(1)	-	1
Other industry costs	-	1	1	-	-
	795	855	60	3	755
Total traction electricity, industry costs and rates	798	857	59	2	757

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

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators (refer to 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are in line with the previous year.

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

In £m 2019-20 prices unless stated

- (3) British Transport Police costs - expenses in the year are broadly in line with the expectation for this year but are slightly higher than the previous year reflecting increased costs of the British Transport Police Authority's operating costs.
- (4) ORR licence fee and railway safety – costs this year are slightly higher than the regulatory baseline mainly due to one-off costs incurred by ORR as a result of office relocation which is recharged to industry entities such as Network Rail. This also largely explains the increase in costs compared to the previous year. 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). 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.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	317	264	(53)	(39)	249
Access charge supplement Income	(272)	(272)	-	-	(203)
Net (income)/cost	45	(8)	(53)	(39)	46
Schedule 8					
Performance element income	(114)	-	114	114	(14)
Performance element costs	162	84	(78)	(78)	337
Net (income)/cost	48	84	36	36	323
Centrally managed					
Schedule 4					
Performance element costs	(14)	51	65	64	91
Access charge supplement Income	(57)	(57)	-	-	(15)
Net (income)/cost	(71)	(6)	65	64	76
Schedule 8					
Performance element costs	9	10	1	1	1
Net (income)/cost	9	10	1	1	1
Total					
Schedule 4					
Performance element costs	303	315	12	25	340
Access charge supplement Income	(329)	(329)	-	-	(218)
Net (income)/cost	(26)	(14)	12	25	122
Schedule 8					
Performance element income	(114)	-	114	114	(14)
Performance element costs	171	94	(77)	(77)	338
Net (income)/cost	57	94	37	37	324

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

In £m 2019-20 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) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to a combination of extra capital delivery and higher like-for-like costs. The extra capital delivery includes additional units of plain line track and switches & crossings completed this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The higher like-for-like costs include the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered, resulting in financial outperformance overall. Performance element costs are higher than the previous year owing to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Schedule 8 costs are lower than the baseline due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Network Rail has invested extra opex this year to improve train performance which have helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward per delay minute for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 prices unless stated

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 - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspent by Regions as described above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.
- (3) Schedule 8 – the impact of significant weather events has been in line with expectation this year. Costs are higher than the previous year due to more disruptive weather events impacting the schedule 8 part of the performance regime this year, including the impact of storms in February.

Statement 3.6: Analysis of renewals expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	241	226	(15)	-	-
PL Replace Partial	150	109	(41)	-	-
PL High Output	139	145	6	-	116
PL Refurbishment	52	67	15	-	68
PL Track Slab Track	5	7	2	-	-
Switches & Crossing - Replace	197	179	(18)	-	189
Switches & Crossing - Other	41	42	1	-	55
Off Track	65	59	(6)	-	-
Track Other	45	23	(22)	-	442
	935	857	(78)	(13)	870
Signalling					
Signalling Full	212	221	9	-	-
Signalling Partial	66	80	14	-	-
Signalling Refurb	47	91	44	-	-
Level crossings	41	55	14	-	71
Minor works	142	135	(7)	-	137
Other	1	4	3	-	458
	509	586	77	(17)	666
Civils					
Underbridges	139	163	24	-	157
Overbridges	31	35	4	-	47
Major structures	18	17	(1)	-	13
Tunnels	23	22	(1)	-	21
Minor works	62	54	(8)	-	-
Other	35	39	4	-	59
	308	330	22	4	297
Earthworks					
Earthworks - Embankments	97	65	(32)	-	37
Earthworks - Soil Cuttings	73	61	(12)	-	44
Earthworks - Rock Cuttings	31	24	(7)	-	20
Earthworks - Other	5	3	(2)	-	7
	206	153	(53)	(5)	108
Buildings					
Managed stations	40	33	(7)	-	45
Franchised stations	131	133	2	-	154
Light maint depots	13	12	(1)	-	10
Depot plant	3	5	2	-	2
Lineside buildings	21	9	(12)	-	14
MDU buildings	29	22	(7)	-	27
Other	1	-	(1)	-	-
	238	214	(24)	(13)	252
Electrical power and fixed plant					
AC distribution	12	19	7	-	19
Overhead Line	76	63	(13)	-	76
DC distribution	20	21	1	-	19
Conductor rail	14	5	(9)	-	6
Signalling Power Supplies	41	44	3	-	-
Other	11	15	4	-	51
Fixed plant	28	20	(8)	-	77
	202	187	(15)	(12)	248
Drainage					
Drainage (Track)	48	62	14	-	54
Drainage (Earthworks)	17	13	(4)	-	16
Drainage (Resilience)	4	4	-	-	-
	69	79	10	(4)	70
Property					
Property	1	2	1	-	-
	1	2	1	-	-
Total regionally-managed renewals expenditure	2,468	2,408	(60)	(60)	2,511

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	18	-	(18)	-	-
Telecoms					
Operational communications	9	17	8	-	12
Network	5	12	7	-	6
SISS	9	8	(1)	-	21
Projects and other	3	3	-	-	4
Non-route capital expenditure	89	80	(9)	-	31
	115	120	5	-	74
Wheeled plant and machinery					
High output	16	31	15	-	19
Infrastructure monitoring	3	8	5	-	3
Intervention	8	13	5	-	10
Materials delivery	12	31	19	-	5
On track plant	2	1	(1)	-	62
Seasonal	2	5	3	-	1
Other	7	(7)	(14)	-	10
	50	82	32	-	110
Route Services					
Business Improvement	97	105	8	-	-
IT Renewals	40	15	(25)	-	113
Asset Information	1	1	-	-	-
Other	3	2	(1)	-	3
	141	123	(18)	-	116
STE renewals					
Intelligent infrastructure	29	32	3	-	38
Faster Isolations	39	52	13	-	85
Centrally Managed Signalling Costs	4	9	5	-	19
Research and development	30	26	(4)	-	11
Integrated Management System (Incl. BCR)	-	13	13	-	-
Other National SCADA Programmes	26	31	5	-	20
Small plant	3	8	5	-	26
Other	19	23	4	-	31
	150	194	44	-	230
Property					
Property	21	31	10	-	17
	21	31	10	-	17
Other renewals					
ETCS	15	21	6	-	46
Digital Railway	1	1	-	-	-
Civils - Insurance Fund	-	27	27	12	-
Buildings - Insurance Fund	-	16	16	-	-
Opex/capex Adjustment	(77)	(70)	7	-	-
System Operator	8	8	-	-	-
Other renewals	(2)	3	5	14	24
	(55)	6	61	26	70
Total centrally-managed renewals expenditure	440	556	116	26	617
Total renewals expenditure	2,908	2,964	56	(34)	3,128

Statement 3.6: Analysis of renewals expenditure, Great Britain

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is slightly lower than the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were partly offset by acceleration of Track, Building and Earthworks. Overall expenditure was slightly lower than last year, with the largest contribution from a change in accounting policy for CP6, as shown through the Opex/ capex adjustment heading.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were higher than the regulatory assumption. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably Centrally-managed renewals. Some relatively minor net financial underperformance has been reported across the £2.5bn Regionally-managed renewals estate. Expenditure was slightly lower than the previous year reductions in Signalling, reflecting relative lifecycle stages of multi-year programmes, partly offset by extra Track and Earthworks activity.
- (2) Track – investment this year is higher than the regulatory baseline this year which is mainly due to increased activity. Significantly more volume was delivered in Plain Line Conventional Partial, Plain Line refurbishment, Switches & Crossings – Replace and Switches & Crossings – Other. This was mostly due to the acceleration of work from future years to utilise resources and drive further efficiencies this year. Track other was higher than the regulatory baseline which included track portfolio stretch efficiency targets that were delivered by the reported savings in the other categories. There was some financial underperformance this year. This included the impact of lost volumes, particularly in High output, including loss of volumes at the end of the year due to Covid-19. Contractor costs, especially in alliance arrangements, also proved greater than expected. Investment was higher than the previous year due to increased activity with additional volume delivery in the current year.

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

In £m 2019-20 prices unless stated

- (3) Signalling – expenditure is lower than the regulatory baseline mainly due to slower progress on large projects, particularly works around Birmingham New Street, Bristol and Brighton mainline upgrades. Delays have been caused by higher tender prices necessitating a change in design. In addition, the complexity of certain schemes, such as ECTS in Eastern have hindered progress, whilst lower investment in Scotland have been caused by delays in finalising a complete strategic overview for the network with funders. Delivery on Level crossing schemes was also lower than expected due to access constraints and delays finalising designs and asset management solutions. Some Minor works were accelerated where possible to absorb some of the underspends elsewhere. The delay in delivery contributed to the financial underperformance recognised this year as schemes were prolonged. Increased complexity and integration into the existing network and with existing assets also raised project costs, as did commercial claims settlements and higher tender prices compared to the assumptions in the regulatory baseline. Investment was lower than the previous year reflecting the relative lifecycle stages of multi-year programmes. This year included a higher proportion of design works with projects at earlier stages, compared to the prior year which included substantial delivery and completion of large projects. This included Weaver to Wavertree, Huddersfield to Bradford, Derby remodelling, Polmadie & Rutherglen, Bristol area resignalling and Angerstein all of which had substantial reductions in expenditure this year which was partly offset by progress on some newer projects such as Hither Green and Durham coast resignalling.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges due to some schemes being reprofiled within the control period. Increased complexity, asbestos discovery and obtaining access helped drive this. Minor works were accelerated from future years to absorb some of the underspend. Savings also arose from cheaper like-for-like project costs which resulted in financial outperformance being recognised this year. This was generated from improved workbank packaging to minimise project management and administration costs whilst the certainty provided meant subcontractors could offer lower tenders. Longer possessions were also obtained for some tasks, with the extra time working in assets rather than mobilisation increasing productivity. In addition, favourable commercial settlements contributed to the financial outperformance. Expenditure was slightly higher than the previous year which was expected in the regulatory baseline reflecting the additional challenges and output required for the new control period.
- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. This included acceleration of activity to utilise available resources this year and also remediation costs required in the aftermath of damage caused by the weather in February, which was the wettest on record in the UK. The impact was particularly acute in the Southern region with a number of corrective interventions required. Some financial underperformance was recognised this year, including the impact of the aforementioned emergency repairs. Higher contractor costs on certain jobs and access issues, including higher compensation costs and inability to access some project sites in February, also contributed to the underperformance recognised this year. Expenditure was higher than the previous year. Some of this increase was foreseen by the higher regulatory baseline this year to reflect the asset management requirements of the new control period. The remainder related to the aforementioned increases compared to the regulatory expectation this year.

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

In £m 2019-20 prices unless stated

- (6) Buildings – investment was higher than the regulatory baseline this year. This included the acceleration of activity into the current year to optimise available resources this year. In addition, like-for-like project costs were higher across the portfolio than the baseline. This resulted in the recognition of some financial underperformance this year. The higher costs were caused by increased project complexity, including discovery of asbestos, which led to higher design and delivery costs. Expenditure was lower than the previous year, which was anticipated by the lower regulatory allowance this year to reflect the asset management requirements for CP6.
- (7) Electrical power and fixed plant – investment was higher than the regulatory baseline this year. This is mainly due to higher net like-for-like costs across the portfolio. This included restrictions on access as other programmes on the network were prioritised and wildlife conservation practices observed which both led to project prolongation. Supply prices were higher than expected, including a contractor exiting the market leading to re-tendering of jobs at a higher rate. Finally, more complex layouts and compliance with other utility providers standards increased some project costs. These higher like-for-like costs resulted in Financial underperformance this year. Expenditure was lower than the previous year. As noted in the 2018/19 Regulatory Financial Statements there was substantial work undertaken in that year on works to facilitate introduction of Crossrail services and works on the far-reaching Great Eastern overhead line programme.
- (8) Drainage – expenditure is lower than the regulatory baseline. This was due to delays in fully scoping workbanks, prioritisation given to other trackside works in some Regions as well as higher land access costs causing alternative approaches which all contributed to works being deferred into future years. Minor financial underperformance has been reported this year largely due to higher contractor rates compared to the regulatory baseline and late changes to designs. Expenditure is broadly in line with the previous year.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year. The largest variance arises from a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line).
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).

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

In £m 2019-20 prices unless stated

- (3) Telecoms – investment is broadly in line with the regulatory baseline with the portfolio being managed in line with the funding available this year with Operational communications deferrals compensated for by Non-route capital expenditure acceleration. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
- a. High output – investment was lower than the regulatory baseline due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet. Expenditure was also lower as fewer new schemes were identified and developed this year. Investment was consistent with the previous year.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus into future years of the control period.
 - c. Intervention – costs were lower than the regulatory baseline mainly due to delays in replacing track plain line stone blower machines. This work has been reprofiled into future years.
 - d. Materials delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is higher than the previous year due to the work that has taken place on the aforementioned concrete sleeper factory.
 - e. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, notably high output electrification equipment and a mobile elevated working platform.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.

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

In £m 2019-20 prices unless stated

- (5) Route Services – Expenditure is higher than the regulatory baselines this year as work has been accelerated from future years. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
 - a. Intelligent infrastructure – costs are broadly in line with the regulatory expectation this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance, as agreed with the regulator. Investment is lower than the previous year which largely reflects the lower regulatory baseline this year.
 - b. Faster isolations – costs are lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are lower than the previous year which included some significant projects delivered in the Southern region.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline, reflecting the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised. Costs are lower than the previous year mirroring the overall signalling renewals costs and the reduction in major schemes commissioned this year compared to 2018/19.
 - d. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - e. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.

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

In £m 2019-20 prices unless stated

- f. Other national SCADA programmes – investment is lower than the regulatory baseline due to delays with the project. This activity has now been reprofiled into future years. As the underspend is due to timing rather than a genuine saving, no financial outperformance has been recognised this year.
 - g. Small Plant – investment is lower than the regulatory baseline this year. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Expenditure is lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
 - h. Other – the lower investment this year is largely due to delays in the ORBIS programme, following supplier disputes. Investment is lower than the previous year for the same reason.
- (7) Property – expenditure is lower than the regulatory baseline this year mainly due to rephasing of activity within the control period. As the outputs of the fund have not been deferred, no financial performance is reported on the saving. Investment is higher than the previous year. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. ECTS – expenditure is lower than the regulatory baseline due to delays in the project and favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline. As expected in the regulatory baselines, expenditure is lower than the previous year.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

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

In £m 2019-20 prices unless stated

- c. 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 are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
- d. 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). This is a new item for CP6, so there is no prior year value to compare to.
- e. System Operator – expenditure this year is similar to the regulatory baseline. This is a new funding category for the current control period and so there is no prior year activity.
- f. Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, Great Britain

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
Thameslink	75	58	(4)
Great Western Electrification	177	210	(54)
Cardiff Central Operational Resilience	16	17	-
Brighton mainline Upgrade Programme	12	11	-
CARS - Croydon Area Remod Scheme	10	6	-
West Anglia Main Line Capacity	5	9	-
Midland Main Line Programme	281	286	(1)
Wessex Enhancements (Waterloo and South London HV Grid)	20	19	(2)
Trans Pennine Route Upgrade	182	204	-
Gatwick Station	11	6	-
East West Rail Phase 2	92	113	-
Oxford Corridor Capacity Phase 2	5	16	-
GWEP Distribution Network Operators clearance work	5	6	-
East Coast Main Line Enhancements Programme	185	158	5
North West Train Lengthening	17	32	-
Reading Independent Feeder (Power Supply)	10	24	-
Bristol East Junction	7	12	-
Kings Lynn to Cambridge 8 Car	18	18	-
Exeter St David's to Newton Abbot Resilience Improvement (Dawlish)	18	43	-
London Euston (in support of High Speed Rail Group scheme)	6	10	-
SFN-Freight Forecasts project	5	7	-
Access for All	19	46	-
Thameslink Resilience Programme	11	23	2
Western Rail Access to Heathrow	8	10	-
Crossrail	77	82	(76)
Integrated Crewe Hub - HS2	6	8	-
Reading, Ascot to Waterloo Train Lengthening	12	17	-
NWEP Phase 7 Lostock - Wigan	-	5	-
Dr Days to Filton Abbey Wood Capacity	9	10	-
Portfolio Contingency (including T-12)	10	50	40
Depots & Stabling Fund	22	17	-
Northern Hub	41	39	(1)
Thames Valley EMU Capability	9	5	-
West Coast PSU	2	16	-
IEP Western Capability	9	13	-
West of England Plat Length	-	5	-
Feltham	-	5	-
High Speed 2	7	-	-
Access to Assets	4	12	-
Other	49	69	(4)
Total	1,452	1,697	(95)
Transport Scotland funded			
Edinburgh to Glasgow Improvement Programme	37	47	5
Aberdeen to Inverness	69	71	4
Kintore Station	12	13	-
Rolling Programme of Electrification	10	10	(5)
East Kilbride Barrhead	7	7	-
New Down Platform Dunbar	7	9	-
Highland ML JTI Ph 2	6	7	2
Dunblane to Perth	1	10	-
Other	42	34	3
Total	191	208	9
Other capital expenditure	181	-	-
Other third party funded schemes			
HS2	189	-	-
Other third Party	234	-	-
Total	423	-	-
Total enhancements	2,247	1,905	(86)
Total enhancements less Other third party funded schemes	1,824	1,905	(86)

Statement 3.7: Analysis of enhancement expenditure, Great Britain

In £m 2019-20 prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for 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.
- (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. 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 Network Rail funders (DfT and Transport Scotland) was £1,824m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,247m) less the PAYGO schemes funded by other third parties (£423m).
- (2) Enhancements expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with increased Great Western Electrification Programme and Crossrail programme costs. 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). Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 (DfT and TS).

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

In £m 2019-20 prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Thameslink – expenditure this year is higher than the baseline due to acceleration of activity and higher programme costs. The accelerated activity includes the purchase of Chart Leacon Depot originally scheduled for 2020/21. The higher programme costs are primarily due to the prolongation of Rail Systems Residual activity which have resulted in financial underperformance being recognised this year.
 - b. Great Western Electrification – progress this year has been slower than planned. The delays in the programme have resulted in increases in the total timescale for the project which has caused increases in the total anticipated final cost to more than the baseline, resulting in recognition of financial underperformance this year. Increases in the total anticipated final cost have also arisen from substantiation of disputed costs well as various cost pressures across the programme.
 - c. Wessex enhancements (Waterloo and South London HV Grid) – although expenditure this year is broadly in line with the baseline, financial underperformance has been recognised this year. This is due to higher contractor costs, unforeseen complexity of works at Waterloo station and project prolongation.
 - d. Trans Pennine Route Upgrade – expenditure is lower than the baseline this year. This is mostly due to delays in agreeing the scope of the individual projects within the portfolio which led to a delay in remitting new stages of works. Those works that had been remitted at the start of the year delivered broadly in line with the plan. There were also some delays at the end of the year relating to Covid-19 and deferral of land purchases.
 - e. East West Rail Phase 2 – slower progress has been made on this project this year. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. The programme has had increased governance this year which has slowed decision-making but provided enhanced challenge over the use of tax-payers funding. Activity has been reprofiled to later in the control period.
 - f. Oxford Corridor Capacity Phase 2 – slower progress has been made on this project this year and activity has been rephased into future years. Delays to design and specification finalisation as well as combining planned activity with other works in the area to minimise passenger disruption have driven these timing differences.
 - g. East Coast Main Line Enhancements Programme – due to the large and complex nature of this programme a reprofiling overlay was included against the entire programme, rather than against each project. However, delivery of projects has progressed well, meaning that most of this reprofiling overlay was not required. This progress reduces the risk of later phases missing milestone targets. There has also been a reduction in the overall anticipated final costs to deliver the programme which has resulted in financial outperformance being reported this year due to the aforementioned strong progress on the scheme.

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

In £m 2019-20 prices unless stated

- h. North West Train Lengthening – slower progress has been made on this project this year. This was mainly due to delays in agreeing scope for unremitted elements of the scope with DfT. Those projects remitted by the start of the year delivered in line with expectation.
- i. Reading Independent Feeder (Power Supply) – slower progress has been made on this project this year as work has been reprofiled into future years of the control period. There has been savings on the Western SCADA programme this year, but these funds are required to mitigate risks on other parts of the programme expected to materialise in future years. Therefore, the total project costs remain the same and no financial outperformance has been recognised at this stage.
- j. Exeter St David's to Newton Abbot Resilience Improvement (Dawlish) – slower progress has been made on this project this year. This has been partly due to delays in letting contracts for parts of the programme in order to obtain acceptable contractor tenders to remain within the funding made available by DfT. In addition, delays in panel installation at the year end pushed some investment into 2020/21.
- k. Access for All – slower progress has been made on this programme this year. The funding on this programme allowed for numerous improvements to be made across the network. However, fewer new schemes with appropriate benefits were identified and approved this year. The largest area of underspend is in the Southern Region. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- l. Thameslink Resilience Programme – slower progress has been made on this project this year. This is mainly due to reprofiling activity to coincide with other large projects on that part of the network to minimise disruption to passengers. There has also been a saving in possession management costs following effective workbank planning and successful negotiation with operators. This has resulted in a reduction in the total programme costs, an element of which has been recognised as financial outperformance this year.
- m. Crossrail – although expenditure was broadly in line with the plan, financial underperformance has been recognised this year as a result of increases in the total anticipated final cost to more than the baseline. This has been caused by increased scope with some contractors and value engineering challenges on the Western Station projects not being fully realised.
- n. Portfolio Contingency (including T-12) – expenditure this year was lower than the baseline. 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 year against other projects within the portfolio. Actual costs reported in this category this year are for the element of possession costs caused by delays to timetable publications, as noted in the previous year's Regulatory Financial Statements.

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

In £m 2019-20 prices unless stated

- o. West Coast PSU – minimal activity has been reported this year against this project. This has arisen from a review of required scope of the remainder of the project to align to other strategic considerations on that part of the network. Changes in potential design options have compounded this. Expenditure has been reprofiled into future years.
 - p. Other – this category covers a number of smaller projects, including CP5 close out projects. The underspend in this category this year reflects the reductions across the rest of the portfolio, as fewer new schemes have been approved by DfT for progression. The change in control period has also slowed progress as projects are having to move quickly from a standing start due to a lack of investment in early design works towards the end of CP5 as no funding available.
- (4) Transport Scotland funded schemes - Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial outperformance. The savings this year include Highland Main Line programme due to tight contingency and risk management as well as EGIP and Aberdeen to Inverness. Some notable variances at programme level this year include:
- a. Edinburgh to Glasgow Improvement Programme – expenditure is lower than the baseline this year which is a combination of programme deferral and reductions in overall programme costs. The lower costs have resulted in the recognition of financial outperformance and mostly arises from control of risks in the programme as it nears completion. Many of the anticipated issues have been successfully managed by the Region and its delivery partners.
 - b. Aberdeen to Inverness – expenditure was broadly in line with the regulatory expectation this year. Financial outperformance has been recognised as a result of reductions in the anticipated final cost of the programme due to tight cost control and contingency management across the programme allowing the outputs to be delivered for less investment.
 - c. Rolling Programme of Electrification – costs this year are in line with the baseline but overall programme costs are now expected to be higher than the baseline which has resulted in the recognition of financial underperformance this year. The higher costs are mostly due to final contractor settlements on completed parts of the programme, which are at risk of being finalised for more than expected.
 - d. Highland Main Line – during the year, tight contingency and risk management has allowed greater confidence in the anticipated programme costs. This has resulted in financial outperformance being recognised this year.
 - e. Other – this heading captures investment activity on numerous smaller programmes. The net financial outperformance recognised this year includes savings on the platform at Dunbar.
- (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 Brent Cross new station development, Merseyrail power supply and work on the Northern Powerhouse programme.

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

In £m 2019-20 prices unless stated

- (6) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements and investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

Statement 3.8: Analysis of renewals unit costs, Great Britain

£m, 2019-20 prices unless stated

		FY20		Unit Costs	FY19		Unit Costs
		AFC	AFV		AFC	AFV	
		Unit					
Track	PL Replace Full	km	266	154	1,727	n/a	n/a
	PL Replace Partial	km	220	627	351	n/a	n/a
	PL High Output	km	139	143	972	n/a	n/a
	PL Refurbishment	km	87	661	132	n/a	n/a
	PL Track Slab Track	km	-	-	-	n/a	n/a
	Switches & Crossing - Replace	point ends	126	263	479	n/a	n/a
	Switches & Crossing - Other	point ends	80	784	102	n/a	n/a
	Off Track	km/No.	121	3,060	40	n/a	n/a
Total			1,039	-	-	-	-
Signalling	Signalling Full	SEU	239	233	1,026	n/a	n/a
	Signalling Partial	SEU	272	267	1,019	n/a	n/a
	Signalling Refurb	SEU	11	38	289	n/a	n/a
	Level crossings	No.	46	44	1,045	93	38
	Total		568	-	-	93	-
Civils	Underbridges	m2	267	122,077	2	287	135,093
	Overbridges (incl BG3)	m2	38	10,982	3	78	21,224
	Tunnels	m2	24	25,339	1	27	32,203
	Culverts	m2	25	4,716	5	11	4,848
	Footbridges	m2	11	3,086	4	23	9,459
	Coastal & Estuarial Defences	m2	4	13,475	0	5	4,069
	Retaining Walls	m2	18	15,161	1	5	4,465
	Total		387	-	-	436	-
Earthworks	Earthworks - Embankments	No.	99	1,587	62	n/a	n/a
	Earthworks - Soil Cuttings	No.	87	2,457	35	n/a	n/a
	Earthworks - Rock Cuttings	No.	42	811	52	n/a	n/a
	Earthworks - Other	No.	-	113	-	n/a	n/a
	Drainage - Earthworks	m	23	74,005	0	n/a	n/a
	Drainage - Other	m	82	138,297	1	80	273,183
	Total		333	-	-	80	-
Buildings	Buildings (MS)	m2	21	48,725	0	2	4,152
	Platforms (MS)	m2	1	1,053	1	1	1,500
	Train sheds (MS)	m2	4	15,270	0	1	12,169
	Other (MS)	m2	1	22,710	0	8	185,197
	Buildings (FS)	m2	4	12,647	0	2	4,160
	Platforms (FS)	m2	37	30,002	1	12	42,505
	Canopies (FS)	m2	31	31,477	1	10	21,515
	Train sheds (FS)	m2	4	9,390	0	6	10,462
	Footbridges (FS)	m2	14	3,827	4	14	3,992
	Other (FS)	m2	23	152,075	0	10	93,192
	Light Maintenance Depots	m2	3	49,449	0	4	58,641
	Depot Plant	m2	-	145	-	-	-
	Lineside Buildings	m2	16	60,198	0	8	36,176
	MDU Buildings	m2	20	75,174	0	10	50,200
	Total		179	-	-	88	-

Statement 3.8: Analysis of renewals unit costs, Great Britain - continued

£m, 2019-20 prices unless stated

			FY20			FY19		
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Electrical Power & Fixed Plant	Wiring	Wire runs	29	157	185	74	221	335
	Mid-life refurbishment	Wire runs	7	55	127	12	6	2,000
	Structure renewals	No.	52	764	68	56	840	67
	Other OLE	No.	-	7	-	-	-	-
	Conductor rail	km	25	110	227	25	147	170
	HV Switchgear Renewal AC	No.	4	67	60	5	67	75
	Other AC	No.	1	6	167	-	-	-
	HV switchgear renewal DC	No.	11	15	733	9	20	450
	HV cables DC	km	3	7	429	2	5	400
	LV cables DC	km	11	47	234	21	89	236
	Transformer Rectifiers DC	No.	-	-	-	-	1	-
	LV switchgear renewal DC	No.	-	-	-	1	12	83
	Protection Relays DC	No.	1	14	71	-	-	-
	UPS	No.	7	91	77	n/a	n/a	n/a
	Generator	No.	-	-	-	n/a	n/a	n/a
	Auxiliary Transformer	No.	-	-	-	n/a	n/a	n/a
	Points Heaters	point end	1	42	24	6	163	37
	Signalling Power Cables	km	67	270	248	77	388	198
	Signalling Supply Points	point end	24	33	727	24	34	706
	NSCD / Track Feeder Switch	No.	10	524	19	n/a	n/a	n/a
Total		253	-	-	312	-	-	
Telecoms	Customer Information Systems	No.	15	721	21	19	1,514	13
	Public Address	No.	17	4,707	4	5	6,300	1
	CCTV	No.	3	575	5	4	948	4
	Other Surveillance	No.	1	100	10	7	264	27
	PABX Concentrator	No.	2	1,370	1	12	14,744	1
	DOO CCTV	No.	-	-	-	1	2	500
	HMI Small	No.	-	-	-	-	5	-
	HMI Large	No.	-	21	-	1	124	8
	Power	No.	5	402	12	1	49	20
	Network	No.	2	30	67	-	13	-
Total		45	-	-	50	-	-	

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (3) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. In level crossings the unit rate has significantly decreased in the year. In the current year there has been a number of large projects in the East Midlands and Anglia routes which have largely contributed to the reduction in this unit rate. In the prior year there were two complex projects (Ferriby to Gilberdyke Resignalling and Knottingley Area LC Renewals) which had particularly high unit costs and so brought up the overall rate of this asset.

Statement 3.8: Analysis of renewals unit costs, Great Britain – continued

In £m 2019-20 prices unless stated

- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year. The biggest increase has been in the culverts subcategory. This is due to the fact that in the current year there is much higher proportion of replacement work compared to the previous year. Replacement tends to be more expensive than repair and preventative work.
- (5) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in 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) Electrification & Plant -There has been a decrease in the unit costs for wiring. This was because in the prior year there was a particularly high unit cost for the Great Eastern OLE Renewal project. This was a massive multiyear project, so costs were skewed upwards in 2018-19. There has also been a decrease in the unit costs for mid-life refurbishment. However, there was only one project in the previous year, so the sample size is too small to do any meaningful analysis. There has been a decrease in the rate for HV switchgear renewal AC. However, there was only one project in this subcategory spanning both the years. The anticipated final cost of this project decreased in the current year. There has been an increase in the rate for HV switchgear renewal DC. There were only two projects in each year, so the small sample size makes it difficult to do useful analysis. In the prior year there was a project at Hounslow Loop and Windsor that had a particularly low unit rate. There has been a decrease in the unit rate for point heaters. However, there was only one project in the current year which was in the Eastern region. There has been an increase in the rate for signalling power cables in the year. The majority of the projects in this category spanned both years. However, there were new projects in the year at Lockerbie in Scotland and in the Wessex route of the Southern Region.
- (8) Telecoms – There has been an increase in the rate for customer information systems. This was because in the prior year there were a couple of projects (Sussex SISS Renewals and Virgin Stations SISS) that significantly brought down the unit rate. There has been a decrease in the rate for other surveillance. However, this was skewed by the fact that in 2018-19 there was one project in Sussex that had expenditure of over four million pounds compared to a total of one million for all the projects in 2019-20. There has also been a big decrease in the unit rate for power. This was primarily due to the LNE Battery & Charger Renewals project in Eastern in the current year which delivered eight times more volumes than all the projects put together in the previous year.

Statement 3.9: Analysis of staff costs, Great Britain

£m, 2019-20 prices unless stated

Workforce information

(Headcount)	Male		Female		Total
	Permanent		Permanent		
	Full time	Part time	Full time	Part time	
66 and over	395	34	32	7	468
61-65	1,993	40	163	16	2,212
56-60	3,977	17	439	14	4,448
51-55	4,904	8	656	24	5,592
46-50	4,621	12	839	41	5,513
41-45	3,490	9	863	72	4,434
36-40	3,722	3	1,073	105	4,903
31-35	3,985	4	1,069	58	5,116
26-30	3,682	4	1,134	20	4,840
21-25	2,261	3	660	3	2,927
20 and under	353	1	96	1	451
Total staff employed (Headcount)	33,383	134	7,024	361	40,902
of which:					
train drivers	-	-	-	-	-
apprentices	803	-	128	-	931
Agency staff / Contingent Labour / Consultants	666	4	254	1	925
of which apprentices	-	-	-	-	-

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	14	6	20	14	6	20
Executive director / director	66	12	78	66	12	78
Bands 1	357	71	428	357	70	427
Bands 2	1,289	376	1,665	1,287	371	1,658
Bands 3	3,123	1,158	4,281	3,108	1,141	4,249
Bands 4	4,033	1,769	5,802	4,025	1,747	5,772
Signallers	4,016	351	4,367	4,012	351	4,363
Electrical control operators	168	4	172	169	3	172
Maintenance	15,262	315	15,577	15,255	311	15,566
Controllers	370	64	434	370	64	434
Bands 5-8	3,761	3,170	6,931	3,749	3,099	6,848
Other	1,058	89	1,147	1,058	89	1,147
Total permanent staff	33,517	7,385	40,902	33,470	7,264	40,734
Agency staff / Contingent Labour / Consultants	670	255	925	668	254	922
Total staff (FTE)	34,187	7,640	41,827	34,138	7,518	41,656

Statement 3.9: Analysis of staff costs, Great Britain - continued

£m, 2019-20 prices unless stated

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	1
Executive director / director	14	1	4	-	1	-	22
Bands 1	47	4	11	-	4	-	74
Bands 2	127	13	17	-	10	-	186
Bands 3	228	9	18	1	17	-	302
Bands 4	241	12	8	2	16	-	307
Signallers	184	10	3	60	12	-	298
Electrical control operators	6	-	-	3	-	-	10
Maintenance	540	49	10	182	38	-	905
Controllers	26	1	-	7	2	-	40
Bands 5-8	190	9	4	7	11	-	240
Other	59	3	1	22	5	-	100
Total Paybill	1,663	111	76	284	116	-	2,485
Agency staff / Contingent Labour / Consultants	-	-	-	-	-	-	84
Total staff costs	1,663	111	76	284	116	-	2,569

Staff costs information

	Male	Female	Total
Salary	1,386	277	1,663
Allowances	98	13	111
Performance related pay	61	15	76
Overtime	276	8	284
Employer pension contribution	98	18	116
Employer NI contribution	202	33	235
Total Paybill	2,121	364	2,485
Agency staff / Contingent Labour / Consultants	-	-	84
Total Staff Costs	2,121	364	2,569

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	595,000	14
Number of employees paid in excess of highest paid director	-	n/a
Median remuneration of workforce	41,608	-

Remuneration ranged from £0 to £595,000 (2019-20 £0 to £468,000)

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 2019-20 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 2020 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, compared to the previous year, the proportion of Female staff has increased by 6 per cent, showing Network Rail’s commitment to employing a more gender diverse workforce. The largest proportionate increase was in front line activities, albeit from a relatively small starting position. There has also been an increase in managerial posts, where the proportion of female staff rose by 3 per cent compared to the prior year proportion. There is still much for Network Rail to undertake to meet its diversity objectives, but these figures demonstrate that change is happening.
- (2) The Remuneration ranges in the organisation are wider compared to the previous year as the highest paid employee was paid more than in the previous year. In 2018/19, the CEO role was not filled for the entire fiscal year which made the CFO the highest paid director in the organisation in that year. In 2019/20, the CEO position was filled for the full year, so the Remuneration range has expanded this year.

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

£m, 2019-20 prices unless stated

Reporter information

	2019-20	2018-19
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.5	0.4
Fees payable to the company's auditors for other audit related services:		
The audit of the company's subsidiaries	0.1	0.1
Regulatory accounts audit and interim review	0.1	0.1
Total amounts payable to auditors	0.7	0.6

In addition to the audit information fee given in the table the group pays £0.2m for the audit of subsidiaries that are not performed by the group auditor

Independent Reporters

	2019-20	
	Independent Reporter	Total in Year
Expenditure with Independent Reporters	Expenditure (in year)	Expenditure
Ove Arup & Partners	0.4	31.3
The Nichols Group	0.6	0.9
Total Expenditure with Independent Reporters	1.0	32.2

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

In £m 2019-20 prices unless stated

Note:

- 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.

Statement 4: Regulatory financial position, Great Britain

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	71,959
Indexation to 2019-20 prices	73,038
RAB additions	
Renewals expenditure	2,908
Enhancements expenditure	-
Less amortisation	(2,908)
Property Sales	(525)
Closing RAB	72,513

Net debt

	£m
Opening net debt	53,446
Income	(8,981)
Expenditure	7,122
Financing Costs - Government borrowing	1,118
Financing Costs - index linked debt	782
Financing Costs - Other	205
Corporation tax	-
Working capital	(216)
Closing net debt	53,476

Statement 4: Regulatory financial position, Great Britain

In £m 2019-20 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 and enhancement 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 from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was £2.9bn. 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). This year, the high value of disposals includes the divestment of the Cardiff Valley lines part of the network in Wales to the Welsh government.
- (7) Part 2 of this schedule shows the **Regulatory debt** of Network Rail and how it has moved from the position at the start of 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) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's closing debt was broadly consistent with the opening debt. This included the benefit from disposing of part of the network in Wales to Welsh government. This inflow was augmented by favourable working capital variances but largely offset by increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.

Statement 4: Regulatory financial position, Great Britain – continued

In £m 2019-20 prices unless stated

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

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

(12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.

(13) Workings 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.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	4,789	5,388	(599)	-	3,843
Franchised track access charges	2,210	2,266	(56)	5	2,179
Other Single Till Income	1,104	608	496	20	2,198
Total Income	8,103	8,262	(159)	25	8,220
Operating expenditure					
Network operations	605	610	5	2	628
Support costs	580	785	205	95	441
Traction electricity, industry costs and rates	729	783	54	2	696
Maintenance	1,573	1,547	(26)	(42)	1,374
Schedule 4	282	302	20	33	323
Schedule 8	47	79	32	32	293
	3,816	4,106	290	122	3,755
Capital expenditure					
Renewals	2,573	2,576	3	(32)	2,748
Enhancements	1,620	1,697	77	(95)	2,720
	4,193	4,273	80	(127)	5,468
Risk expenditure					
Risk (Centrally-held)	-	(6)	(6)	-	-
Risk (Contingent asset management funding)	-	36	36	-	-
	-	30	30	-	-
Other expenditure					
Financing costs	1,895	2,015	120	-	2,127
Corporation tax	-	8	8	-	-
	1,895	2,023	128	-	2,127
Total expenditure	9,904	10,432	528	(5)	11,350
Total Financial Out/(under) performance				20	

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

In £m 2019-20 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £0.4bn lower than the regulatory baseline. This was mostly due to the proceeds from disposing of part of the network to Transport for Wales.
- (2) This statement also shows that Network Rail made a solid start to the control period, beating the regulatory baselines this year, resulting in £20m of financial outperformance. This included lower operating expenditure and improvements in the train performance regime partly offset by higher like-for-like capital projects costs. The impact of Covid-19 will make continuing this outperformance in 2020/21 extremely challenging.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational, maintenance and renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was slightly lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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 mostly due to increases in traction electricity income, which is offset by higher costs in this category (as shown by the variance in the Traction electricity, industry costs and rates heading). Franchised track access income is discussed in more detail in Statement 2.

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

In £m 2019-20 prices unless stated

- (5) Income – Other single income in the year is higher than the baseline mostly due to additional the divestment of part of the network in Wales. This transaction is not included in the assessment of financial performance. There are also some other elements of the variance to the baseline excluded from the scope of financial performance. Variances in Traction electricity for Freight operators is 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, the current year includes some revenue recognised in connection with the major divestment of Network Rail's commercial estate that occurred last year which has been treated as neutral when assessing financial performance (as was the case in the 2018/19 Regulatory Financial Statements). The financial outperformance reported this year mainly arises from additional property income, including extra disposals, and increased freight income. Income is noticeably lower than the previous year which includes the aforementioned disposal of large parts of the commercial estate in 2018/19 which makes comparisons with the previous year meaningless. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network Operations costs this year are marginally lower than the regulatory baseline which has resulted in some minor outperformance being reported this year. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements as well as recognition of commercial claims in 2018/19. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the regulatory baseline largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Costs are higher than the previous year due to higher market rates for electricity which has been offset by increases in income from operators for electricity provision. 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 which included investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. These extra costs, along with higher materials and haulage costs resulted in financial underperformance this year. Costs are higher than previous year as expected. As part of the control period 6 determination, the regulator has challenged Network Rail to deliver more work in this area. Maintenance costs are discussed in more detail in Statement 3.2.

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

In £m 2019-20 prices unless stated

- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Schedule 8 payments under this performance regime are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is consistent with the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE-managed projects and fewer insurable events were largely offset by acceleration of Track, Building and Earthworks. Some minor financial underperformance has been reported this year across the portfolio mainly arising from higher contractor costs, increases in complexity of works and access issues. Overall expenditure was broadly similar to last year, with the largest contribution from a change in accounting policy for CP6 and lower STE-managed programmes. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with increased Great Western Electrification Programme and Crossrail programme costs. 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 England & Wales' core funder (DfT). Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 England & Wales' core funder (DfT). Enhancement investment is set out in more detail in Statement 3.7.

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

In £m 2019-20 prices unless stated

- (14) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (15) Other expenditure – Corporation tax costs are lower than the regulatory baseline. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	945	952	(7)	-	752
Variable usage charge	232	228	4	4	170
Electrification asset usage charge	20	20	-	-	17
Capacity charge	2	-	2	2	437
Open access income	29	29	-	-	29
Managed stations long term charge	65	64	1	1	37
Franchised stations long term charge	154	156	(2)	(2)	120
Schedule 4 access charge supplement	261	261	-	-	182
	1,708	1,710	(2)	5	1,744
Other single till income					
Freight income					
Freight variable usage charge	51	49	2	2	51
Freight other income	1	1	-	-	9
	52	50	2	2	60
Stations income					
Managed stations qualifying expenditure	83	87	(4)	(4)	70
Franchised stations lease income	51	49	2	2	49
	134	136	(2)	(2)	119
Facility and financing charges					
Facility charges	59	60	(1)	(1)	60
	59	60	(1)	(1)	60
Depots income	85	82	3	3	83
Other income	5	4	1	1	4
Total other single till income	335	332	3	3	326
Total regionally-managed income	2,043	2,042	1	8	2,070
Centrally-managed income					
Network grant	3,441	3,992	(551)	-	3,843
Internal financing grant	630	661	(31)	-	-
External financing grant	632	642	(10)	-	-
BTP grant	86	85	1	-	-
Corporation tax grant	-	8	(8)	-	-
Infrastructure cost charges	42	42	-	-	42
Schedule 4 access charge supplement	55	55	-	-	13
Traction electricity charges	405	459	(54)	-	380
Freight traction electricity charges	6	6	-	-	7
	5,297	5,950	(653)	-	4,285
Other single till income					
Property income					
Property rental	238	228	10	10	307
Property sales	525	42	483	7	1,490
	763	270	493	17	1,797
Crossrail finance charge	-	-	-	-	68
Total other single till income	763	270	493	17	1,865
Total centrally-managed income	6,060	6,220	(160)	17	6,150
Total income	8,103	8,262	(159)	25	8,220

Statement 2: Analysis of income, England & Wales

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income offset by additional income arising from Property disposals. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6. This additional revenue more than offset lower Property sales income, where 2018/19 benefitted from the divestment of most of Network Rail's commercial property portfolio.

Regionally-managed income

- (1) Total Regionally-managed income is in line with the CP6 baseline. Income is slightly lower than the previous year due to a change in the mix of income received directly from operators (Regionally-managed) and government grants (Centrally-managed).
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. The slight reduction is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is slightly higher than the regulatory target this year as more train paths have been provided to operators. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year. The income recognised this year represents successful close out of commercial claims from CP5 relating to this element of income.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.

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

In £m 2019-20 prices unless stated

- (6) 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 the ORR use for the Regulatory financial statements. Income was higher than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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.
- (7) Freight Income – income is slightly ahead of the regulatory baseline this year which has benefitted from additional income from Drax power facility and removal of waste materials from HS2 construction. Turnover is lower than the previous year, mainly due to changes in the regulatory charging mechanism for CP6, including changes to the coal slippage charges and capacity charges to benefit operators.
- (8) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year. 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. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (9) Depots income – revenue is slightly higher than the regulator's assumptions this year due to additional services offered to operators.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income partly offset by additional income arising from Property disposals. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6. This additional revenue more than offset lower Property sales income, when 2018/19 benefitted from the divestment of most of Network Rail's commercial property portfolio. As reported in last year's Regulatory Financial Statements, this disposal was undertaken to fund the ambitious enhancement programme delivered in the previous control period.
- (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 in a given 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, 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.

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

In £m 2019-20 prices unless stated

- (3) Network grant – income was lower than the regulatory baseline as savings have been made compared to the net operating costs included in the regulatory baseline, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.
- (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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline is to be expected. Despite the new financial framework in place for CP6, income is broadly in line with the previous year as the charges payable by these centrally-managed franchises have not materially changed.
- (9) 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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).

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

In £m 2019-20 prices unless stated

- (10) Schedule 4 access charge supplement – 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 assumed in the CP6 baselines. Income is higher than the previous year. This largely reflects changes in funding in CP6 where the regulator has created a central fund for insurable events reflecting prior claims experience. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs (across the control period).
- (11) Property rental – additional income has been generated this year, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston. Given the challenging conditions arising from Covid-19 this outperformance is unlikely to recur in 2020/21. Rental is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.
- (12) Property sales – the current year includes the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales which distorts the comparison to the CP6 baselines. This transaction is excluded from the assessment of financial performance. In future years, the saving from this transaction and the reduced income will be excluded from the assessment of financial performance to the extent that income and cost adjustments are agreed with DfT and Transport for Wales. When assessing financial performance, there is also a neutralisation of income recognised in the current year relating to the disposal of most of the commercial estate in the previous year. Adjusting for these events, financial performance has still been achieved as additional commercial opportunities have been identified this year. Income is lower than the previous year due to the disposal of over 5,000 commercial units in 2018/19, as reported in last year's Regulatory Financial Statements. The magnitude of this single transaction at some £1.4bn makes comparisons with the previous year meaningless.
- (13) Crossrail finance income – there is no income earned through this classification this year under centrally-managed charges. This is consistent with the regulatory baseline. The value in the previous year related to contractual arrangements in place during Control Period 5 to compensate Network Rail for the borrowing costs associated with the construction of the new infrastructure. This arrangement came to an end during 2018/19.

Statement 3: Analysis of expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	587	586	(1)	(1)	611
Maintenance	1,507	1,481	(26)	(19)	1,335
Support costs	180	195	15	15	148
Traction electricity, industry costs and rates	3	2	(1)	(1)	2
Schedule 4	296	253	(43)	(29)	233
Schedule 8	38	69	31	31	292
	2,611	2,586	(25)	(4)	2,621
Capital expenditure					
Renewals	2,179	2,083	(96)	(55)	2,178
Enhancements	1,442	1,647	205	(135)	2,634
	3,621	3,730	109	(190)	4,812
Total regionally-managed expenditure	6,232	6,316	84	(194)	7,433
Centrally-managed expenditure					
Operating expenditure					
Network operations	18	24	6	3	17
Maintenance	66	66	-	(23)	39
Support costs	400	590	190	80	293
Traction electricity, industry costs and rates	726	781	55	3	694
Schedule 4	(14)	49	63	62	90
Schedule 8	9	10	1	1	1
	1,205	1,520	315	126	1,134
Capital expenditure					
Renewals	394	493	99	23	570
Enhancements	178	50	(128)	40	86
	572	543	(29)	63	656
Risk Expenditure	-	30	30	-	-
Other					
Financing costs	1,895	2,015	120	-	2,127
Taxation	-	8	8	-	-
	1,895	2,023	128	-	2,127
Total centrally-managed expenditure	3,672	4,116	444	189	3,917
Total expenditure	9,904	10,432	528	(5)	11,350

Statement 3: Analysis of expenditure, England & Wales

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of Enhancement activity to later in the control period. There has also been operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by England & Wales' core funder (Department for Transport).

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year, which has been partly offset by acceleration of Renewals, higher operating expenditure and extra performance regime costs. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by England & Wales' core funder (Department for Transport). 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 operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Financing costs, following the removal of the Financial Indemnity Mechanism fee for CP6. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	247	250	3	3	247
Operations Management	66	68	2	2	54
Controllers	60	62	2	2	59
Electrical control room operators	14	18	4	4	15
	387	398	11	11	375
Non signaller expenditure					
Mobile operations managers	40	38	(2)	(2)	38
Managed stations	71	72	1	1	62
Performance	9	13	4	4	13
Other	80	65	(15)	(15)	123
Total regionally-managed operations expenditure	587	586	(1)	(1)	611
Centrally-managed operations expenditure					
Network Services	18	24	6	3	17
Total centrally-managed operations expenditure	18	24	6	3	17
Total operations expenditure	605	610	5	2	628

Statement 3.1: Analysis of operations expenditure, England & Wales

In £m 2019-20 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.

Comments:

- (1) Overall, operations costs are slightly lower than the regulatory baseline mostly due to reduced Centrally-managed costs. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were broadly in line with the regulatory expectation this year as costs were controlled in line with plans and some additional efficiencies were achieved. There were some savings in signaller costs due to reduced recruitment and constraining pay awards. The reduced recruitment was partly offset by higher overtime costs and increased staff resource is planned to address these shortfalls. Overall savings were partly mitigated by additional expenditure on performance improvement schemes to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Costs were lower than the previous year which included expenditure on a number of performance improvement schemes at the end of CP5 as noted in the previous year's Regulatory Financial Statements.

Centrally-managed operations expenditure

- (1) Network Services – costs are lower than the regulatory baseline this year. This includes lower expenditure on the Performance Innovation Fund, a ring-fenced allowance in the regulator's determination to invest new approaches to improve collaboration between Network and passenger operators to benefit customers. However, progress has been slower due to delays in setting up necessary governance and approvals process along with a dearth of suitable schemes identified so far. This underspend has been treated as neutral when assessing financial performance. There have also been delays to the charter train toilet emissions project which have been treated as neutral when assessing financial performance. Other savings include benefits from contract negotiation, reductions in pay-outs to staff under performance-related pay schemes and tight headcount control. Costs are consistent with the previous year.

Statement 3.2: Analysis of maintenance expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	633	628	(5)	(5)	552
Signalling & Telecoms	268	254	(14)	(14)	240
Civils	164	175	11	15	163
Buildings	91	89	(2)	1	66
Electrical power and fixed plant	112	116	4	4	105
Other network operations	239	219	(20)	(20)	209
	1,507	1,481	(26)	(19)	1,335
Centrally-managed maintenance expenditure					
Telecoms	17	22	5	5	18
Route Services - Asset Information	28	25	(3)	(3)	25
STE Maintenance	7	8	1	1	8
Property	9	6	(3)	(3)	6
Route Services - Other	17	5	(12)	(29)	2
Other	(12)	-	12	6	(20)
	66	66	-	(23)	39
Total maintenance expenditure	1,573	1,547	(26)	(42)	1,374

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year. This includes investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. Costs are higher than the previous year. This was largely foreseen in the regulatory baseline which had increased maintenance funding allowances to meet the outputs and asset management challenges of the new control period.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year. This included investment in additional schemes to help asset resilience and train performance as well as extra maintenance activity. Costs are higher than the previous year. This was largely foreseen in the regulatory baseline which had increased maintenance funding allowances to meet the outputs and asset management challenges of the new control period.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are broadly in line with regulatory baseline. Costs have increased compared with the previous year reflecting the additional outputs and asset management required for CP6. This is demonstrated by the increase in the regulatory baseline compared to the previous year.
- (3) Signalling & telecoms – costs are higher than the regulatory assumption this year, as with all Regions spending more than expected. This was primarily due to additional resilience works undertaken to support train performance. Signalling failures can be the cause of long train delays and frustration for passengers so extra preventive works, especially at key hot spots, can help mitigate this risk. In addition, adverse weather, including the extreme heat in the summer and the flooding in February caused unforeseen damage to the network which required remediation. Costs are higher than the previous year, reflecting the increased allowances in the regulatory baselines due to the asset management requirements of CP6 along with the aforementioned additional costs in the year.

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

In £m 2019-20 prices unless stated

- (4) Civils – costs were lower than the regulatory baseline mainly as a result of savings in civils inspection costs which more than offset higher reactive maintenance activity. Inspection costs have been saved through better contract negotiations and planning of works, allowing more productive workings patterns. 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. Costs are broadly in line with the previous year.
- (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 in this category is slightly higher than the regulator assumed. 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 are higher than the previous year, which is also attributable to the inherent variability of Buildings reactive maintenance.
- (6) Electrical power and fixed plant – costs for the current year are slightly lower than the regulatory expectation but are higher than the previous year. The increase is across most Regions and was expected in the regulatory baselines for 2019/20. This reflects the asset management and outputs required for CP6.
- (7) Other network operations – costs are higher than the regulatory baseline this year. There are numerous contributory factors including additional vegetation management schemes to help minimise train service delays, various one-off expenses and other asset resilience initiatives to protect train performance. Costs are higher than the previous year. Most of this increase was expected in the regulatory baseline for this year, reflecting the additional outputs and challenges of CP6.

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

In £m 2019-20 prices unless stated

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are consistent with the regulatory baseline as higher logistic costs partially off-set by some non-recurring benefits in the year. As expected by the regulatory baselines, costs were higher than the previous year, reflecting the aforementioned higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.
- (2) Telecoms – costs are lower than the regulatory baseline, mainly arising from successful resolution of commercial claims, where costs had been recognised in the previous year. Costs are broadly consistent with the previous year, reflecting the extra scope of the department in CP6, as shown by the increase in the regulatory baseline, offset by the aforementioned close out of commercial claims.
- (3) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. As discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year, assuming constant supplier prices and an assumed level of activity to allocate the fixed costs of the Route Services supply chain organisation against. The excess costs this year reflects a lower than expected level of activity in the current year compared to the expectations that Route Services included in their CP6 plan along with higher supplier prices than expected. A write down in stock values was recognised this year following a reorganisation of logistic operations and a requirement to stockpile certain items in light of supplier closure. Alternative solutions, such as constructing an in-house railway sleeper factory are being sought to mitigate any future risk on materials availability. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance. Costs are higher than the previous year mostly due to the aforementioned issues in the current year. In addition, as noted in the previous year's Regulatory Financial Statements, 2018/19 benefitted from extra work undertaken (and so a higher proportion of central costs re-charged to Regions) and additional income from scrap rail disposal.
- (4) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline assumed this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	18	18	-	-	13
Finance	13	13	-	-	9
Accommodation	58	59	1	1	63
Utilities	67	68	1	1	64
Other	24	37	13	13	(1)
	180	195	15	15	148
Centrally-managed support costs					
Finance & Legal	31	36	5	5	31
Communications	10	11	1	1	9
Human Resources	18	18	-	-	17
System Operator	35	48	13	13	28
Property	(11)	(1)	10	10	11
Telecoms	48	55	7	2	44
Network Services	18	24	6	6	8
Safety Technical and Engineering	30	33	3	3	39
RS - IT and Business Services	98	105	7	7	86
RS - Asset Information	12	14	2	2	9
RS - Directorate	16	18	2	2	18
Other corporate functions	24	55	31	(2)	20
Insurance	23	36	13	13	17
Opex/capex Adjustment	69	63	(6)	-	-
Group costs	(21)	75	96	18	(44)
	400	590	190	80	293
Total support costs	580	785	205	95	441

Statement 3.3: Analysis of support costs, England & Wales

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are lower than the regulatory baselines, mainly due to reductions in 2018/19 performance-related pay outs for staff, headcount control and other efficiencies. Costs were higher than the previous year, reflecting the determination assumptions as the business reshapes to meet the challenges of the Putting Passengers First programme.
- (2) Human resources – costs in the current year are broadly consistent with the baseline expectation. Costs are higher than the previous year reflecting Network Rail's continued devolution 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, as expected by the higher regulatory baseline.
- (3) Finance – costs in the current year are broadly consistent with the baseline expectation. Costs are higher than the previous year reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. This has resulted in more local Finance staff to support this initiative, as expected by the higher regulatory baseline.
- (4) Other – costs were favourable to the regulatory baseline this year, mainly due to savings in the North West & Central and Wales & Western Regions, reflecting additional efficiencies. Costs are higher than the previous year. This was anticipated by the higher allowances provided in the regulatory baseline this year, reflecting the outputs and challenges for CP6.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

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

In £m 2019-20 prices unless stated

- (2) Finance & legal – costs are favourable compared to the regulatory baseline mostly due to reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs are broadly consistent with the previous year.
- (3) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are higher than the previous year due to the increased prominence and capability of this department. In response to the Glaister review published in 2018 and DfT direction, the size and scope of this department has been enhanced to deliver additional outputs for the rail industry as a whole.
- (4) Property – the favourable position this year compared to the regulatory position is largely due to the favourable settlement of a long-running commercial dispute. The saving compared to the previous year arises from a combination of the aforementioned settlement of a commercial dispute and a reduction in the scope of the department. This is mostly due to the divestment of most of the commercial estate towards the end of 2018/19 meaning there is nearly a full year of costs in the previous year, but major reductions this year.
- (5) Telecoms – costs are lower than the regulatory baseline this year. This includes slower rollout of the cab radio programme along with additional efficiencies mostly arising from headcount control, contract negotiation and reductions in performance-related pay. Rollout of the cab radio programme is to improve safety and performance by ameliorating signal interference. When assessing financial performance, the saving been treated as neutral as the core outputs have not been delivered. Costs are slightly higher than the previous year, reflecting the increased scope and deliverables of Telecoms in this control period partly offset by the cost reductions noted above.
- (6) Network Services – costs are lower than the regulatory assumption this year. These savings have been achieved through a combination of reduced use of consultants with internal staff stretched to deliver more, better utilisation of consultant frameworks to enhance productivity reductions in pay-outs under performance-related pay schemes, headcount control and favourable settlement of claims. Costs are higher than the previous year, the majority of which was expected through the regulatory baseline increase to reflect the scope of this department in CP6.
- (7) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year with the main contribution coming from reductions in pay outs under performance-related pay schemes. Costs are lower than the previous year. In CP5 there were some specific projects being delivered by this department, such as Interdisciplinary Standards Programme, Integrated Management System and Whole Life Cost modelling which are now all funded through the Renewals allowances (refer to Statement 3.6).
- (8) Route Services – IT and Business Services – costs were lower this year than the regulatory baseline. This was mainly due to savings in the Business Services part of the organisation. This included savings in training costs by increased in-house delivery and utilising courses eligible under the government Apprentice Levy funding source and acceleration of some efficiency initiatives, including successful re-negotiation of contracts. Costs are higher than the previous year. This includes a change in accounting policy under the ORR's CP6 Regulatory Reporting Guidelines so that a greater proportion of IT expenditure qualifies as opex rather than capex.

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

In £m 2019-20 prices unless stated

- (9) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (10) 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. Costs are broadly in line with the previous year. As noted in last year's Regulatory financial statements, 2018/19 also benefitted from actuarial updates to Network Rail's liabilities to third parties.
- (11) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.
- (12) Group – there are noticeable savings this year compared to the regulatory expectation. Over three-quarters of the saving is due to not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. This has been partly offset by non-utilisation of risk credits (offset in Regionally-managed costs). Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Variances in risk credit utilisation have also been treated as neutral as the credits have been rephased into future years of control period 6. The level of credits reported in Group is lower than the previous year (in other words, costs are higher). This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	3	2	(1)	(1)	2
	3	2	(1)	(1)	2
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	408	464	56	3	386
Business rates	204	203	(1)	-	203
British transport police costs	83	83	-	-	77
ORR licence fee and railway safety levy	17	17	-	-	14
RDG membership costs	3	3	-	-	4
RSSB costs	10	10	-	-	9
Reporters fees	1	-	(1)	-	1
Other industry costs	-	1	1	-	-
	726	781	55	3	694
Total traction electricity, industry costs and rates	729	783	54	2	696

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

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators (refer to 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are in line with the previous year.

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

In £m 2019-20 prices unless stated

- (3) British Transport Police costs - expenses in the year are broadly in line with the expectation for this year but are slightly higher than the previous year reflecting increased costs of the British Transport Police Authority's operating costs.
- (4) ORR licence fee and railway safety – costs this year are broadly in line with the regulatory baseline. Costs are higher than the previous year due to one-off costs incurred by ORR as a result of office relocation which is recharged to industry entities such as Network Rail. 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). 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 names 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.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	296	253	(43)	(29)	233
Access charge supplement Income	(261)	(264)	(3)	-	(182)
Net (income)/cost	35	(11)	(46)	(29)	51
Schedule 8					
Performance element income	(114)	-	114	114	(14)
Performance element costs	152	69	(83)	(83)	306
Net (income)/cost	38	69	31	31	292
Centrally managed					
Schedule 4					
Performance element costs	(14)	49	63	62	90
Access charge supplement Income	(55)	(55)	-	-	(13)
Net (income)/cost	(69)	(6)	63	62	77
Schedule 8					
Performance element costs	9	10	1	1	1
Net (income)/cost	9	10	1	1	1
Total					
Schedule 4					
Performance element costs	282	302	20	33	323
Access charge supplement Income	(316)	(319)	(3)	-	(195)
Net (income)/cost	(34)	(17)	17	33	128
Schedule 8					
Performance element income	(114)	-	114	114	(14)
Performance element costs	161	79	(82)	(82)	307
Net (income)/cost	47	79	32	32	293

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

In £m 2019-20 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) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to a combination of extra capital delivery and higher like-for-like costs. The extra capital delivery includes additional units of plain line track and switches & crossings completed this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The higher like-for-like costs include the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered, resulting in financial outperformance overall. Performance costs are higher than the previous year owing to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Schedule 8 costs are lower than the baseline due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Network Rail has invested extra opex this year to improve train performance which have helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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 2019-20 prices unless stated

- (2) Schedule 4 – Performance element costs - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspent by Regions as described above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.
- (3) Schedule 8 – the impact of significant weather events has been in line with expectation this year. Costs are higher than the previous year due to more disruptive weather events impacting the schedule 8 part of the performance regime this year, including the impact of storms in February.

Statement 3.6: Analysis of renewals expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	194	187	(7)	-	-
PL Replace Partial	128	91	(37)	-	-
PL High Output	135	145	10	-	100
PL Refurbishment	48	64	16	-	56
PL Track Slab Track	-	1	1	-	-
Switches & Crossing - Replace	174	162	(12)	-	179
Switches & Crossing - Other	36	36	-	-	48
Off Track	56	50	(6)	-	-
Track Other	39	7	(32)	-	367
	810	743	(67)	(13)	750
Signalling					
Signalling Full	211	212	1	-	-
Signalling Partial	44	47	3	-	-
Signalling Refurb	42	74	32	-	-
Level crossings	38	49	11	-	65
Minor works	133	120	(13)	-	123
Other	1	4	3	-	404
	469	506	37	(14)	592
Civils					
Underbridges	109	131	22	-	123
Overbridges	24	30	6	-	42
Major structures	11	9	(2)	-	10
Tunnels	22	22	-	-	19
Minor works	54	43	(11)	-	-
Other	28	34	6	-	49
	248	269	21	7	243
Earthworks					
Earthworks - Embankments	87	59	(28)	-	34
Earthworks - Soil Cuttings	61	50	(11)	-	31
Earthworks - Rock Cuttings	23	18	(5)	-	10
Earthworks - Other	5	1	(4)	-	6
	176	128	(48)	(10)	81
Buildings					
Managed stations	40	31	(9)	-	44
Franchised stations	118	116	(2)	-	133
Light maint depots	12	10	(2)	-	8
Depot plant	3	5	2	-	2
Lineside buildings	19	8	(11)	-	13
MDU buildings	28	22	(6)	-	27
Other	1	-	(1)	-	-
	221	192	(29)	(11)	227
Electrical power and fixed plant					
AC distribution	10	19	9	-	16
Overhead Line	73	62	(11)	-	72
DC distribution	20	21	1	-	19
Conductor rail	14	5	(9)	-	6
Signalling Power Supplies	40	41	1	-	-
Other	11	13	2	-	45
Fixed plant	25	18	(7)	-	68
	193	179	(14)	(11)	226
Drainage					
Drainage (Track)	43	50	7	-	48
Drainage (Earthworks)	14	12	(2)	-	11
Drainage (Resilience)	4	3	(1)	-	-
	61	65	4	(3)	59
Property					
Property	1	1	-	-	-
	1	1	-	-	-
Total regionally-managed renewals expenditure	2,179	2,083	(96)	(55)	2,178

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	16	-	(16)	-	-
Telecoms					
Operational communications	8	15	7	-	11
Network	4	9	5	-	5
SISS	8	7	(1)	-	19
Projects and other	3	3	-	-	3
Non-route capital expenditure	80	71	(9)	-	28
	103	105	2	-	66
Wheeled plant and machinery					
High output	13	27	14	-	16
Infrastructure monitoring	3	7	4	-	3
Intervention	7	12	5	-	9
Materials delivery	11	28	17	-	4
On track plant	2	1	(1)	-	60
Seasonal	2	4	2	-	1
Other	6	(7)	(13)	-	8
	44	72	28	-	101
Route Services					
Business Improvement	87	93	6	-	-
IT Renewals	36	13	(23)	-	102
Asset Information	1	1	-	-	-
Other	3	2	(1)	-	3
	127	109	(18)	-	105
STE Renewals					
Intelligent infrastructure	26	28	2	-	34
Faster Isolations	36	47	11	-	83
Centrally Managed Signalling Costs	3	8	5	-	18
Research and development	27	23	(4)	-	10
Integrated Management System (Incl. BCR)	-	12	12	-	-
Other National SCADA Programmes	23	28	5	-	18
Small plant	3	7	4	-	17
Other	17	21	4	-	27
	135	174	39	-	207
Property					
Property	18	28	10	-	16
	18	28	10	-	16
Other renewals					
ETCS	13	18	5	-	46
Digital Railway	1	1	-	-	-
Civils - Insurance Fund	-	25	25	11	-
Buildings - Insurance Fund	-	14	14	-	-
Opex/capex Adjustment	(69)	(63)	6	-	-
System Operator	7	7	-	-	-
Other renewals	(1)	3	4	12	29
	(49)	5	54	23	75
Total centrally-managed renewals expenditure	394	493	99	23	570
Total renewals expenditure	2,573	2,576	3	(32)	2,748

Statement 3.6: Analysis of renewals expenditure, England & Wales

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is in line with the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were offset by acceleration of Track, Building and Earthworks. Overall expenditure was lower than the previous year, mostly due to lower Centrally-managed renewals with contributions from a change in accounting policy for CP6, as shown through the Opex/ capex adjustment heading and STE managed programmes.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were higher than the regulatory assumption. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably Centrally-managed renewals. Some relatively minor net financial underperformance has been reported across the £2.2bn Regionally-managed renewals estate. Expenditure was consistent with the previous year as reductions in Signalling, reflecting relative lifecycle stages of multi-year programmes, have been counterbalanced by extra Track and Earthworks activity.
- (2) Track – investment this year is higher than the regulatory baseline this year which is mainly due to increased activity. Significantly more volume was delivered in Plain Line Replace Partial, Plain Line refurbishment, Switches & Crossings – Replace and Switches & Crossings – Other. This was mostly due to the acceleration of work from future years to utilise resources and drive further efficiencies this year. Track other was higher than the regulatory baseline which included track portfolio stretch efficiency targets that were delivered by the reported savings in the other categories. There was some financial underperformance this year. This included the impact of lost volumes, particularly in High output, including loss of volumes at the end of the year due to Covid-19. Contractor costs, especially in alliance arrangements, also proved greater than expected. Investment was higher than the previous year due to increased activity with additional volume delivery in the current year.

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

In £m 2019-20 prices unless stated

- (3) Signalling – expenditure is lower than the regulatory baseline mainly due to slower progress on large projects, particularly works around Birmingham New Street, Bristol and Brighton mainline upgrades. Delays have been caused by higher tender prices necessitating a change in design. In addition, the complexity of certain schemes, such as ECTS in Eastern have hindered progress. Delivery on Level crossing schemes was also lower than expected due to access constraints and delays finalising designs and asset management solutions. Some Minor works were accelerated where possible to absorb some of the underspends elsewhere. The delay in delivery contributed to the financial underperformance recognised this year as schemes were prolonged. Increased complexity and integration into the existing network and with existing assets also raised project costs, as did commercial claims settlements and higher tender prices compared to the assumptions in the regulatory baseline. Investment was lower than the previous year reflecting the relative lifecycle stages of multi-year programmes. This year included a higher proportion of design works with projects at earlier stages, compared to the prior year which included substantial delivery and completion of large projects. This included Weaver to Wavertree, Huddersfield to Bradford, Derby remodelling, Bristol area resignalling and Angerstein all of which had substantial reductions in expenditure this year which was partly offset by progress on some newer projects such as Hither Green and Durham coast resignalling.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges due to some schemes being reprofiled within the control period. Increased complexity, asbestos discovery and obtaining access helped drive this. Minor works were accelerated from future years to absorb some of the underspend. Savings also arose from cheaper like-for-like project costs which resulted in financial outperformance being recognised this year. This was generated from improved workbank packaging to minimise project management and administration costs whilst the certainty provided meant subcontractors could offer lower tenders. Longer possessions were also obtained for some tasks, with the extra time working in assets rather than mobilisation increasing productivity. In addition, favourable commercial settlements contributed to the financial outperformance. Expenditure was broadly consistent with the previous year.
- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. This included acceleration of activity to utilise available resources this year and also remediation costs required in the aftermath of damage caused by the weather in February, which was the wettest on record in the UK. The impact was particularly acute in the Southern region with a number of corrective interventions required. Some financial underperformance was recognised this year, including the impact of the aforementioned emergency repairs. Higher contractor costs on certain jobs and access issues, including higher compensation costs and inability to access some project sites in February, also contributed to the underperformance recognised this year. Expenditure was higher than the previous year. Some of this increase was foreseen by the higher regulatory baseline this year to reflect the asset management requirements of the new control period. The remainder related to the aforementioned increases compared to the regulatory expectation this year.
- (6) Buildings – investment was higher than the regulatory baseline this year. This included the acceleration of activity into the current year to optimise available resources this year. In addition, like-for-like project costs were higher across the portfolio than the baseline. This resulted in the recognition of some financial underperformance this year. The higher costs were caused by increased project complexity, including discovery of asbestos, which led to higher design and delivery costs. Expenditure was broadly consistent with the previous year.

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

In £m 2019-20 prices unless stated

- (7) Electrical power and fixed plant – investment was higher than the regulatory baseline this year. This is mainly due to higher net like-for-like costs across the portfolio. This included restrictions on access as other programmes on the network were prioritised and wildlife conservation practices observed which both led to project prolongation. Supply prices were higher than expected, including a contractor exiting the market leading to re-tendering of jobs at a higher rate. Finally, more complex layouts and compliance with other utility providers standards increased some project costs. These higher like-for-like costs resulted in Financial underperformance this year. Expenditure was lower than the previous year. As noted in the 2018/19 Regulatory Financial Statements there was substantial work undertaken in that year on works to facilitate introduction of Crossrail services and works on the far-reaching Great Eastern overhead line programme.
- (8) Drainage – expenditure is slightly lower than the regulatory baseline. This was due to delays in fully scoping workbanks, prioritisation given to other trackside works in some Regions as well as higher land access costs causing alternative approaches which all contributed to works being deferred into future years. Minor financial underperformance has been reported this year largely due to higher contractor rates compared to the regulatory baseline and late changes to designs. Expenditure is broadly in line with the previous year.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year with contributions from a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line) and lower STE-managed project delivery.
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is broadly in line with the regulatory baseline with the portfolio being managed in line with the funding available this year with Operational communications deferrals compensated for by Non-route capital expenditure acceleration. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.

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

In £m 2019-20 prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
- a. High output – investment was lower than the regulatory baseline due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet. Expenditure was also lower as fewer new schemes were identified and developed this year. Investment was consistent with the previous year.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus into future years of the control period.
 - c. Intervention – costs were lower than the regulatory baseline mainly due to delays in replacing track plain line stone blower machines. This work has been reprofiled into future years.
 - d. Material delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is higher than the previous year due to the work that has taken place on the aforementioned concrete sleeper factory.
 - e. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, notably high output electrification equipment and a mobile elevated working platform.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.
- (5) Route Services – Expenditure is higher than the regulatory baselines this year as work has been accelerated from future years. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.

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

In £m 2019-20 prices unless stated

- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Intelligent infrastructure – costs are broadly in line with the regulatory expectation this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance, as agreed with the regulator. Investment is lower than the previous year which largely reflects the lower regulatory baseline this year.
 - b. Faster isolations – costs are lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are lower than the previous year which included some significant projects delivered in the Southern region.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline, reflecting the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised. Costs are lower than the previous year mirroring the overall signalling renewals costs and the reduction in major schemes commissioned this year compared to 2018/19.
 - d. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - e. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - f. Other national SCADA programmes – investment is lower than the regulatory baseline due to delays with the project. This activity has now been reprofiled into future years. As the underspend is due to timing rather than a genuine saving, no financial outperformance has been recognised this year.
 - g. Small Plant – investment is lower than the regulatory baseline this year. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Expenditure is lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.

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

In £m 2019-20 prices unless stated

- h. Other – the lower investment this year is largely due to delays in the ORBIS programme, following supplier disputes. Investment is lower than the previous year for the same reason.
- (7) Property – expenditure is lower than the regulatory baseline this year mainly due to rephasing of activity within the control period. As the outputs of the fund have not been deferred, no financial performance is reported on the saving. Investment is slightly higher than the previous year. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
 - a. ECTS – expenditure is lower than the regulatory baseline due to delays in the project and favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline. As expected in the regulatory baselines, expenditure is lower than the previous year.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - c. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

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

In £m 2019-20 prices unless stated

- d. 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). This is a new item for CP6, so there is no prior year value to compare to.
- e. System Operator – expenditure this year is similar to the regulatory baseline. This is a new funding category for the current control period and so there is no prior year activity.
- f. Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, England & Wales

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
Thameslink	75	58	(4)
Great Western Electrification	177	210	(54)
Cardiff Central Operational Resilience	16	17	-
Brighton mainline Upgrade Programme	12	11	-
CARS - Croydon Area Remod Scheme	10	6	-
West Anglia Main Line Capacity	5	9	-
Midland Main Line Programme	281	286	(1)
Wessex Enhancements (Waterloo and South London HV Grid)	20	19	(2)
Trans Pennine Route Upgrade	182	204	-
Gatwick Station	11	6	-
East West Rail Phase 2	92	113	-
Oxford Corridor Capacity Phase 2	5	16	-
GWEP Distribution Network Operators clearance work	5	6	-
East Coast Main Line Enhancements Programme	185	158	5
North West Train Lengthening	17	32	-
Reading Independent Feeder (Power Supply)	10	24	-
Bristol East Junction	7	12	-
Kings Lynn to Cambridge 8 Car	18	18	-
Exeter St David's to Newton Abbot Resilience Improvement (Dawlish)	18	43	-
London Euston (in support of High Speed Rail Group scheme)	6	10	-
SFN-Freight Forecasts project	5	7	-
Access for All	19	46	-
Thameslink Resilience Programme	11	23	2
Western Rail Access to Heathrow	8	10	-
Crossrail	77	82	(76)
Integrated Crewe Hub - HS2	6	8	-
Reading, Ascot to Waterloo Train Lengthening	12	17	-
NWEP Phase 7 Lostock - Wigan	-	5	-
Dr Days to Filton Abbey Wood Capacity	9	10	-
Portfolio Contingency (including T-12)	10	50	40
Depots & Stabling Fund	22	17	-
Northern Hub	41	39	(1)
Thames Valley EMU Capability	9	5	-
West Coast PSU	2	16	-
IEP Western Capability	9	13	-
West of England Plat Length	-	5	-
Feltham	-	5	-
High Speed 2	7	-	-
Access to Assets	4	12	-
Other	49	69	(4)
Total	1,452	1,697	(95)
Other capital expenditure	168	-	-
Other third party funded schemes			
HS2	189	-	-
Other third Party	236	-	-
Total	425	-	-
Total enhancements	2,045	1,697	(95)
Total enhancements less Other third party funded schemes	1,620	1,697	(95)

Statement 3.7: Analysis of enhancement expenditure, England & Wales

In £m 2019-20 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 England & Wales' core 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.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by 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. 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 England & Wales' core funder (DfT).
- (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 England & Wales' funder (DfT) was £1,620m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,045m) less the PAYGO schemes funded by other third parties (£425m).
- (2) Enhancements expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with increased Great Western Electrification Programme and Crossrail programme costs. 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 England & Wales' funder (DfT). Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as England & Wales delivers a different set of programmes at the direction of its core funder (DfT).

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

In £m 2019-20 prices unless stated

(3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:

- a. Thameslink – expenditure this year is higher than the baseline due to acceleration of activity and higher programme costs. The accelerated activity includes the purchase of Chart Leacon Depot originally scheduled for 2020/21. The higher programme costs are primarily due to the prolongation of Rail Systems Residual activity which have resulted in financial underperformance being recognised this year.
- b. Great Western Electrification – progress this year has been slower than planned. The delays in the programme have resulted in increases in the total timescale for the project which has caused increases in the total anticipated final cost to more than the baseline, resulting in recognition of financial underperformance this year. Increases in the total anticipated final cost have also arisen from substantiation of disputed costs well as various cost pressures across the programme.
- c. Wessex enhancements (Waterloo and South London HV Grid) – although expenditure this year is broadly in line with the baseline, financial underperformance has been recognised this year. This is due to higher contractor costs, unforeseen complexity of works at Waterloo station and project prolongation.
- d. Trans Pennine Route Upgrade – expenditure is lower than the baseline this year. This is mostly due to delays in agreeing the scope of the individual projects within the portfolio which led to a delay in remitting new stages of works. Those works that had been remitted at the start of the year delivered broadly in line with the plan. There were also some delays at the end of the year relating to Covid-19 and deferral of land purchases.
- e. East West Rail Phase 2 – slower progress has been made on this project this year. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. The programme has had increased governance this year which has slowed decision-making but provided enhanced challenge over the use of tax-payers funding. Activity has been reprofiled to later in the control period.
- f. Oxford Corridor Capacity Phase 2 – slower progress has been made on this project this year and activity has been rephased into future years. Delays to design and specification finalisation as well as combining planned activity with other works in the area to minimise passenger disruption have driven these timing differences.
- g. East Coast Main Line Enhancements Programme – due to the large and complex nature of this programme a reprofiling overlay was included against the entire programme, rather than against each project. However, delivery of projects has progressed well, meaning that most of this reprofiling overlay was not required. This progress reduces the risk of later phases missing milestone targets. There has also been a reduction in the overall anticipated final costs to deliver the programme which has resulted in financial outperformance being reported this year due to the aforementioned strong progress on the scheme.

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

In £m 2019-20 prices unless stated

- h. North West Train Lengthening – slower progress has been made on this project this year. This was mainly due to delays in agreeing scope for unremitted elements of the scope with DfT. Those projects remitted by the start of the year delivered in line with expectation.
- i. Reading Independent Feeder (Power Supply) – slower progress has been made on this project this year as work has been reprofiled into future years of the control period. There has been savings on the Western SCADA programme this year, but these funds are required to mitigate risks on other parts of the programme expected to materialise in future years. Therefore, the total project costs remain the same and no financial outperformance has been recognised at this stage.
- j. Exeter St David's to Newton Abbot Resilience Improvement (Dawlish) – slower progress has been made on this project this year. This has been partly due to delays in letting contracts for parts of the programme in order to obtain acceptable contractor tenders to remain within the funding made available by DfT. In addition, delays in panel installation at the year end pushed some investment into 2020/21.
- k. Access for All – slower progress has been made on this programme this year. The funding on this programme allowed for numerous improvements to be made across the network. However, fewer new schemes with appropriate benefits were identified and approved this year. The largest area of underspend is in the Southern Region. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- l. Thameslink Resilience Programme – slower progress has been made on this project this year. This is mainly due to reprofiling activity to coincide with other large projects on that part of the network to minimise disruption to passengers. There has also been a saving in possession management costs following effective workbank planning and successful negotiation with operators. This has resulted in a reduction in the total programme costs, an element of which has been recognised as financial outperformance this year.
- m. Crossrail – although expenditure was broadly in line with the plan, financial underperformance has been recognised this year as a result of increases in the total anticipated final cost to more than the baseline. This has been caused by increased scope with some contractors and value engineering challenges on the Western Station projects not being fully realised.
- n. Portfolio Contingency (including T-12) – expenditure this year was lower than the baseline. 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 year against other projects within the portfolio. Actual costs reported in this category this year are for the element of possession costs caused by delays to timetable publications, as noted in the previous year's Regulatory Financial Statements.
- o. West Coast PSU – minimal activity has been reported this year against this project. This has arisen from a review of required scope of the remainder of the project to align to other strategic considerations on that part of the network. Changes in potential design options have compounded this. Expenditure has been reprofiled into future years.

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

In £m 2019-20 prices unless stated

- p. Other – this category covers a number of smaller projects, including CP5 close out projects. The underspend in this category this year reflects the reductions across the rest of the portfolio, as fewer new schemes have been approved by DfT for progression. The change in control period has also slowed progress as projects are having to move quickly from a standing start due to a lack of investment in early design works towards the end of CP5 as no funding available.
- (4) 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 Brent Cross new station development, Merseyrail power supply and work on the Northern Powerhouse programme.
- (5) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements and investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

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

£m, 2019-20 prices unless stated

		Unit	AFC	FY20 AFV	Unit Costs	AFC	FY19 AFV	Unit Costs
Track	PL Replace Full	km	195	127	1,535	n/a	n/a	n/a
	PL Replace Partial	km	180	495	364	n/a	n/a	n/a
	PL High Output	km	139	143	972	n/a	n/a	n/a
	PL Refurbishment	km	78	545	143	n/a	n/a	n/a
	Switches & Crossing - Replace	point ends	112	220	509	n/a	n/a	n/a
	Switches & Crossing - Other	point ends	70	696	101	n/a	n/a	n/a
	Off Track	km/No.	91	1,823	50	n/a	n/a	n/a
Total			865	-	-	-	-	-
Signalling	Signalling Full	SEU	239	233	1,026	n/a	n/a	n/a
	Signalling Partial	SEU	246	171	1,439	n/a	n/a	n/a
	Signalling Refurb	SEU	9	31	290	n/a	n/a	n/a
	Level crossings	No.	43	43	1,000	87	34	2,559
	Total		537	-	-	87	-	-
Civils	Underbridges	m2	178	68,620	3	225	88,278	3
	Overbridges (incl BG3)	m2	32	10,379	3	69	19,268	4
	Tunnels	m2	21	23,965	1	23	31,082	1
	Culverts	m2	21	4,179	5	10	4,657	2
	Footbridges	m2	9	2,406	4	18	7,994	2
	Coastal & Estuarial Defences	m2	4	13,475	0	5	3,859	1
	Retaining Walls	m2	9	10,290	1	4	1,052	4
Total			274	-	-	354	-	-
Earthworks	Earthworks - Embankments	No.	90	1,317	68	n/a	n/a	n/a
	Earthworks - Soil Cuttings	No.	61	1,788	34	n/a	n/a	n/a
	Earthworks - Rock Cuttings	No.	29	590	49	n/a	n/a	n/a
	Earthworks - Other	No.	-	113	-	n/a	n/a	n/a
	Drainage - Earthworks	m	20	36,919	1	n/a	n/a	n/a
	Drainage - Other	m	74	124,954	1	74	262,757	0
	Total		274	-	-	74	-	-
Buildings	Buildings (MS)	m2	21	38,725	1	2	4,152	0
	Platforms (MS)	m2	1	1,053	1	1	1,500	1
	Train sheds (MS)	m2	4	15,270	0	1	12,169	0
	Other (MS)	m2	1	2,710	0	8	185,042	0
	Buildings (FS)	m2	3	2,183	1	2	4,005	0
	Platforms (FS)	m2	36	27,120	1	11	41,760	0
	Canopies (FS)	m2	29	28,737	1	4	8,425	0
	Train sheds (FS)	m2	1	6,690	0	3	7,762	0
	Footbridges (FS)	m2	13	3,474	4	14	3,992	4
	Other (FS)	m2	23	152,075	0	10	93,192	0
	Light Maintenance Depots	m2	2	41,949	0	4	58,447	0
	Depot Plant	m2	-	145	-	-	-	-
	Lineside Buildings	m2	16	60,198	0	8	36,176	0
	MDU Buildings	m2	20	74,870	0	10	50,200	0
	Total		170	-	-	78	-	-

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

- continued

£m, 2019-20 prices unless stated

		FY20			FY19			
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Electrical Power & Fixed Plant	Wiring	Wire runs	29	157	185	74	213	347
	Mid-life refurbishment	Wire runs	7	55	127	12	6	2,000
	Structure renewals	No.	52	764	68	56	840	67
	Other OLE	No.	-	7	-	-	-	-
	Conductor rail	km	25	110	227	25	147	170
	HV switchgear renewal DC	No.	11	15	733	9	20	450
	HV cables DC	km	3	7	429	2	5	400
	LV cables DC	km	11	47	234	21	89	236
	LV switchgear renewal DC	No.	-	-	-	1	12	83
	Protection Relays DC	No.	1	14	71	-	-	-
	UPS	No.	7	91	77	n/a	n/a	n/a
	Points Heaters	point end	1	42	24	6	163	37
	Signalling Power Cables	km	62	166	373	71	263	270
	Signalling Supply Points	point end	22	30	733	20	32	625
	NSCD / Track Feeder Switch	No.	10	524	19	n/a	n/a	n/a
Total			241	-	-	297	-	-
Telecoms	Customer Information Systems	No.	15	669	22	19	1,514	13
	Public Address	No.	11	3,803	3	5	6,300	1
	CCTV	No.	3	575	5	4	948	4
	Other Surveillance	No.	1	100	10	7	264	27
	PABX Concentrator	No.	2	1,370	1	10	13,784	1
	DOO CCTV	No.	-	-	-	1	2	500
	HMI Small	No.	-	-	-	-	5	-
	HMI Large	No.	-	21	-	1	124	8
	Power	No.	5	402	12	1	49	20
	Network	No.	2	30	67	-	13	-
	Total			39	-	-	48	-

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

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (1) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (2) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. In level crossings the unit rate has significantly decreased in the year. In the current year there has been a number of large projects in the East Midlands and Anglia routes which have largely contributed to the reduction in this unit rate. In the prior year there were two complex projects (Ferriby to Gilberdyke Resignalling and Knottingley Area LC Renewals) which had particularly high unit costs and so brought up the overall rate of this asset.

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

In £m 2019-20 prices unless stated

- (3) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year. The biggest increase has been in the culverts subcategory. This is due to the fact that in the current year there is much higher proportion of replacement work compared to the previous year. Replacement tends to be more expensive than repair and preventative work.
- (4) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in the prior year.
- (5) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (6) Electrification & Plant -There has been a decrease in the unit costs for wiring. This was because in the prior year there was a particularly high unit cost for the Great Eastern OLE Renewal project. This was a massive multiyear project so skewed the costs upwards in 2018-19. There has also been a decrease in the unit costs for mid-life refurbishment. However, there was only one project in the previous year, so the sample size is too small to do any meaningful analysis. The anticipated final cost of this project decreased in the current year. There has been an increase in the rate for HV switchgear renewal DC. There were only two projects in each year, so the small sample size makes it difficult to do useful analysis. In the prior year there was a project at Hounslow Loop and Windsor that had a particularly low unit rate. There has been a decrease in the unit rate for point heaters. However, there was only one project in the current year which was in the Eastern region. There has been an increase in the rate for signalling power cables in the year. The majority of the projects in this category spanned both years. However, there were new projects in the Wessex route of the Southern Region.
- (7) Telecoms – There has been an increase in the rate for customer information systems. This was because in the prior year there were a couple of projects in (Sussex SISS Renewals and Virgin Stations SISS) that significantly brought down the unit rate. There has been a decrease in the rate for other surveillance. However, this was skewed by the fact that in 2018-19 there was one project in Sussex that had expenditure of over four million pounds compared to a total of one million for all the projects in 2019-20. There has also been a big decrease in the unit rate for power. This was primarily down to the LNE Battery & Charger Renewals project in Eastern in the current year which delivered eight times more volumes than all the projects put together in the previous year.

Statement 4: Regulatory financial position, England & Wales

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	64,520
Indexation to 2019-20 prices	65,487
RAB additions	
Renewals expenditure	2,573
Enhancements expenditure	-
Less amortisation	(2,573)
Property Sales	(525)
Closing RAB	64,962

Net debt

	£m
Opening net debt	48,109
Income	(8,103)
Expenditure	6,389
Financing Costs - Government borrowing	1,006
Financing Costs - index linked debt	704
Financing Costs - Other	185
Corporation tax	-
Working capital	(198)
Closing net debt	48,092

Statement 4: Regulatory financial position, England & Wales

In £m 2019-20 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 and enhancement 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 England & Wales Regions of Network Rail and how it has moved from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was £2.6bn. 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). This year, the high value of disposals includes the divestment of the Cardiff Valley lines part of the network in Wales to the Welsh government.
- (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 from the position at the start of the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to England & Wales debt closing debt was broadly consistent with the opening debt. This included the benefit from disposing of part of the network in Wales to Welsh government. This inflow was augmented by favourable working capital variances but largely offset by increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.

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

In £m 2019-20 prices unless stated

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

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

(12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.

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

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	471	499	(28)	-	344
Franchised track access charges	367	374	(7)	(3)	363
Other Single Till Income	40	45	(5)	(5)	35
Total Income	878	918	(40)	(8)	742
Operating expenditure					
Network operations	52	55	3	3	52
Support costs	82	88	6	2	50
Traction electricity, industry costs and rates	69	74	5	-	61
Maintenance	164	167	3	(1)	161
Schedule 4	21	13	(8)	(8)	17
Schedule 8	10	15	5	5	31
	398	412	14	1	372
Capital expenditure					
Renewals	335	388	53	(2)	380
Enhancements	204	208	4	9	491
	539	596	57	7	871
Other expenditure					
Financing costs	210	224	14	-	227
Corporation tax	-	1	1	-	-
	210	225	15	-	227
Total expenditure	1,147	1,233	86	8	1,470
Total Financial Out/(under) performance				-	

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

In £m 2019-20 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Scotland's Railway's net expenditure (Total income less Total expenditure) was around £45m lower than the regulatory baseline. This was mostly due to reprofiling capital expenditure into later years of the control period.
- (2) This statement also shows that Scotland's Railway made a solid start to the control period, with performance in line with the regulatory target. Like-for-like enhancement programme reductions and operating cost savings were offset by higher penalties under the train performance regime and lower income. The impact of Covid-19 will make continuing this outperformance in 2020/21 extremely challenging.
- (3) Income - Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was slightly lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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. Income is slightly higher than the previous year mainly due to extra traction electricity income, offset by the higher market prices to procure electricity. Franchised track access income is discussed in more detail in Statement 2.
- (5) Income – Other single till income in the year is lower than the baseline mostly due to lower Property income. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity for Freight operators is 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). Income is marginally higher than the previous year including extra charges to operators for use of station facilities. 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 2019-20 prices unless stated

- (6) Operating expenditure - Network Operations costs are lower than the regulatory baseline this year, mainly due to some additional efficiencies achieved and slower recruitment signaller recruitment than planned. Overall, this has reduced staff costs, albeit partly offset by higher overtime. Costs are broadly similar to the previous year. Network Operations costs are set out in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6. 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Income – Franchised track access charges line). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (Income – Franchised track access charges line). Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - maintenance costs are slightly lower than the regulatory baseline this year including additional efficiencies and lower reactive maintenance activity which has been partly offset by higher haulage and material costs. The latter has resulted in some minor financial underperformance being recognised this year. Costs are broadly in line with the previous year which reflected a number of investment initiatives undertaken at the end of CP5 offset by additional expenditure to meet the outputs and asset management challenges for CP6. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, resulted in higher costs. Costs are also higher due to a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. Costs are higher than the previous year, reflecting changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review. Schedule 4 costs are discussed in more detail in Statement 3.5.
- (11) Operating expenditure – Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight. Schedule 8 costs are discussed in more detail in Statement 3.5.

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

In £m 2019-20 prices unless stated

- (12) Capital expenditure – Renewals expenditure for the year is lower than the regulatory baseline, which included contributions from Regionally-managed Signalling programme and across various Centrally-managed categories. Overall expenditure is lower than the previous year mainly due to the slower progress on the Signalling portfolio this year. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure – Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial outperformance. When assessing financial performance, 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 Transport Scotland. The savings this year include Highland Main Line programme due to tight contingency and risk management as well as EGIP and Aberdeen to Inverness. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 Transport Scotland. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure - Other 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.
- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.

Statement 2: Analysis of income, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	255	255	-	-	244
Variable usage charge	24	26	(2)	(2)	16
Electrification asset usage charge	2	2	-	-	2
Managed stations long term charge	7	8	(1)	(1)	3
Franchised stations long term charge	21	21	-	-	13
Schedule 4 access charge supplement	11	11	-	-	21
	320	323	(3)	(3)	321
Other single till income					
Freight income					
Freight variable usage charge	3	2	1	1	3
	3	2	1	1	3
Stations income					
Managed stations qualifying expenditure	7	9	(2)	(2)	5
Franchised stations lease income	2	2	-	-	2
	9	11	(2)	(2)	7
Facility and financing charges					
Facility charges	1	1	-	-	-
	1	1	-	-	-
Depots income	9	8	1	1	9
Other income	1	-	1	1	-
Total other single till income	23	22	1	1	19
Total regionally-managed income	343	345	(2)	(2)	340
Centrally-managed income					
Network grant	323	346	(23)	-	344
Internal financing grant	70	73	(3)	-	-
External financing grant	70	71	(1)	-	-
BTP grant	8	8	-	-	-
Corporation tax grant	-	1	(1)	-	-
Infrastructure cost charges	12	12	-	-	16
Schedule 4 access charge supplement	2	2	-	-	2
Traction electricity charges	33	37	(4)	-	24
Freight traction electricity charges	1	1	-	-	1
	519	551	(32)	-	387
Other single till income					
Property income					
Property rental	16	20	(4)	(4)	15
Property sales	-	2	(2)	(2)	-
	16	22	(6)	(6)	15
Crossrail finance charge	-	-	-	-	-
Total other single till income	16	22	(6)	(6)	15
Total centrally-managed income	535	573	(38)	(6)	402
Total income	878	918	(40)	(8)	742

Statement 2: Analysis of income, Scotland's Railway

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants received from funders (Transport Scotland and DfT), Traction electricity income and Property revenue. Income is higher than the previous year mostly due to additional grant income from funders (Transport Scotland and DfT), reflecting the new financial framework for CP6.

Regionally-managed income

- (1) Total Regionally-managed income is largely in line with the CP6 baseline and the previous year.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is generally in line with the regulatory target this year. The slight reduction is due to delays introducing new high-speed fleet by the operator which attract a higher variable usage charge. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (6) Franchised stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its franchised station portfolio.

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

In £m 2019-20 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 the ORR use for the Regulatory financial statements. Income was lower than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants, Traction electricity income and Property income. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6.
- (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 in a given 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 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 was lower than the regulatory baseline expected as savings have been made compared to the net operating costs included in the regulatory baseline, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.
- (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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.

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

In £m 2019-20 prices unless stated

- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (9) Property rental – income is slightly lower than the regulatory baseline as market rates have not increased as much as expected. Income was broadly in line with the previous year.
- (10) Property sales – as with the previous year, minimal property sales income has been recognised this year. This is lower than the regulatory baseline assumed. The nature of property sales can result in volatility any year depending upon the market conditions and requirement to maximise potential returns even if that means deferring disposals until optimal value can be earned.

Statement 3: Analysis of expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	50	52	2	2	50
Maintenance	156	159	3	1	158
Support costs	32	26	(6)	(6)	18
Schedule 4	21	11	(10)	(10)	16
Schedule 8	10	15	5	5	31
	269	263	(6)	(8)	273
Capital expenditure					
Renewals	289	325	36	(5)	333
Enhancements	191	208	17	9	497
	480	533	53	4	830
Total regionally-managed expenditure	749	796	47	(4)	1,103
Centrally-managed expenditure					
Operating expenditure					
Network operations	2	3	1	1	2
Maintenance	8	8	-	(2)	3
Support costs	50	62	12	8	32
Traction electricity, industry costs and rates	69	74	5	-	61
Schedule 4	-	2	2	2	1
	129	149	20	9	99
Capital expenditure					
Renewals	46	63	17	3	47
Enhancements	13	-	(13)	-	(6)
	59	63	4	3	41
Other					
Financing costs	210	224	14	-	227
Taxation	-	1	1	-	-
	210	225	15	-	227
Total centrally-managed expenditure	398	437	39	12	367
Total expenditure	1,147	1,233	86	8	1,470

Statement 3: Analysis of expenditure, Scotland's Railway

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of capital delivery to later in the control period. There has also been operating expenditure savings and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Transport Scotland.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to reprofiling of capital projects to later in the control period. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested Transport Scotland. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

- (1) Centrally-managed costs are broadly in line with the regulatory baseline although there are variances across the different categories. Costs are higher than the previous year which was expected in the higher regulatory allowances for this year. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	29	32	3	3	28
Operations Management	3	3	-	-	3
Controllers	4	4	-	-	4
Electrical control room operators	2	1	(1)	(1)	1
	38	40	2	2	36
Non signaller expenditure					
Mobile operations managers	3	3	-	-	4
Managed stations	6	6	-	-	5
Performance	2	1	(1)	(1)	1
Other	1	2	1	1	4
Total regionally-managed operations expenditure	50	52	2	2	50
Centrally-managed operations expenditure					
Network Services	2	3	1	1	2
Total centrally-managed operations expenditure	2	3	1	1	2
Total operations expenditure	52	55	3	3	52

Statement 3.1: Analysis of operations expenditure, Scotland's Railway

In £m 2019-20 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.

Comments:

- (1) Total costs are lower than the regulatory baseline this year mostly due to savings in Regionally-managed costs. Total costs are broadly similar to the previous year.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs are lower than the regulatory baseline this year, mainly due to some additional efficiencies achieved and slower recruitment signaller recruitment that planned. Overall, this has reduced staff costs, albeit partly offset by higher overtime. Costs are broadly similar to the previous year.

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly in line with the regulatory baseline and the previous year.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	77	81	4	4	55
Signalling & Telecoms	23	20	(3)	(3)	21
Civils	27	28	1	(2)	26
Buildings	6	5	(1)	-	5
Other network operations	12	15	3	3	42
	156	159	3	1	158
Centrally-managed maintenance expenditure					
Telecoms	2	3	1	1	2
Route Services - Asset Information	4	3	(1)	(1)	3
STE Maintenance	1	1	-	-	-
Route Services - Other	2	1	(1)	(3)	-
Other	(1)	-	1	1	(2)
	8	8	-	(2)	3
Total maintenance expenditure	164	167	3	(1)	161

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are slightly lower than the regulatory baseline this year including additional efficiencies and lower reactive maintenance activity which has been partly offset by higher haulage and material costs. The latter has resulted in some minor financial underperformance being recognised this year. Costs are broadly in line with the previous year which reflected a number of investment initiatives undertaken at the end of CP5 offset by additional expenditure to meet the outputs and asset management challenges for CP6.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are slightly favourable to the regulatory expectation this year, including additional efficiencies and lower reactive maintenance activity.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are broadly consistent with the regulatory baseline. Costs are higher than the previous year. This was anticipated through the increased allowances provided in the regulatory baseline to meet the outputs and asset management challenges for CP6.
- (3) Civils – costs were slightly lower than the regulatory baseline this year, mainly due to lower levels of 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. Costs are broadly in line with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Scotland's Railway – continued

In £m 2019-20 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 in this category is broadly in line with the regulatory assumption. 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 are broadly consistent with the previous year.
- (5) Other network operations – costs for the current year are generally in line with the regulatory expectation. Costs are noticeably lower than the previous year. As noted in last year's Regulatory Financial Statements, 2018/19 witnessed additional investment in performance improvement schemes (including additional vegetation works), safety enhancement programmes and investment in front-line staff welfare facilities.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are broadly in line with the regulatory baseline. The credit balance this year includes central assessments of reactive maintenance which are treated as neutral when assessing financial performance. As expected by the regulatory baselines, costs were higher than the previous year, reflecting higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.

Statement 3.3: Analysis of support expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	3	2	(1)	(1)	3
Finance	1	2	1	1	1
Accommodation	17	16	(1)	(1)	6
Utilities	7	4	(3)	(3)	7
Other	4	2	(2)	(2)	1
	32	26	(6)	(6)	18
Centrally-managed support costs					
Finance & Legal	3	4	1	1	4
Communications	1	1	-	-	1
Human Resources	2	2	-	-	2
System Operator	4	6	2	2	3
Property	1	-	(1)	(1)	(1)
Telecoms	5	7	2	2	5
Network Services	2	3	1	1	1
Safety Technical and Engineering	4	5	1	1	5
RS - IT and Business Services	11	11	-	-	10
RS - Asset Information	2	2	-	-	1
RS - Directorate	2	2	-	-	2
Other corporate functions	3	5	2	(1)	1
Insurance	3	4	1	1	2
Opex/capex Adjustment	8	7	(1)	-	-
Group costs	(1)	3	4	2	(4)
	50	62	12	8	32
Total support costs	82	88	6	2	50

Statement 3.3: Analysis of support costs, Scotland's Railway

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading, and higher Regionally-managed costs.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline this year, including the impact of additional training costs and investment in extra communications to improve stakeholder and public relations. Costs are noticeably higher than the previous year which includes recognition of an onerous provision for corporate offices in Glasgow.
- (2) Accommodation – costs are similar to the regulatory baseline this year. Costs are noticeably higher than the previous year which includes recognition of an onerous provision for corporate offices in Glasgow.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year mainly reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are higher than the previous year due to the increased prominence and capability of this department. In response to the Glaister review published in 2018 and DfT direction, the size and scope of this department has been enhanced to deliver additional outputs for the rail industry as a whole.

Statement 3.3: Analysis of support costs, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (3) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (4) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.
- (5) Group – there are savings this year compared to the regulatory expectation of expenditure. These include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Costs reported in Group this year are higher than the previous year. This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	-	-	-	-	-
	-	-	-	-	-
Centrally-managed traction electricity, industry costs and rates					
Business rates	24	25	1	-	23
British transport police costs	8	8	-	-	10
ORR licence fee and railway safety levy	3	2	(1)	-	2
RSSB costs	1	1	-	-	1
	69	74	5	-	61
Total traction electricity, industry costs and rates	69	74	5	-	61

Statement 3.4: Analysis of traction electricity, industry costs and rates, Scotland's Railway

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators (refer to 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are in line with the previous year.

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element costs	21	11	(10)	(10)	16
Access charge supplement Income	(11)	(8)	3	-	(21)
Net (income)/cost	10	3	(7)	(10)	(5)
Schedule 8					
Performance element costs	10	15	5	5	31
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	10	15	5	5	31
Centrally managed					
Schedule 4					
Performance element costs	-	2	2	2	1
Access charge supplement Income	(2)	(2)	-	-	(2)
Net (income)/cost	(2)	-	2	2	(1)
Schedule 8					
Net (income)/cost	-	-	-	-	-
Total					
Schedule 4					
Performance element costs	21	13	(8)	(8)	17
Access charge supplement Income	(13)	(10)	3	-	(23)
Net (income)/cost	8	3	(5)	(8)	(6)
Schedule 8					
Performance element costs	10	15	5	5	31
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	10	15	5	5	31

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway

In £m 2019-20 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) Overall Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, resulted in higher costs. Costs are also higher due to a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. Costs are higher than the previous year, reflecting changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Scotland's Railway – continued

In £m 2019-20 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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are also higher due to a higher level of compensation payable to long distance operators (which attract higher compensation than the local operators) compared to the modelled assumption in the regulatory baseline. Costs are higher than the previous year owing to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Schedule 8 costs are lower than the baseline due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Network Rail has invested extra opex this year to improve train performance which have helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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 - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are broadly in line with the regulatory expectation. Most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspent in the Regionally-managed section above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions. This year also included costs recognised in resolving compensation payments to operators relating to delays in publishing the May 2018 timetable, as described in the previous year's Regulatory Financial Statements. Costs are higher than the prior year mostly due to the aforementioned settlement of timetable publication delay dispute

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	47	39	(8)	-	-
PL Replace Partial	22	18	(4)	-	-
PL High Output	4	-	(4)	-	16
PL Refurbishment	4	3	(1)	-	12
PL Track Slab Track	5	6	1	-	-
Switches & Crossing - Replace	23	17	(6)	-	10
Switches & Crossing - Other	5	6	1	-	7
Off Track	9	9	-	-	-
Track Other	6	16	10	-	75
	125	114	(11)	-	120
Signalling					
Signalling Full	1	9	8	-	-
Signalling Partial	22	33	11	-	-
Signalling Refurb	5	17	12	-	-
Level crossings	3	6	3	-	6
Minor works	9	15	6	-	14
Other	-	-	-	-	54
	40	80	40	(3)	74
Civils					
Underbridges	30	32	2	-	34
Overbridges	7	5	(2)	-	5
Major structures	7	8	1	-	3
Tunnels	1	-	(1)	-	2
Minor works	8	11	3	-	-
Other	7	5	(2)	-	10
	60	61	1	(3)	54
Earthworks					
Earthworks - Embankments	10	6	(4)	-	3
Earthworks - Soil Cuttings	12	11	(1)	-	13
Earthworks - Rock Cuttings	8	6	(2)	-	10
Earthworks - Other	-	2	2	-	1
	30	25	(5)	5	27
Buildings					
Managed stations	-	2	2	-	1
Franchised stations	13	17	4	-	21
Light maint depots	1	2	1	-	2
Lineside buildings	2	1	(1)	-	1
MDU buildings	1	-	(1)	-	-
Other	-	-	-	-	-
	17	22	5	(2)	25
Electrical power and fixed plant					
AC distribution	2	-	(2)	-	3
Overhead Line	3	1	(2)	-	4
Signalling Power Supplies	1	3	2	-	-
Other	-	2	2	-	6
Fixed plant	3	2	(1)	-	9
	9	8	(1)	(1)	22
Drainage					
Drainage (Track)	5	12	7	-	6
Drainage (Earthworks)	3	1	(2)	-	5
Drainage (Resilience)	-	1	1	-	-
	8	14	6	(1)	11
Property					
Property	-	1	1	-	-
	-	1	1	-	-
Total regionally-managed renewals expenditure	289	325	36	(5)	333

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway - continued

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	2	-	(2)	-	-
Telecoms					
Operational communications	1	2	1	-	1
Network	1	3	2	-	1
SISS	1	1	-	-	2
Projects and other	-	-	-	-	1
Non-route capital expenditure	9	9	-	-	3
	12	15	3	-	8
Wheeled plant and machinery					
High output	3	4	1	-	3
Infrastructure monitoring	-	1	1	-	-
Intervention	1	1	-	-	1
Materials delivery	1	3	2	-	1
On track plant	-	-	-	-	2
Seasonal	-	1	1	-	-
Other	1	-	(1)	-	2
	6	10	4	-	9
Route Services					
Business Improvement	10	12	2	-	-
IT Renewals	4	2	(2)	-	11
	14	14	-	-	11
STE Renewals					
Intelligent infrastructure	3	4	1	-	4
Faster Isolations	3	5	2	-	2
Centrally Managed Signalling Costs	1	1	-	-	1
Research and development	3	3	-	-	1
Integrated Management System (Incl. BCR)	-	1	1	-	-
Other National SCADA Programmes	3	3	-	-	2
Small plant	-	1	1	-	9
Other	2	2	-	-	4
	15	20	5	-	23
Property					
Property	3	3	-	-	1
	3	3	-	-	1
Other renewals					
ETCS	2	3	1	-	-
Civils - Insurance Fund	-	2	2	1	-
Buildings - Insurance Fund	-	2	2	-	-
Opex/capex Adjustment	(8)	(7)	1	-	-
System Operator	1	1	-	-	-
Other renewals	(1)	-	1	2	(5)
	(6)	1	7	3	(5)
Total centrally-managed renewals expenditure	46	63	17	3	47
Total renewals expenditure	335	388	53	(2)	380

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is lower than the regulatory baseline, which included contributions from Regionally-managed Signalling programme and across various Centrally-managed categories. Overall expenditure is lower than the previous year mainly due to the slower progress on the Signalling portfolio this year.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were lower than the regulatory baseline mainly due to delays in the Signalling portfolio to align with overall strategic objectives in Scotland. Some minor financial underperformance has been reported reflecting the Signalling delays noted above along with higher prices in the Structures framework contracts that were finalised after the year started and targets had been set. Expenditure is lower than the previous year mainly due to the slower progress on the Signalling portfolio this year.
- (2) Track – expenditure was higher than the regulatory baseline this year due to accelerated delivery. This included extra volumes delivered on the Plain Line Replace Partial, Plain Line Refurbishment and Switches & Crossings Replace categories. Although volumes were broadly in line with plan Plain Line Replace Full costs were higher, including additional delivery costs for the Alliance contractor. There were also extra costs in High Output arising from cancelled volumes, leading to sunk costs on the projects. These additional costs were partly offset by deferrals of trackside works. Overall, there was minimal net financial outperformance this year. Losses from lost volumes, particularly High Output owing to recent timetable changes and impact of Covid-19 on staff availability, and higher Alliancing delivery costs were offset by successful resolution of commercial claims. Costs were broadly in line with the previous year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (3) Signalling – expenditure was markedly lower than the regulatory baseline expected this year. This was mainly due to delays in remitting signalling works. Large value signalling programmes can be multi-year projects and be expensive so selecting appropriate scope and outputs is key to delivering value for money. Signalling plans need to tie into strategic objectives in the Region, including the interaction with Enhancement programmes and the aspirations of funders. These factors contributed to the delay in the workbank which is expected to be reprofiled across the control period, current Covid-19 considerations aside. Level crossing works were also behind plan due to prolonged strategy discussions with local authorities and landowners. Minor financial underperformance has been reported this year. This included some additional commercial claims on large projects, design issues which established that additional investment was required to get cable routes to the required standard and unforeseen extra landlord compensation to gain access to sites. Expenditure is lower than the previous year which was mainly caused by additional costs for Polmadie & Rutherglen last year compared to the current year as the project was substantial completed in 2018/10. There was also reduced expenditure on Motherwell programmes this year as these projects progressed through their life cycle.
- (4) Civils – overall costs were broadly in line with the regulatory baseline this year with asset sub-categories also being similar to expectation. Some financial underperformance has been recognised this year. At the start of the control period, new framework contracts for CP6 had not been finalised. The final contracts agreed did not have the level of savings that the regulatory expectation and consequently the projects were more expensive than the baseline. The late contract awards also impacted access, especially on those schemes requiring third party consent prolonging projects. Costs were higher than the previous year which was expected in the regulatory baselines this year.
- (5) Earthworks – spend this year is higher than the regulatory baseline which is driven by acceleration of activity partly offset by financial outperformance savings. Additional volumes have been delivered in Embankments, Soil Cuttings and Rock Cuttings to utilise available resources this year. Financial outperformance has largely been generated through earlier contractor engagement to allow joint site visits and scoping of remits 12-18 months before delivery which has provided innovation solutions to be used and workbank stability. The additional project volumes delivered this year has allowed for economies of scale, maximising efficient procurement through the wider supply chain. Expenditure is slightly higher than the previous year.
- (6) Buildings – expenditure this year is lower than the regulatory baseline, which is exacerbated by higher like-for-like costs. Higher contract tender prices led to some postponement of works whilst alternative delivery options were assessed to optimise overall funding. Delivery at the end of the year was also impacted by Covid-19 and the impact social distancing had on contractor availability and internal ability to complete works. Some marginal financial underperformance was reported this year which largely consisted of contractor claims on historic activity and interpretation of the scope of works completed. Delays in designs and planning have also led to additional costs on some projects. Costs were lower than the previous year which was largely expected in the reduced regulatory baseline for this year. Also, as noted in the 2018/19 Regulatory Financial Statements expenditure last year included a major project to improve Aberdeen station canopies.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (7) Electrical power and fixed plant – investment is broadly in line with the regulatory baseline this year. There has been some marginal financial underperformance reported this year mainly due to higher tender prices and increased complexity in design. Costs are notably lower than the previous year which included projects moving into implementation phase this year. The reduced regulatory baseline anticipated this reduction in activity.
- (8) Drainage – expenditure this year is less than the regulatory baseline expected. This included the impact of deferring track drainage works due to delays in scoping of sites and design with focus instead given to Track lineside works to maintain overall asset condition. Higher land access costs and concerns over contamination removal have resulted in re-planning of workbank to deliver optimal value for money. Costs are slightly lower than the previous year which was due to the same factors impacting the variance to the regulatory baseline.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is broadly in line with the previous year.
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is slightly behind the regulatory baseline activity being reprofiled into future years. Overall programme output delivery for the control period is still expected to be in line with the funding assumptions so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
- a. High output – investment was marginally lower than the regulatory baseline due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet. Investment was higher with the previous year, which was expected by the regulatory baseline for 2019/20.
 - b. Infrastructure monitoring – costs were slightly lower than the regulatory baseline mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus into future years of the control period.
 - c. Intervention – costs were broadly consistent with the regulatory baseline and the previous year.
 - d. Material delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is broadly in line with the previous year.
- (5) Route Services – Expenditure is broadly in line with the higher than the regulatory baselines this year. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Faster isolations – costs are lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are broadly similar to the previous year.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- b. Research & Development – investment this year is broadly consistent with the regulatory expectation. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - c. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - d. Small Plant – investment is consistent with the regulatory baseline this year but lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
 - e. Other – the lower investment this year compared to 2018/19 is largely due to slower progress on the ORBIS programme, following supplier disputes.
- (7) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

Statement 3.6: Analysis of renewals expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- c. 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). This is a new item for CP6, so there is no prior year value to compare to.
- d. Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals).

Statement 3.7: Analysis of enhancements expenditure, Scotland's Railway

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
Edinburgh to Glasgow Improvement Programme	37	47	5
Aberdeen to Inverness	69	71	4
Kintore Station	12	13	-
Rolling Programme of Electrification	10	10	(5)
East Kilbride Barrhead	7	7	-
New Down Platform Dunbar	7	9	-
Highland ML JTI Ph 2	6	7	2
Dunblane to Perth	1	10	-
Other	42	34	3
Total	191	208	9
Other Capital Expenditure	13	-	-
Other third party funded schemes			
Other third Party	(2)	-	-
Total	(2)	-	-
Total enhancements	202	208	9
Total enhancements less Other third party funded schemes	204	208	9

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway

In £m 2019-20 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). The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (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 £204m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£202m) less the PAYGO schemes adjustments funded by other third parties (£2m).
- (2) Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial outperformance. When assessing financial performance, 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 Transport Scotland. The savings this year include Highland Main Line programme due to tight contingency and risk management as well as EGIP and Aberdeen to Inverness. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 Transport Scotland.

Statement 3.7: Analysis of enhancement expenditure, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (3) Transport Scotland funded schemes - Enhancements expenditure this year is lower than the regulatory baseline. This was due to some deferral of programmes across the portfolio and financial outperformance. The savings this year include Highland Main Line programme due to tight contingency and risk management as well as EGIP and Aberdeen to Inverness. Some notable variances at programme level this year include:
- a. Edinburgh to Glasgow Improvement Programme – expenditure is lower than the baseline this year which is a combination of programme deferral and reductions in overall programme costs. The lower costs have resulted in the recognition of financial outperformance and mostly arises from control of risks in the programme as it nears completion. Many of the anticipated issues have been successfully managed by the Region and its delivery partners.
 - b. Aberdeen to Inverness – expenditure was broadly in line with the regulatory expectation this year. Financial outperformance has been recognised as a result of reductions in the anticipated final cost of the programme due to tight cost control and contingency management across the programme allowing the outputs to be delivered for less investment.
 - c. Rolling Programme of Electrification – costs this year are in line with the baseline but overall programme costs are now expected to be higher than the baseline which has resulted in the recognition of financial underperformance this year. The higher costs are mostly due to final contractor settlements on completed parts of the programme, which are at risk of being finalised for more than expected.
 - d. Highland Main Line – during the year, tight contingency and risk management has allowed greater confidence in the anticipated programme costs. This has resulted in financial outperformance being recognised this year.
 - e. Other – this heading captures investment activity on numerous smaller programmes. The net financial outperformance recognised this year includes savings on the platform at Dunbar.
- (4) Third party funded schemes – there was minimum activity in this category this year.
- (5) Other capital expenditure – this year, 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.

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway

£m, 2019-20 prices unless stated

		Unit	AFC	FY20 AFV	Unit Costs	AFC	FY19 AFV	Unit Costs
Track	PL Replace Full	km	71	27	2,630	n/a	n/a	n/a
	PL Replace Partial	km	40	132	303	n/a	n/a	n/a
	PL Refurbishment	km	9	116	78	n/a	n/a	n/a
	Switches & Crossing - Replace	point ends	14	43	326	n/a	n/a	n/a
	Switches & Crossing - Other	point ends	10	88	114	n/a	n/a	n/a
	Off Track	km/No.	30	1,237	24	n/a	n/a	n/a
Total			174	-	-	-	-	-
Signalling	Signalling Full	SEU	-	-	-	n/a	n/a	n/a
	Signalling Partial	SEU	26	96	271	n/a	n/a	n/a
	Signalling Refurb	SEU	2	7	286	n/a	n/a	n/a
	Level crossings	No.	3	1	3,000	6	4	1,500
Total			31	-	-	6	-	-
Civils	Underbridges	m2	89	53,457	2	62	46,815	1
	Overbridges (incl BG3)	m2	6	603	10	9	1,956	5
	Tunnels	m2	3	1,374	2	4	1,121	4
	Culverts	m2	4	537	7	1	191	5
	Footbridges	m2	2	680	3	5	1,465	3
	Coastal & Estuarial Defences	m2	-	-	-	-	210	-
	Retaining Walls	m2	9	4,871	2	1	3,413	0
Total			113	-	-	82	-	-
Earthworks	Earthworks - Embankments	No.	9	270	33	n/a	n/a	n/a
	Earthworks - Soil Cuttings	No.	26	669	39	n/a	n/a	n/a
	Earthworks - Rock Cuttings	No.	13	221	59	n/a	n/a	n/a
	Drainage - Earthworks	m	3	37,086	0	n/a	n/a	n/a
	Drainage - Other	m	8	13,343	1	6	10,426	1
TOTAL			59	-	-	6	-	-
Buildings	Buildings (MS)	m2	-	10,000	-	-	-	-
	Other (MS)	m2	-	20,000	-	-	155	-
	Buildings (FS)	m2	1	10,464	0	-	155	-
	Platforms (FS)	m2	1	2,882	0	1	745	1
	Canopies (FS)	m2	2	2,740	1	6	13,090	0
	Train sheds (FS)	m2	3	2,700	1	3	2,700	1
	Footbridges (FS)	m2	1	353	3	-	-	-
	Light Maintenance Depots	m2	1	7,500	0	-	194	-
	MDU Buildings	m2	-	304	-	-	-	-
Total			9	-	-	10	-	-

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway - continued

£m, 2019-20 prices unless stated

		FY20			FY19		
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Electrical Power & Fixed Plant	Wiring						
	Wire runs	-	-	-	-	8	-
	HV Switchgear Renewal AC	4	67	60	5	67	75
	Other AC	1	6	167	-	-	-
	Signalling Power Cables	5	104	48	6	125	48
	Signalling Supply Points	2	3	667	4	2	2,000
	Total	12	-	-	15	-	-
Telecoms	Customer Information Systems	-	52	-	-	-	-
	Public Address	6	904	7	-	-	-
	CCTV	-	-	-	-	-	-
	PABX Concentrator	-	-	-	2	960	2
	Total	6	-	-	2	-	-

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (1) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (2) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. The level crossing unit rate has increased in the year. This is because in the current year there was only one projects that delivered volumes (Murie AHB). The sample size is therefore too small to do any meaningful analysis.

Statement 3.8: Analysis of renewals unit costs, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (3) Civils – There has been a significant increase in the unit rate of overbridges in the current year. This has been driven by a particularly complex project at Carman Road in the current year. This project delivered only one sixth of the total volumes in the route but it contained over one third of the total expenditure.
- (4) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in the prior year.
- (5) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (6) Electrification & Plant - There has been a decrease in the rate for HV switchgear renewal AC. However, there was only one project in this subcategory spanning both the years. The anticipated final cost of this project decreased in the current year. There has been a decrease in the rate for signalling supply points in the year. There were only two projects in the year at Edinburgh and Lockerbie. Both of these projects existed last year as well but there were also a few other projects delivering volumes last year which dragged up the unit rate.
- (7) Telecoms - There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Statement 4: Regulatory financial position, Scotland's Railway

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	7,439
Indexation to 2019-20 prices	7,551
RAB additions	
Renewals expenditure	335
Enhancements expenditure	-
Less amortisation	(335)
Property Sales	-
Closing RAB	7,551

Net debt

	£m
Opening net debt	5,337
Income	(878)
Expenditure	733
Financing Costs - Government borrowing	112
Financing Costs - index linked debt	78
Financing Costs - Other	20
Corporation tax	-
Working capital	(18)
Closing net debt	5,384

Statement 4: Regulatory financial position, Scotland's Railway

In £m 2019-20 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 and enhancement 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 and how it has moved from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was £0.3bn. 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).
- (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 from the position at the start of the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Scotland's Railway has increased by around £50m during the year. This was mainly due to increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.
- (10) Income is set out in more detail in Statement 2
- (11) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Scotland's Railway – continued

In £m 2019-20 prices unless stated

- (12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.
- (13) 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.

Statement 1: Summary of regulatory financial performance, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	1,639	1,853	(214)	-	1,356
Franchised track access charges	645	669	(24)	(3)	738
Other Single Till Income	154	167	(13)	(13)	531
Total Income	2,438	2,689	(251)	(16)	2,625
Operating expenditure					
Network operations	200	210	10	10	210
Support costs	181	234	53	22	141
Traction electricity, industry costs and rates	245	261	16	1	231
Maintenance	512	504	(8)	(14)	453
Schedule 4	109	98	(11)	8	111
Schedule 8	28	39	11	11	73
	1,275	1,346	71	38	1,219
Capital expenditure					
Renewals	851	850	(1)	(8)	925
Enhancements	800	764	(36)	(42)	953
	1,651	1,614	(37)	(50)	1,878
Risk expenditure					
Risk (Centrally-held)	-	(2)	(2)	-	-
Risk (Contingent asset management funding)	-	21	21	-	-
	-	19	19	-	-
Other expenditure					
Financing costs	561	592	31	-	624
Corporation tax	-	3	3	-	-
	561	595	34	-	624
Total expenditure	3,487	3,574	87	(12)	3,721
Total Financial Out/(under) performance				(28)	

Statement 1: Summary of regulatory financial performance, Eastern

In £m 2019-20 prices unless stated

Notes:

- (1) This schedule provides a summary of Eastern's income and expenditure during the year compared to the CP6 Business Plan (the regulatory 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Eastern's net expenditure (Total income less Total expenditure) was around £160m higher than the regulatory baseline, including the impact of accelerating capital expenditure from future years of the control period.
- (2) This statement also shows that Eastern's made slightly underperformed financial targets this year, resulting in £28m of financial underperformance. This included increased Crossrail enhancement programme costs and reduced property income partly offset by lower operating expenditure and improvements in the train performance regime.
- (3) Income - Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational, maintenance and renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was slightly lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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. Income is lower than the previous year reflecting the new financial framework in CP6 with a higher proportion of Eastern's income coming from government grants rather than train operators. Franchised track access income is discussed in more detail in Statement 2.
- (5) Income – Other single till income in the year is lower than the baseline mostly due to fewer Property sales. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity for Freight operators is 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). Income is noticeably lower than the previous year which includes the disposal of large parts of the commercial estate in 2018/19 which makes comparisons with the previous year meaningless. Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m 2019-20 prices unless stated

- (6) Operating expenditure - Network Operations costs are lower than the regulatory baseline as a result of slower signaller recruitment throughout the year which has reduced staff costs, albeit with increased overtime costs to cover shifts. This is partly offset by additional performance improvements to target key areas of underperformance. Costs are lower than the previous year mostly due to the savings achieved in the current year compared to the regulatory baseline. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. As some of these savings relate to timing differences of activity they are not included in the assessment of financial performance. Costs are higher than the previous year reflecting changes in accounting policies for CP6. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the regulatory baseline largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income levied to operators. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure – Maintenance costs are slightly higher than the regulatory baseline this year, mainly due to additional weather-related expenditure, asset resilience works to improve train performance and extra reactive maintenance. Variances in reactive maintenance are not included in the assessment of financial performance. Expenditure is higher than the previous year. Most of this was anticipated through the increased allowances provided in the regulatory baseline to meet the outputs and asset management challenges for CP6. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial underperformance reported is lower than mere the arithmetic variance. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, contributed to the higher costs. Costs are broadly in line with the previous year. Schedule 4 costs are set out in more detail in Statement 3.5.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m 2019-20 prices unless stated

- (11) Operating expenditure – Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight. 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. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were partly offset by acceleration of Track works. Overall expenditure was less than last year mainly due to large value Signalling and Electrification projects being completed in 2018/19 and with a contribution from a change in accounting policy for CP6. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. There were a number of differences between the profile of delivery of individual programmes compared to the original regulatory expectation. There has been underperformance in the year primarily due to the Crossrail 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 DfT. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Eastern delivers a different set of programmes at the direction of DfT. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure – Other 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.
- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was minimal values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so fewer risks for the forthcoming year would be anticipated. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.

Statement 1: Summary of regulatory financial performance, Eastern – continued

In £m 2019-20 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax costs are lower than the regulatory baseline assumed. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	231	239	(8)	-	271
Variable usage charge	81	85	(4)	(4)	59
Electrification asset usage charge	9	8	1	1	7
Capacity charge	-	-	-	-	141
Open access income	19	19	-	-	19
Managed stations long term charge	14	13	1	1	10
Franchised stations long term charge	32	33	(1)	(1)	19
Schedule 4 access charge supplement	102	102	-	-	71
	488	499	(11)	(3)	597
Other single till income					
Freight income					
Freight variable usage charge	22	21	1	1	22
Freight other income	1	1	-	-	6
	23	22	1	1	28
Stations income					
Managed stations qualifying expenditure	13	14	(1)	(1)	13
Franchised stations lease income	11	12	(1)	(1)	12
	24	26	(2)	(2)	25
Facility and financing charges					
Facility charges	13	14	(1)	(1)	14
	13	14	(1)	(1)	14
Depots income	27	24	3	3	25
Other income	-	2	(2)	(2)	1
Total other single till income	87	88	(1)	(1)	93
Total regionally-managed income	575	587	(12)	(4)	690
Centrally-managed income					
Network grant	1,240	1,439	(199)	-	1,356
Internal financing grant	185	194	(9)	-	-
External financing grant	185	189	(4)	-	-
BTP grant	29	28	1	-	-
Corporation tax grant	-	3	(3)	-	-
Infrastructure cost charges	8	8	-	-	15
Schedule 4 access charge supplement	22	21	1	-	5
Traction electricity charges	127	141	(14)	-	121
Freight traction electricity charges	2	2	-	-	2
	1,798	2,025	(227)	-	1,499
Other single till income					
Property income					
Property rental	64	62	2	2	86
Property sales	1	15	(14)	(14)	350
	65	77	(12)	(12)	436
Crossrail finance charge	-	-	-	-	-
Total other single till income	65	77	(12)	(12)	436
Total centrally-managed income	1,863	2,102	(239)	(12)	1,935
Total income	2,438	2,689	(251)	(16)	2,625

Statement 2: Analysis of income, Eastern

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants. Income is lower than the previous year which benefitted from the divestment of most of Network Rail's commercial property portfolio. This has been partly mitigated by additional grant income, reflecting the new financial framework for CP6.

Regionally-managed income

- (1) Total Regionally-managed income is marginally lower than the CP6 baseline, mainly due to differences in inflation assumptions. Income is lower than the previous year due to a change in the mix of income received directly from operators (Regionally-managed) and government grants (Centrally-managed).
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. The slight reduction is mainly due to differences in inflation assumptions in the regulatory baseline compared to actual inflation rates used in track access contracts, notably on the Crossrail Supplementary Access Charge. In line with the CP6 Regulatory Accounting Guidelines, variances in this line are considered neutral when assessing financial performance. Income is lower than the previous year which was anticipated in the regulatory baselines. The proportion of funding from operators (Regionally-managed) is lower but higher from government grants (Centrally-managed).
- (3) Variable usage charge – income from variable usage charges paid by train operators is generally in line with the regulatory target this year. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (6) Franchised stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its franchised station portfolio.

Statement 2: Analysis of income, Eastern – continued

In £m 2019-20 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 the ORR use for the Regulatory financial statements. Income was higher than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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.
- (8) Freight Income – income is broadly in line with the regulatory target this year. Turnover is lower than the previous year, mainly due to changes in the regulatory charging mechanism for CP6, including changes to the coal slippage charges and capacity charges to benefit operators.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants. Income is lower than the previous year which benefitted from the divestment of most of Network Rail's commercial property portfolio. As reported in last year's Regulatory Financial Statements, this disposal was undertaken to fund the ambitious enhancement programme delivered in the previous control period.
- (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 in a given 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, 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 was lower than the regulatory baseline as savings have been made as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the CP6 Business Plan assumption. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.
- (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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.

Statement 2: Analysis of income, Eastern – continued

In £m 2019-20 prices unless stated

- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline is to be expected. Income is lower than the previous year in line with the regulatory baselines.
- (9) 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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Schedule 4 access charge supplement – 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 assumed in the CP6 baselines. Income is higher than the previous year. This largely reflects changes in funding in CP6 where the regulator has created a central fund for insurable events reflecting prior claims experience. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs (across the control period).
- (11) Property rental – although income is in line with the regulatory expectation this year it is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.
- (12) Property sales – sales in the current year were lower than the regulatory baseline expected. The nature of property sales can result in volatility any year depending upon the market conditions and requirement to maximise potential returns even if that means deferring disposals until optimal value can be earned. Income is lower than the previous year due to the disposal of the majority of Network Rail's commercial estate in 2018/19, as reported in last year's Regulatory Financial Statements. The magnitude of this single transaction makes comparisons with the previous year meaningless
- (13) Crossrail finance income – there is no income earned through this classification this year under centrally-managed charges. This is consistent with the regulatory baseline. The value in the previous year related to contractual arrangements in place during Control Period 5 to compensate Network Rail for the borrowing costs associated with the construction of the new infrastructure. This arrangement came to an end during 2018/19.

Statement 3: Analysis of expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	193	202	9	9	205
Maintenance	492	482	(10)	(8)	442
Support costs	47	38	(9)	(9)	44
Traction electricity, industry costs and rates	1	1	-	(1)	-
Schedule 4	110	80	(30)	(10)	81
Schedule 8	25	35	10	10	71
	868	838	(30)	(9)	843
Capital expenditure					
Renewals	731	703	(28)	(16)	766
Enhancements	733	764	31	(42)	935
	1,464	1,467	3	(58)	1,701
Total regionally-managed expenditure	2,332	2,305	(27)	(67)	2,544
Centrally-managed expenditure					
Operating expenditure					
Network operations	7	8	1	1	5
Maintenance	20	22	2	(6)	11
Support costs	134	196	62	31	97
Traction electricity, industry costs and rates	244	260	16	2	231
Schedule 4	(1)	18	19	18	30
Schedule 8	3	4	1	1	2
	407	508	101	47	376
Capital expenditure					
Renewals	120	147	27	8	159
Enhancements	67	-	(67)	-	18
	187	147	(40)	8	177
Risk expenditure	-	19	19	-	-
Other					
Financing costs	561	592	31	-	624
Taxation	-	3	3	-	-
	561	595	34	-	624
Total centrally-managed expenditure	1,155	1,269	114	55	1,177
Total expenditure	3,487	3,574	87	(12)	3,721

Statement 3: Analysis of expenditure, Eastern

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is slightly lower than the regulatory baseline this year, mainly due to operating expenditure savings in Support. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to acceleration of capital works from later in the control period. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport. 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 operating expenditure savings, lower performance regime costs and industry expenses. Costs are broadly in line with the previous year although there are variances across various categories. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	92	96	4	4	93
Operations Management	20	20	-	-	18
Controllers	10	11	1	1	11
Electrical control room operators	4	7	3	3	4
	126	134	8	8	126
Non signaller expenditure					
Mobile operations managers	14	15	1	1	12
Managed stations	11	13	2	2	11
Performance	5	8	3	3	6
Other	37	32	(5)	(5)	50
Total regionally-managed operations expenditure	193	202	9	9	205
Centrally-managed operations expenditure					
Network Services	7	8	1	1	5
Total centrally-managed operations expenditure	7	8	1	1	5
Total operations expenditure	200	210	10	10	210

Statement 3.1: Analysis of operations expenditure, Eastern

In £m 2019-20 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.

Comments:

- (1) Overall operations expenditure is lower than the regulatory baseline due to lower Regionally-managed costs. Costs are lower than the previous year mostly due to the savings achieved in the current year compared to the regulatory baseline.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs are slightly lower than the regulatory baseline. This includes delays in signaller recruitment throughout the year which has reduced staff costs, albeit with increased overtime costs to cover shifts. This is partly offset by additional performance improvements schemes included in the Other category, notably in Anglia, to target key areas of underperformance in that route. Costs are lower than the previous year mostly due to the savings achieved in the current year compared to the regulatory baseline.

Centrally-managed operations expenditure

- (1) Network Services – costs are lower than the regulatory baseline this year. This includes lower expenditure on the Performance Innovation Fund, a ring-fenced allowance in the regulator's determination to invest new approaches to improve collaboration between Network and passenger operators to benefit customers. However, progress has been slower due to delays in setting up necessary governance and approvals process along with a dearth of suitable schemes identified so far. This underspend has been treated as neutral when assessing financial performance. There have also been delays to the charter train toilet emissions project which have been treated as neutral when assessing financial performance. Other savings include benefits from contract negotiation, reductions in pay-outs to staff under performance-related pay schemes and tight headcount control. Costs are generally consistent with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	214	215	1	1	179
Signalling & Telecoms	84	76	(8)	(8)	75
Civils	60	64	4	3	66
Buildings	23	21	(2)	1	15
Electrical power and fixed plant	36	36	-	-	35
Other network operations	75	70	(5)	(5)	72
	492	482	(10)	(8)	442
Centrally-managed maintenance expenditure					
Telecoms	5	7	2	2	6
Route Services - Asset Information	10	9	(1)	(1)	8
STE Maintenance	2	3	1	1	2
Property	1	1	-	-	1
Route Services - Other	6	2	(4)	(10)	1
Other	(4)	-	4	2	(7)
	20	22	2	(6)	11
Total maintenance expenditure	512	504	(8)	(14)	453

Statement 3.2: Analysis of maintenance expenditure, Eastern

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are slightly higher than the regulatory baseline this year, mainly due to higher Regionally-managed costs. Expenditure is higher than the previous year. Most of this was anticipated through the increased allowances provided in the regulatory baseline to meet the outputs and asset management challenges for CP6.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline. This is mostly due to additional weather-related expenditure; asset resilience works to improve train performance and extra reactive maintenance. Costs are higher than the previous year. Most of this was anticipated through the increased allowances provided in the regulatory baseline to meet the outputs and asset management challenges for CP6.
- (2) Track – track maintenance costs are the largest component of Eastern's maintenance costs. This year, costs are broadly consistent with the regulatory baseline. Costs are higher than the previous year. This was anticipated through the increased allowances provided in the regulatory baseline to meet the outputs and asset management challenges for CP6.
- (3) Signalling & telecoms – costs were higher than the regulatory baseline this year. This included additional works required following the hotter than expected summer months which damaged equipment. Flooding in the final few months of the year also resulted in some additional costs, as did additional repairs to level crossing sites. Costs are higher than the previous year for the same reasons.
- (4) Civils – costs were lower than the regulatory baseline mainly due to additional efficiencies in managing inspections. Costs are lower than the previous year including savings on inspection costs and reduced levels of reactive maintenance. Reactive maintenance activity can vary each year depending upon external factors.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m 2019-20 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 in this category is slightly higher than the regulator assumed. 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 performance guidelines which have been agreed with ORR. Costs are higher than the previous year reflecting the inherent variability in buildings reactive maintenance activity.
- (6) Other network operations – costs for the current year are higher than the regulatory baseline. This includes additional vegetation works and other resilience activities to improve asset condition and reduce impact on train performance. This was compounded by some one-off costs to facilitate introduction of new fleet in the year, additional costs to combat trespass and vandalism, a write down of older stock items to reflect current economic value and additional costs due to flooding during the year. Costs were broadly consistent with the previous year.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are broadly in line with the regulatory baseline. As expected by the regulatory baselines, costs were higher than the previous year, reflecting higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.
- (2) Telecoms – costs are lower than the regulatory baseline, mainly arising from successful resolution of commercial claims, where costs had been recognised in the previous year. Costs are broadly consistent with the previous year, reflecting the extra scope of the department in CP6, as shown by the increase in the regulatory baseline, offset by the aforementioned close out of commercial claims.
- (3) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the Regions for the services provided as well as some additional income generated from sales of scrap rail. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge has been ignored when assessing financial performance.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- (4) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	4	2	(2)	(2)	2
Finance	5	3	(2)	(2)	2
Accommodation	15	13	(2)	(2)	19
Utilities	18	19	1	1	20
Other	5	1	(4)	(4)	1
	47	38	(9)	(9)	44
Centrally-managed support costs					
Finance & Legal	10	11	1	1	10
Communications	3	4	1	1	2
Human Resources	6	6	-	-	6
System Operator	11	17	6	6	8
Property	(4)	(1)	3	3	1
Telecoms	16	19	3	1	16
Network Services	6	8	2	2	3
Safety Technical and Engineering	11	12	1	1	13
RS - IT and Business Services	32	34	2	2	29
RS - Asset Information	5	4	(1)	(1)	3
RS - Directorate	5	6	1	1	6
Other corporate functions	8	18	10	-	7
Insurance	7	12	5	5	6
Opex/capex Adjustment	26	23	(3)	-	-
Group costs	(8)	23	31	9	(13)
	134	196	62	31	97
Total support costs	181	234	53	22	141

Statement 3.3: Analysis of support costs, Eastern

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline which includes additional costs from transitioning to the new organisation under the Putting Passengers First initiative.
- (2) Other – costs were higher than the regulatory baseline this year. This includes the impact of commercial claims settled for higher than planned and additional staff training.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year with the main contributor being the change in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) Finance & legal – costs are favourable compared to the regulatory baseline mostly due to reduced pay outs made to staff under the 2018/19 performance-related pay mechanism. Costs are broadly consistent with the previous year.
- (3) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are higher than the previous year due to the increased prominence and capability of this department. In response to the Glaister review published in 2018 and DfT direction, the size and scope of this department has been enhanced to deliver additional outputs for the rail industry as a whole.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m 2019-20 prices unless stated

- (4) Telecoms – costs are lower than the regulatory baseline this year. This includes slower rollout of the cab radio programme along with additional efficiencies mostly arising from headcount control, contract negotiation and reductions in performance-related pay. Rollout of the cab radio programme is to improve safety and performance by ameliorating signal interference. When assessing financial performance, the saving been treated as neutral as the core outputs have not been delivered. Costs are broadly in line with the previous year, reflecting the increased scope and deliverables of Telecoms in this control period partly offset by the cost reductions noted above.
- (5) Network Services – costs are lower than the regulatory assumption this year. These savings have been achieved through a combination of reduced use of consultants with internal staff stretched to deliver more, better utilisation of consultant frameworks to enhance productivity reductions in pay-outs under performance-related pay schemes, headcount control and favourable settlement of claims. Costs are higher than the previous year, the majority of which was expected through the regulatory baseline increase to reflect the scope of this department in CP6.
- (6) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year with the main contribution coming from reductions in pay outs under performance-related pay schemes. Costs are lower than the previous year. In CP5 there were some specific projects being delivered by this department, such as Interdisciplinary Standards Programme, Integrated Management System and Whole Life Cost modelling which are now all funded through the Renewals allowances (refer to Statement 3.6).
- (7) Route Services IT and Business Services – costs were lower this year than the regulatory baseline. This was mainly due to savings in the Business Services part of the organisation. This included savings in training costs by increased in-house delivery and utilising courses eligible under the government Apprentice Levy funding source and acceleration of some efficiency initiatives, including successful re-negotiation of contracts. Costs are higher than the previous year. This includes a change in accounting policy under the ORR's CP6 Regulatory Reporting Guidelines so that a greater proportion of IT expenditure qualifies as opex rather than capex.
- (8) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are slightly higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (9) 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. Costs are broadly in line with the previous year. As noted in last year's Regulatory financial statements, 2018/19 also benefitted from actuarial updates to Network Rail's liabilities to third parties.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m 2019-20 prices unless stated

- (10) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.
- (11) Group – there are noticeable savings this year compared to the regulatory expectation. A large proportion is due to not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. This has been partly offset by non-utilisation of risk credits (offset in Regionally-managed costs). Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Variances in risk credit utilisation have also been treated in neutral as the credits have been rephased into future years of control period 6. Costs are higher than the previous year. This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	1	1	-	(1)	-
	1	1	-	(1)	-
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	126	143	17	2	118
Business rates	81	81	-	-	77
British transport police costs	27	27	-	-	27
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	1	1	-	-	1
RSSB costs	3	3	-	-	3
Reporters fees	1	-	(1)	-	-
	244	260	16	2	231
Total traction electricity, industry costs and rates	245	261	16	1	231

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

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators (refer to 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are broadly in line with the previous year.

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	110	80	(30)	(10)	81
Access charge supplement Income	(102)	(99)	3	-	(71)
Net (income)/cost	8	(19)	(27)	(10)	10
Schedule 8					
Performance element income	(22)	-	22	22	(8)
Performance element costs	47	35	(12)	(12)	79
Net (income)/cost	25	35	10	10	71
Centrally managed					
Schedule 4					
Performance element costs	(1)	18	19	18	30
Access charge supplement Income	(22)	(20)	2	-	(5)
Net (income)/cost	(23)	(2)	21	18	25
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	3	4	1	1	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	3	4	1	1	2
Total					
Schedule 4					
Performance element costs	109	98	(11)	8	111
Access charge supplement Income	(124)	(119)	5	-	(76)
Net (income)/cost	(15)	(21)	(6)	8	35
Schedule 8					
Performance element income	(22)	-	22	22	(8)
Performance element costs	50	39	(11)	(11)	81
Net (income)/cost	28	39	11	11	73

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Eastern

In £m 2019-20 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) Overall Schedule 4 costs are higher than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial underperformance reported is lower than mere the arithmetic variance. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, contributed to the higher costs. Costs are broadly in line with the previous year.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to a combination of extra capital delivery and higher like-for-like costs. The extra capital delivery includes additional units of plain line track and switches & crossings completed this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The higher like-for-like costs include the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered, resulting in financial outperformance overall. Performance costs are higher than the previous year mainly due to the factors outlined above.

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

In £m 2019-20 prices unless stated

- (2) Schedule 8 costs are lower than the baseline due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Network Rail has invested extra opex this year to improve train performance which have helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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 - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspent by the Regionally-managed section above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.

Statement 3.6: Analysis of renewals expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	69	58	(11)	-	-
PL Replace Partial	45	32	(13)	-	-
PL High Output	54	62	8	-	42
PL Refurbishment	14	13	(1)	-	15
Switches & Crossing - Replace	78	75	(3)	-	71
Switches & Crossing - Other	9	10	1	-	23
Off Track	19	20	1	-	-
Track Other	13	(5)	(18)	-	143
	301	265	(36)	(2)	294
Signalling					
Signalling Full	78	60	(18)	-	-
Signalling Partial	15	25	10	-	-
Signalling Refurb	7	23	16	-	-
Level crossings	22	29	7	-	44
Minor works	62	57	(5)	-	57
Other	-	-	-	-	124
	184	194	10	-	225
Civils					
Underbridges	41	49	8	-	37
Overbridges	6	7	1	-	11
Major structures	9	6	(3)	-	2
Tunnels	7	6	(1)	-	3
Minor works	1	(2)	(3)	-	-
Other	8	10	2	-	10
	72	76	4	(3)	63
Earthworks					
Earthworks - Embankments	13	13	-	-	11
Earthworks - Soil Cuttings	3	3	-	-	2
Earthworks - Rock Cuttings	4	5	1	-	4
Earthworks - Other	1	-	(1)	-	1
	21	21	-	(2)	18
Buildings					
Managed stations	25	19	(6)	-	11
Franchised stations	13	21	8	-	16
Light maint depots	-	2	2	-	3
Depot plant	2	3	1	-	2
Lineside buildings	5	3	(2)	-	6
MDU buildings	15	11	(4)	-	11
Other	1	-	(1)	-	-
	61	59	(2)	(2)	49
Electrical power and fixed plant					
AC distribution	1	6	5	-	2
Overhead Line	54	42	(12)	-	57
DC distribution	-	1	1	-	-
Conductor rail	4	-	(4)	-	-
Signalling Power Supplies	10	12	2	-	-
Other	1	1	-	-	32
Fixed plant	3	8	5	-	15
	73	70	(3)	(5)	106
Drainage					
Drainage (Track)	13	13	-	-	8
Drainage (Earthworks)	1	1	-	-	3
Drainage (Resilience)	4	3	(1)	-	-
	18	17	(1)	(2)	11
Property					
Property	1	1	-	-	-
	1	1	-	-	-
Total regionally-managed renewals expenditure	731	703	(28)	(16)	766

Statement 3.6: Analysis of renewals expenditure, Eastern - continued

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	6	-	(6)	-	-
Telecoms					
Operational communications	3	6	3	-	4
Network	2	4	2	-	1
SISS	2	2	-	-	3
Projects and other	1	1	-	-	1
Non-route capital expenditure	27	24	(3)	-	8
	35	37	2	-	17
Wheeled plant and machinery					
High output	7	9	2	-	6
Infrastructure monitoring	1	2	1	-	1
Intervention	2	5	3	-	3
Materials delivery	5	10	5	-	1
On track plant	1	-	(1)	-	7
Other	3	(5)	(8)	-	2
	19	21	2	-	20
Route Services					
Business Improvement	27	32	5	-	-
IT Renewals	12	4	(8)	-	34
Asset Information	-	1	1	-	-
Other	1	-	(1)	-	1
	40	37	(3)	-	35
STE Renewals					
Intelligent infrastructure	8	10	2	-	13
Faster Isolations	1	3	2	-	3
Centrally Managed Signalling Costs	1	3	2	-	9
Research and development	9	8	(1)	-	4
Integrated Management System (Incl. BCR)	-	4	4	-	-
Other National SCADA Programmes	8	10	2	-	5
Small plant	1	2	1	-	6
Other	6	7	1	-	9
	34	47	13	-	49
Property					
Property	3	8	5	-	3
	3	8	5	-	3
Other renewals					
ETCS	5	4	(1)	-	26
Digital Railway	1	-	(1)	-	-
Civils - Insurance Fund	-	8	8	4	-
Buildings - Insurance Fund	-	5	5	-	-
Opex/capex Adjustment	(26)	(23)	3	-	-
System Operator	2	2	-	-	-
Other renewals	1	1	-	4	9
	(17)	(3)	14	8	35
Total centrally-managed renewals expenditure	120	147	27	8	159
Total renewals expenditure	851	850	(1)	(8)	925

Statement 3.6: Analysis of renewals expenditure, Eastern

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is broadly in line with the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were partly offset by acceleration of Track works. Overall expenditure was less than last year mainly due to large value Signalling and Electrification projects being completed in 2018/19 and with a contribution from a change in accounting policy for CP6, as shown through the Opex/ capex adjustment heading.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were higher than the regulatory baseline this year. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably Centrally-managed renewals. Some minor net financial underperformance has been reported across the Renewals estate. Expenditure is less than the previous year mainly due to large value Signalling and Electrification projects being completed in 2018/19.
- (2) Track – investment this year exceeded the regulatory baseline largely due to acceleration of activity from future years. Additional Plain Line Replace Full, Plain Line Partial and Switches & Crossings units were delivered this year. However, progress this year was solid and the aforementioned opportunity to accelerate activity meant that schemes did not need to be curtailed. This was partly offset by reduced High Output expenditure as fewer volumes were delivered owing to plant failure and possession availability. Some financial underperformance has been reported this year. This was mostly related to the volume of capital delivery this year including reduced levels of enhancements compared to expectation meaning less of the track team could be off charged to those projects. Covid-19 headwinds also impacted financial performance as High Output delivery staff repatriated, resulting in lost shifts in the final weeks of the year. Smaller, work targeted interventions in some areas also increased unit rates, whilst delivery fencing over and above required standards should provide extra protection against network incursion but has resulted in higher like-for-like costs. Investment is broadly similar to the previous year.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- (3) Signalling – expenditure was slightly lower than the regulatory baseline this year. This included slower delivery on level crossings programmes, such as Woodhouse & Beighton and Knottingley area works and successful resolution of a commercial claim. Delays in contracting caused by higher tender prices than planned has resulted in delays whilst alternative options considered. Total programme costs were broadly in line with the regulatory baselines so minimal financial performance has been reported this year. Costs were lower than the previous year, which was largely expected by the reduced regulatory baseline this year. The prior year included significant investment in Huddersfield to Bradford and Derby remodelling programmes which were both largely completed in 2018/19 and so had minimal costs in the current year. This was partly offset by higher Kings Cross remodelling and Durham Coast resignalling programmes as those projects progress through their multi-year lifecycle.
- (4) Civils – expenditure was broadly consistent with the regulatory baseline this year. The Minor Works category baseline included deliverability overlays for the Civils portfolio so the apparent overspend is expected. This partly offsets some of the reduced activity in Underbridges this year. Financial underperformance was recognised this year mainly due to higher unit rates from contractors compared to the assumption in the regulatory baseline. This was compounded by higher access costs on a canal side project, including compensation and construction of a bespoke trackway. Investment was higher than the previous year which was expected in the higher regulatory baseline this year as the Region delivers the challenges and outputs required for CP6, including Major Structures works as part of the Kings Cross remodelling programme and increased Tunnels activity across the Region.
- (5) Earthworks – expenditure was broadly consistent with the regulatory baseline this year. Financial underperformance was recognised this year. This mostly related to higher access costs and more complex designs required. Investment was higher than the previous year which was expected in the higher regulatory baseline this year as the Region delivers the challenges and outputs required for CP6.
- (6) Buildings – investment in the year is broadly in line with the regulatory expectation with reduced Franchised stations activity offset by acceleration of work at Managed stations. Slower delivery of Franchised stations projects was across the portfolio as fewer schemes were identified as well as slower progress at Welwyn Garden City, Watton on Stone and Halifax projects. Accelerated Managed stations include works at Leeds and Kings Cross stations. Minor financial outperformance was recognised this year across numerous projects. Investment was higher than the previous year which was expected in the higher regulatory baseline this year as the Region delivers the challenges and outputs required for CP6.
- (7) Electrical power and fixed plant – expenditure is higher this year, largely due to higher like-for-like costs which has resulted in financial underperformance being recognised this year. The financial underperformance was partly due restricted access. Access priority was given to other projects, which prolonged some projects and reduced shift productivity, notably on the Shenfield-Southend re-wire programme which also suffered from difficulties achieving planned unit rates overhead condition renewals works. Operational restrictions and wildlife consideration resulted in a change of delivery method on Thameside works to a more expensive solution. Higher like-for-like costs also arose from a previous contractor unexpectedly exiting the supply chain, resulting in more costly alternatives having to be used. Investment was lower than the previous year which was expected in the regulatory baseline for the current year. As noted in the 2018/19 Regulatory Financial Statements there was substantial work undertaken in that year on works to facilitate introduction of Crossrail services and works on the far-reaching Great Eastern overhead line programme. This was partly offset by new works this year to support the Kings Cross remodelling programme.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- (8) Drainage – expenditure in the year is generally in line with the regulatory baseline. Negative financial performance has been reported this year. This has been partly caused by difficulty in maintaining a stable workbank causing higher rates with works remitted before being fully scoped. Higher rates than the regulatory baseline expected compounded this. Investment was higher than the previous year which was expected in the higher regulatory baseline this year as the Region delivers the challenges and outputs required for CP6.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and fewer insurable events. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year. The largest variances arise from a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line) and reduced ETCS activity.
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is broadly in line with the regulatory baseline with the portfolio being managed in line with the funding available this year with Operational communications deferrals compensated for by Non-route capital expenditure acceleration. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.
- (4) Wheeled plant & machinery – expenditure is slightly lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
- a. High output – investment was lower than the regulatory baseline due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet. Expenditure was also lower as fewer new schemes were identified and developed this year. Investment was consistent with the previous year.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- b. Infrastructure monitoring – costs were lower than the regulatory baseline mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus into future years of the control period.
 - c. Intervention – costs were lower than the regulatory baseline mainly due to delays in replacing track plain line stone blower machines. This work has been reprofiled into future years.
 - d. Material delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is higher than the previous year due to the work that has taken place on the aforementioned concrete sleeper factory.
 - e. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, notably a mobile elevated working platform.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.
- (5) Route Services – expenditure is higher than the regulatory baselines this year as work has been accelerated from future years. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Intelligent infrastructure – costs are broadly in line with the regulatory expectation this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance, as agreed with the regulator. Investment is lower than the previous year which largely reflects the lower regulatory baseline this year.
 - b. Faster isolations – costs are lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are lower than the previous year which included some significant projects delivered.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline, reflecting the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised. Costs are lower than the previous year mirroring the overall signalling renewals costs and the reduction in major schemes commissioned this year compared to 2018/19.
 - d. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - e. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - f. Small Plant – investment is broadly in line with the regulatory baseline this year. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Expenditure is lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
 - g. Other – the lower investment this year is largely due to delays in the ORBIS programme, following supplier disputes. Investment is lower than the previous year for the same reason.
- (7) Property – expenditure is lower than the regulatory baseline this year mainly due to rephasing of activity within the control period. As the outputs of the fund have not been deferred, no financial performance is reported on the saving. Investment is consistent with the previous year. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. ECTS – expenditure is broadly in line with the regulatory baseline this year. As expected in the regulatory baselines, expenditure is lower than the previous year when substantial works were undertaken in this asset category.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - c. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - d. 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). This is a new item for CP6, so there is no prior year value to compare to.
 - e. System Operator – expenditure this year is similar to the regulatory baseline. This is a new funding category for the current control period and so there is no prior year activity.
- (9) Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, Eastern

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
Thameslink	15	11	(1)
West Anglia Main Line Capacity	5	9	-
Midland Main Line Programme	281	286	(1)
Trans Pennine Route Upgrade	182	204	-
East Coast Main Line Enhancements Programme	185	158	5
Kings Lynn to Cambridge 8 Car	18	18	-
SFN-Freight Forecasts project	3	4	-
Access for All	2	8	-
Thameslink Resilience Programme	3	-	-
Crossrail	33	47	(43)
Other	6	19	(2)
Total	733	764	(42)
Other capital expenditure	67	-	-
Other third party funded schemes			
Other third Party	114	-	-
Total	114	-	-
Total enhancements	914	764	(42)
Total enhancements less Other third party funded schemes	800	764	(42)

Statement 3.7: Analysis of enhancement expenditure, Eastern

In £m 2019-20 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 DfT. The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather by the core Eastern 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. 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 DfT.
- (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 Eastern funder (DfT) was £800m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£914m) less the PAYGO schemes funded by other third parties (£114m).
- (2) Enhancements expenditure this year is higher than the baseline and reflects the net position across a number of different programmes. There were a number of differences between the profile of delivery of individual programmes compared to the original regulatory expectation. Some minor financial outperformance has been recognised, reflecting tight cost control across the portfolio. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Eastern delivers a different set of programmes at the direction of DfT.

Statement 3.7: Analysis of enhancement expenditure, Eastern – continued

In £m 2019-20 prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Trans Pennine Route Upgrade – expenditure is lower than the baseline this year. This is mostly due to delays in agreeing the scope of the individual projects within the portfolio which led to a delay in remitting new stages of works. Those works that had been remitted at the start of the year delivered broadly in line with the plan. There were also some delays at the end of the year relating to Covid-19 and deferral of land purchases.
 - b. East Coast Main Line Enhancements Programme – due to the large and complex nature of this programme a reprofiling overlay was included against the entire programme, rather than against each project. However, delivery of projects has progressed well, meaning that most of this reprofiling overlay was not required. This progress reduces the risk of later phases missing milestone targets. There has also been a reduction in the overall anticipated final costs to deliver the programme which has resulted in financial outperformance being reported this year due to the aforementioned strong progress on the scheme.
 - c. Access for all – slower progress has been made on this programme this year. The funding on this programme allowed for numerous improvements to be made across the network. However, fewer new schemes with appropriate benefits were identified and approved this year. The under investment has been reprofiled into the future years in Eastern's latest Business plan.
 - d. Crossrail – although expenditure was lower than the regulatory baseline, financial underperformance has been recognised this year as a result of increases in the total anticipated final cost to more than the baseline. This has been caused by increased scope with some contractors and value engineering challenges on the Western Station projects not being fully realised.
 - e. Other – this category covers a number of smaller projects, including CP5 close out projects. The underspend in this category this year reflects the reductions across the rest of the portfolio, as fewer new schemes have been approved by DfT for progression.
- (4) Third party funded schemes – notable schemes delivered this year include: Brent Cross new station development and Luton Airport Parkway works.
- (5) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements and investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

Statement 3.8: Analysis of renewals unit costs, Eastern

£m, 2019-20 prices unless stated

		Unit	AFC	FY20 AFV	Unit Costs	AFC	FY19 AFV	Unit Costs
Track	PL Replace Full	km	63	45	1,400	n/a	n/a	n/a
	PL Replace Partial	km	50	164	305	n/a	n/a	n/a
	PL High Output	km	56	66	848	n/a	n/a	n/a
	PL Refurbishment	km	14	121	116	n/a	n/a	n/a
	Switches & Crossing - Replace	point ends	46	71	648	n/a	n/a	n/a
	Switches & Crossing - Other	point ends	20	160	125	n/a	n/a	n/a
	Off Track	km/No.	38	215	177	n/a	n/a	n/a
	Total		287	-	-	-	-	-
Signalling	Signalling Full	SEU	53	96	552	n/a	n/a	n/a
	Signalling Partial	SEU	10	57	175	n/a	n/a	n/a
	Signalling Refurb	SEU	3	13	231	n/a	n/a	n/a
	Level crossings	No.	18	19	947	71	23	3,087
	Total		84	-	-	71	-	-
Civils	Underbridges	m2	80	37,597	2	98	53,471	2
	Overbridges (incl BG3)	m2	3	323	9	30	10,038	3
	Tunnels	m2	-	-	-	3	8,060	0
	Culverts	m2	5	1,493	3	2	1,608	1
	Footbridges	m2	2	250	8	6	5,337	1
	Retaining Walls	m2	1	461	2	2	101	20
	Total		91	-	-	141	-	-
Earthworks	Earthworks - Embankments	No.	11	314	35	n/a	n/a	n/a
	Earthworks - Soil Cuttings	No.	6	281	21	n/a	n/a	n/a
	Earthworks - Rock Cuttings	No.	3	110	27	n/a	n/a	n/a
	Drainage - Earthworks	m	-	99	-	n/a	n/a	n/a
	Drainage - Other	m	21	26,463	1	18	90,577	0
	Total		41	-	-	18	-	-
Buildings	Buildings (MS)	m2	21	38,725	1	-	372	-
	Other (MS)	m2	1	2,710	0	7	184,734	0
	Buildings (FS)	m2	1	1,195	1	1	2,980	0
	Platforms (FS)	m2	1	966	1	2	5,926	0
	Canopies (FS)	m2	2	2,330	1	1	2,464	0
	Train sheds (FS)	m2	1	6,240	0	3	7,015	0
	Footbridges (FS)	m2	1	827	1	2	179	11
	Other (FS)	m2	1	1,360	1	-	11,450	-
	Light Maintenance Depots	m2	1	33,051	0	2	26,840	0
	Depot Plant	m2	-	145	-	-	-	-
	Lineside Buildings	m2	4	36,063	0	2	6,452	0
	MDU Buildings	m2	18	61,066	0	9	46,746	0
	Total		52	-	-	29	-	-

Statement 3.8: Analysis of renewals unit costs, Eastern - continued

£m, 2019-20 prices unless stated

		FY20			FY19			
Unit		AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Electrical Power & Fixed Plant	Wiring	Wire runs	29	157	185	74	213	347
	Mid-life refurbishment	Wire runs	7	55	127	12	6	2,000
	Structure renewals	No.	47	754	62	56	840	67
	Points Heaters	point end	1	42	24	1	42	24
	Signalling Power Cables	km	10	13	769	17	68	250
	Signalling Supply Points	point end	20	30	667	17	29	586
	Total		114	-	-	177	-	-
Telecoms	Customer Information Systems	No.	2	144	14	2	50	40
	Public Address	No.	-	12	-	-	-	-
	CCTV	No.	2	417	5	2	413	5
	Other Surveillance	No.	-	-	-	-	7	-
	PABX Concentrator	No.	-	-	-	7	13,014	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	1	2	500
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	5	-
	HMI Large	No.	-	-	-	1	112	9
	Radio		-	-	-	-	-	-
	Power	No.	5	391	13	-	-	-
	Other comms		-	-	-	-	-	-
	Network	No.	-	-	-	-	9	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		9	-	-	13	-	-

Statement 3.8: Analysis of renewals unit costs, Eastern

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (3) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. In level crossings the unit rate has significantly decreased in the year. In the current year there has been a number of large projects in the East Midlands and Anglia routes which have largely contributed to the reduction in this unit rate. In the prior year there were two complex projects (Ferriby to Gilberdyke Resignalling and Knottingley Area LC Renewals) which had particularly high unit costs and so dragged up the overall rate of this asset.

Statement 3.8: Analysis of renewals unit costs, Eastern – continued

In £m 2019-20 prices unless stated

- (4) Civils – There has been an increase in overbridges in the current year. However, the volumes delivered in the year was only three per cent of the volumes delivered in the prior year. Such a small sample size in the current year makes it difficult to analyse the variance. It is a similar story in footbridges where the current year volumes are only four per cent compared to the prior year. There has been a big decrease in the unit costs for retaining walls. This was due to a large job at Kings Cross which delivered a significant number of volumes.
- (5) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in the prior year.
- (6) Buildings – There has been a significant decrease in the unit cost for footbridges. There were only three projects in the current year and two in the previous year. This low sample size makes it difficult to do any meaningful analysis. The unit costs in the prior year was skewed upwards by expensive jobs at Worksop on the London North Western route and Development Buildings in Anglia.

Electrification & Plant – There has been a decrease in the unit costs for wiring. This was because in the prior year there was a particularly high unit cost for the Great Eastern OLE Renewal project. This was a massive multiyear project so skewed the costs upwards in 2018-19. There has also been a decrease in the unit costs for mid-life refurbishment. However, there was only one project in the previous year, so the sample size is too small to do any meaningful analysis. There has been an increase in the unit cost of signalling power cables. However, there was one project in each year with the Kings Cross Re-modelling project this year being relatively more expensive than the Doncaster Feeder Cables project in the prior year. There has been an increase in the unit cost for signalling supply points but nearly all the volumes were delivered by one project which spanned both years which negates the value of any analysis.

- (7) Telecoms – There has been a decrease in the unit cost for customer information systems. There was however only one project in each year. The GTR SISS Renewals project in 2019-20 proving to be relatively less expensive than the York & Newcastle SISS project in the previous year.

Statement 4: Regulatory financial position, Eastern

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	20,051
Indexation to 2019-20 prices	20,351
RAB additions	
Renewals expenditure	851
Enhancements expenditure	-
Less amortisation	(851)
Property Sales	(1)
Closing RAB	20,350

Net debt

	£m
Opening net debt	14,141
Income	(2,438)
Expenditure	2,126
Financing Costs - Government borrowing	298
Financing Costs - index linked debt	208
Financing Costs - Other	55
Corporation tax	-
Working capital	(74)
Closing net debt	14,316

Statement 4: Regulatory financial position, Eastern

In £m 2019-20 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 and enhancement 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 Eastern part of the network and how it has moved from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was £0.85bn. 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 Eastern and how it has moved from the position at the start of the year and since the start of the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Eastern has increased by around £170m during the year. This was due to increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.
- (10) Income is set out in more detail in Statement 2
- (11) Expenditure is set out in more detail in Statement 3.

Statement 4: Regulatory financial position, Eastern – continued

In £m 2019-20 prices unless stated

- (12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.
- (13) Working capital – this largely relates to timing differences between when government grants are received from DfT to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue.

Statement 1: Summary of regulatory financial performance, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	1,083	1,217	(134)	-	1,006
Franchised track access charges	560	570	(10)	2	571
Other Single Till Income	125	128	(3)	(3)	246
Total Income	1,768	1,915	(147)	(1)	1,823
Operating expenditure					
Network operations	140	137	(3)	(5)	149
Support costs	151	211	60	33	108
Traction electricity, industry costs and rates	164	175	11	(1)	166
Maintenance	425	416	(9)	(5)	382
Schedule 4	62	90	28	17	71
Schedule 8	74	30	(44)	(44)	65
	1,016	1,059	43	(5)	941
Capital expenditure					
Renewals	556	589	33	(6)	534
Enhancements	224	280	56	22	403
	780	869	89	16	937
Risk expenditure					
Risk (Centrally-held)	-	(1)	(1)	-	-
Risk (Contingent asset management funding)	-	15	15	-	-
	-	14	14	-	-
Other expenditure					
Financing costs	447	471	24	-	495
Corporation tax	-	2	2	-	-
	447	473	26	-	495
Total expenditure	2,243	2,415	172	11	2,373
Total Financial Out/(under) performance				10	

Statement 1: Summary of regulatory financial performance, North West & Central

In £m 2019-20 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 (the regulatory 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that North West & Central's net expenditure (Total income less Total expenditure) was broadly in line the regulatory baseline with lower Grant income offset by operational cost savings and capital projects deferrals.
- (2) This statement also shows that North West & Central made a solid start to the control period, beating the regulatory baselines this year, resulting in £10 of financial outperformance. This included lower operating expenditure and lower like-for-like capital projects costs improvements partly offset by higher train performance regime costs. The impact of Covid-19 will make continuing this outperformance in 2020/21 extremely challenging.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational and renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was slightly lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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. Income is broadly in line with the previous year reflecting the plan in the CP6 financial framework for how the North West & Central Region would be funded. Franchised track access income is discussed in more detail in Statement 2.
- (5) Income – Other single till income in the year is lower than the baseline mostly due to fewer Property sales. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity for Freight operators is 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). Income is noticeably lower than the previous year which includes the disposal of large parts of the commercial estate in 2018/19 which makes comparisons with the previous year meaningless. Other single till income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m 2019-20 prices unless stated

- (6) Operating expenditure - Network Operations costs are slightly higher than the regulatory baseline this year which includes additional investment in schemes to improve train performance. Costs are lower than the previous year, reflecting the regulatory expectation for CP6 and absence of one-off costs that were incurred in 2018/19. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Not all of these variances are eligible for inclusion in financial performance. Costs are higher than the previous year reflecting changes in accounting policies for CP6, and higher allowances in the regulatory baseline reflecting the challenges of the CP6 determination. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the regulatory baseline largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Total costs are broadly in line with the prior 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 extra reactive maintenance activity and additional logistics and Property. Costs are higher than the previous year, reflecting the output and asset management challenges set out by the regulator in their CP6 determination as well as increased Buildings reactive maintenance. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. 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, mainly due to worse than expected train performance. This included a higher concentration of one-off incidents (such as rising numbers of trespass and suicide) in North West & Central, repeated damage to overhead lines in key locations and the adverse impact of weather, along with a challenging timetable and congested network. Costs are higher than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. However, the issues in the current year referenced above more than offset this recalibration. Schedule 8 costs are discussed in more detail in Statement 3.5.

Statement 1: Summary of regulatory financial performance, North West & Central – continued

In £m 2019-20 prices unless stated

- (12) Capital expenditure - Renewals expenditure is slightly lower than the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were partly offset by acceleration of Building and Electrification works. Some minor net financial underperformance has been recognised this year with higher like-for-like project across numerous assets due to higher contractor rates, access issues and increased complexity of designs. Overall expenditure was higher than last year, reflecting the new activity baselines for CP6. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes with notably contributions from East West Rail and North West Train lengthening as well as from overall project cost savings. 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 DfT. This year financial outperformance has been recognised due to tight programme cost control across the portfolio. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. 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 DfT. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure – Other 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.
- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was minimal values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so fewer risks for the forthcoming year would be anticipated. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline expected due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax costs are lower than the regulatory baseline. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	264	264	-	-	211
Variable usage charge	63	60	3	3	48
Electrification asset usage charge	5	5	-	-	5
Capacity charge	-	-	-	-	132
Open access income	-	-	-	-	1
Managed stations long term charge	21	21	-	-	8
Franchised stations long term charge	43	44	(1)	(1)	37
Schedule 4 access charge supplement	59	59	-	-	35
	455	453	2	2	477
Other single till income					
Freight income					
Freight variable usage charge	16	15	1	1	15
Freight other income	-	-	-	-	2
	16	15	1	1	17
Stations income					
Managed stations qualifying expenditure	27	28	(1)	(1)	21
Franchised stations lease income	7	7	-	-	6
	34	35	(1)	(1)	27
Facility and financing charges					
Facility charges	13	13	-	-	12
	13	13	-	-	12
Depots income	15	16	(1)	(1)	15
Other income	2	1	1	1	1
Total other single till income	80	80	-	-	72
Total regionally-managed income	535	533	2	2	549
Centrally-managed income					
Network grant	768	891	(123)	-	1,006
Internal financing grant	147	154	(7)	-	-
External financing grant	148	150	(2)	-	-
BTP grant	20	20	-	-	-
Corporation tax grant	-	2	(2)	-	-
Infrastructure cost charges	12	12	-	-	11
Schedule 4 access charge supplement	12	12	-	-	2
Traction electricity charges	81	93	(12)	-	81
Freight traction electricity charges	1	1	-	-	4
	1,189	1,335	(146)	-	1,104
Other single till income					
Property income					
Property rental	47	42	5	5	54
Property sales	(3)	5	(8)	(8)	116
	44	47	(3)	(3)	170
Crossrail finance charge	-	-	-	-	-
Total other single till income	44	47	(3)	(3)	170
Total centrally-managed income	1,233	1,382	(149)	(3)	1,274
Total income	1,768	1,915	(147)	(1)	1,823

Statement 2: Analysis of income, North West & Central

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants. Income is slightly lower than previous year which benefitted from the divestment of most of Network Rail's commercial property portfolio. This has been partly offset by additional grant income, reflecting the new financial framework for CP6.

Regionally-managed income

- (1) Total Regionally-managed income is in line with the CP6 baseline. Income is marginally lower than the previous year reflecting the new regulatory targets for CP6.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is generally in line with the regulatory target this year. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (6) Franchised stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its franchised station portfolio.

Statement 2: Analysis of income, North West & Central – continued

In £m 2019-20 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 the ORR use for the Regulatory financial statements. Income was higher than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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.
- (8) Managed stations Qualifying expenditure – income is broadly in line with the regulatory assumption this year. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity. Income is lower than the previous year mostly due to lower property sales partly offset by additional grant income, reflecting the new financial framework for CP6. Lower Property sales income arises from the divestment of most of Network Rail's commercial property portfolio in 2018/19. As reported in last year's Regulatory Financial Statements, this disposal was undertaken to fund the ambitious enhancement programme delivered in the previous control period.
- (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 in a given 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 was lower than the regulatory baseline expected as savings have been made compared to the net operating costs included in the CP6 Business Plan, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.

Statement 2: Analysis of income, North West & Central – continued

In £m 2019-20 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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was broadly in line with the previous year and is mirrored by similar levels of costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (9) Schedule 4 access charge supplement – 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 assumed in the CP6 baselines. Income is higher than the previous year. This largely reflects changes in funding in CP6 where the regulator has created a central fund for insurable events reflecting prior claims experience. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs (across the control period).
- (10) Property rental – additional income has been generated this year, mainly from retail outlets at Network Rail's managed stations, with the largest contribution from Euston. Given the challenging conditions arising from Covid-19 this outperformance is unlikely to recur in 2020/21. Rental is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.
- (11) Property sales – disposals this year were lower than the regulatory assumption mainly due to recognition of commercial claims this year. Income is noticeably lower than the previous year due to the disposal of the majority of Network Rail's commercial estate in 2018/19, as reported in last year's Regulatory Financial Statements. The magnitude of this single transaction makes comparisons with the previous year meaningless.

Statement 3: Analysis of expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	135	130	(5)	(5)	144
Maintenance	404	399	(5)	5	377
Support costs	43	53	10	10	34
Traction electricity, industry costs and rates	1	-	(1)	(1)	1
Schedule 4	63	76	13	2	49
Schedule 8	71	27	(44)	(44)	67
	717	685	(32)	(33)	672
Capital expenditure					
Renewals	454	467	13	(12)	433
Enhancements	202	251	49	(1)	393
	656	718	62	(13)	826
Total regionally-managed expenditure	1,373	1,403	30	(46)	1,498
Centrally-managed expenditure					
Operating expenditure					
Network operations	5	7	2	-	5
Maintenance	21	17	(4)	(10)	5
Support costs	108	158	50	23	74
Traction electricity, industry costs and rates	163	175	12	-	165
Schedule 4	(1)	14	15	15	22
Schedule 8	3	3	-	-	(2)
	299	374	75	28	269
Capital expenditure					
Renewals	102	122	20	6	101
Enhancements	22	29	7	23	10
	124	151	27	29	111
Risk expenditure	-	14	14	-	-
Other					
Financing costs	447	471	24	-	495
Taxation	-	2	2	-	-
	447	473	26	-	495
Total centrally-managed expenditure	870	1,012	142	57	875
Total expenditure	2,243	2,415	172	11	2,373

Statement 3: Analysis of expenditure, North West & Central

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of Enhancement activity to later in the control period. There has also been operating expenditure savings and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year, which has been partly offset by extra performance regime costs. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport. 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 operating expenditure savings, lower performance regime costs and industry expenses. Costs are broadly in line with the previous year although there are variances across various categories. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	57	56	(1)	(1)	58
Operations Management	29	31	2	2	23
Controllers	7	7	-	-	9
Electrical control room operators	2	2	-	-	2
	95	96	1	1	92
Non signaller expenditure					
Mobile operations managers	9	8	(1)	(1)	12
Managed stations	18	18	-	-	19
Performance	(6)	(7)	(1)	(1)	(2)
Other	19	15	(4)	(4)	23
Total regionally-managed operations expenditure	135	130	(5)	(5)	144
Centrally-managed operations expenditure					
Network Services	5	7	2	-	5
Total centrally-managed operations expenditure	5	7	2	-	5
Total operations expenditure	140	137	(3)	(5)	149

Statement 3.1: Analysis of operations expenditure, North West & Central

In £m 2019-20 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.

Comments:

- (1) Overall operations costs are slightly higher than the regulatory baseline, which includes additional investment in schemes to improve train performance. Costs are lower than the previous year, reflecting the regulatory expectation for CP6 and absence of one-off costs that were incurred in 2018/19.

Regionally-managed operations expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed this year. This included investment in additional performance improvement schemes, notably Project Alpha. This on-going programme was developed in response to train performance this year being below targets. It aims to identify particular stress points or strategically-important parts of the Region and provide additional resources to assist train performance at these locations. Costs are lower than the previous year, in line with the regulatory targets for CP6. As noted in the 2018/19 Regulatory Financial Statements, costs last year included the settlement of one-off commercial claims.

Centrally-managed operations expenditure

- (1) Network Services – costs are lower than the regulatory baseline this year. This includes lower expenditure on the Performance Innovation Fund, a ring-fenced allowance in the regulator's determination to invest new approaches to improve collaboration between Network and passenger operators to benefit customers. However, progress has been slower due to delays in setting up necessary governance and approvals process along with a dearth of suitable schemes identified so far. This underspend has been treated as neutral when assessing financial performance. There have also been delays to the charter train toilet emissions project which have been treated as neutral when assessing financial performance. Other savings include benefits from contract negotiation, reductions in pay-outs to staff under performance-related pay schemes and tight headcount control. Costs are consistent with the previous year.

Statement 3.2: Analysis of maintenance expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	174	174	-	-	166
Signalling & Telecoms	72	70	(2)	(2)	67
Civils	41	42	1	11	38
Buildings	24	24	-	-	14
Electrical power and fixed plant	35	35	-	-	32
Other network operations	58	54	(4)	(4)	60
	404	399	(5)	5	377
Centrally-managed maintenance expenditure					
Telecoms	5	6	1	1	4
Route Services - Asset Information	8	7	(1)	(1)	7
STE Maintenance	2	2	-	-	2
Property	4	1	(3)	(3)	-
Route Services - Other	5	1	(4)	(8)	(1)
Other	(3)	-	3	1	(7)
	21	17	(4)	(10)	5
Total maintenance expenditure	425	416	(9)	(5)	382

Statement 3.2: Analysis of maintenance expenditure, North West & Central

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year, mainly due to extra reactive maintenance activity and additional logistics and Property. Costs are higher than the previous year, reflecting the output and asset management challenges set out by the regulator in their CP6 determination as well as increased Buildings reactive maintenance.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory assumption this year, which is mainly due to higher reactive maintenance. Removing the impact of this, costs are lower due to additional efficiencies and the successful resolutions of commercial disputes partly offset by additional asset resilience schemes. Costs are higher than the previous year, including extra investment to reflect the output and asset management challenges set out by the regulator in their CP6 determination and higher levels of reactive maintenance activity.
- (2) Track – track maintenance costs are the largest component of North West & Central's maintenance costs. This year, costs are in line with the regulatory baseline. Costs are slightly higher than the previous year, reflecting additional outputs and asset management requirements this control period, which was reflected in the increase in the regulatory expectation.
- (3) Signalling & telecoms – costs are higher than the regulatory baseline this year which includes additional investment in asset resilience to facilitate better train performance. This included additional works in Autumn/ Winter on circuits to prevent failure affecting passengers. Costs are higher than the previous year, partly due to additional outputs required by the regulator in CP6, and partly due to the additional costs incurred in the year.

Statement 3.2: Analysis of maintenance expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (4) Civils – costs were broadly in line with regulatory expectation as savings in civils inspection costs were counterbalanced by additional 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. The savings in inspection costs included successful settlement of legacy commercial claims and greater than expected efficiencies on contract negotiations. Costs are broadly in line with the previous year.
- (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 in line with the regulatory assumption. 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 are higher than the previous year, which is also attributable to the inherent variability of Buildings reactive maintenance.
- (6) Other network operations – costs for the current year are higher than the regulatory baseline which includes the re-evaluation of stock values and the costs of remediating an oil spill near Bletchley station. Costs are broadly consistent with the previous year.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are higher than the regulatory baseline mostly due to higher logistic and Property costs partially off-set by some non-recurring benefits in the year. As expected by the regulatory baselines, costs were higher than the previous year, reflecting the aforementioned higher costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year
- (2) Property – costs are higher than the regulatory expectation due to some additional one-off costs incurred in this Region compared to the regulatory expectation, which also explains the increase compared to 2018/19.

Statement 3.2: Analysis of maintenance expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (3) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the Regions for the services provided as well as some additional income generated from sales of scrap rail. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge has been ignored when assessing financial performance.
- (4) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline assumed this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	2	2	-	-	1
Finance	1	2	1	1	2
Accommodation	15	16	1	1	14
Utilities	20	20	-	-	17
Other	5	13	8	8	-
	43	53	10	10	34
Centrally-managed support costs					
Finance & Legal	8	10	2	2	9
Communications	3	3	-	-	2
Human Resources	5	5	-	-	5
System Operator	9	11	2	2	3
Property	-	(1)	(1)	(1)	(2)
Telecoms	13	14	1	-	11
Network Services	5	6	1	1	2
Safety Technical and Engineering	7	8	1	1	11
RS - IT and Business Services	27	30	3	3	24
RS - Asset Information	3	4	1	1	2
RS - Directorate	4	5	1	1	5
Other corporate functions	7	16	9	-	6
Insurance	6	10	4	4	5
Opex/capex Adjustment	17	16	(1)	-	-
Group costs	(6)	21	27	9	(9)
	108	158	50	23	74
Total support costs	151	211	60	33	108

Statement 3.3: Analysis of support costs, North West & Central

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading and higher Regionally-managed costs to reflect the challenges of the CP6 determination.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are lower than the regulatory baseline. This has been driven by headcount and pay control, reductions in 2018/19 performance-related pay outs and additional efficiencies. Costs are higher than the previous year, as expected by the regulatory baseline, reflecting the challenges of the CP6 determination.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year with the largest contribution from changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) Finance & legal – costs are favourable compared to the regulatory baseline mostly due to reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs are broadly consistent with the previous year.
- (3) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are higher than the previous year due to the increased prominence and capability of this department. In response to the Glaister review published in 2018 and DfT direction, the size and scope of this department has been enhanced to deliver additional outputs for the rail industry as a whole.

Statement 3.3: Analysis of support costs, North West & Central – continued

In £m 2019-20 prices unless stated

- (4) Telecoms – costs are lower than the regulatory baseline this year. This includes slower rollout of the cab radio programme along with additional efficiencies mostly arising from headcount control, contract negotiation and reductions in performance-related pay. Rollout of the cab radio programme is to improve safety and performance by ameliorating signal interference. When assessing financial performance, the saving been treated as neutral as the core outputs have not been delivered. Costs are slightly higher than the previous year, reflecting the increased scope and deliverables of Telecoms in this control period partly offset by the cost reductions noted above.
- (5) Network Services – costs are lower than the regulatory assumption this year. These savings have been achieved through a combination of reduced use of consultants with internal staff stretched to deliver more, better utilisation of consultant frameworks to enhance productivity reductions in pay-outs under performance-related pay schemes, headcount control and favourable settlement of claims. Costs are higher than the previous year, the majority of which was expected through the regulatory baseline increase to reflect the scope of this department in CP6.
- (6) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year with the main contribution coming from reductions in pay outs under performance-related pay schemes. Costs are lower than the previous year. In CP5 there were some specific projects being delivered by this department, such as Interdisciplinary Standards Programme, Integrated Management System and Whole Life Cost modelling which are now all funded through the Renewals allowances (refer to Statement 3.6).
- (7) Route Services – IT and Business Services – costs were lower this year than the regulatory baseline. This was mainly due to savings in the Business Services part of the organisation. This included savings in training costs by increased in-house delivery and utilising courses eligible under the government Apprentice Levy funding source and acceleration of some efficiency initiatives, including successful re-negotiation of contracts. Costs are higher than the previous year. This includes a change in accounting policy under the ORR's CP6 Regulatory Reporting Guidelines so that a greater proportion of IT expenditure qualifies as opex rather than capex.
- (8) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (9) 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. Costs are broadly in line with the previous year. As noted in last year's Regulatory financial statements, 2018/19 also benefitted from actuarial updates to Network Rail's liabilities to third parties.

Statement 3.3: Analysis of support costs, North West & Central – continued

In £m 2019-20 prices unless stated

- (10) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.
- (11) Group – there are noticeable savings this year compared to the regulatory expectation. Over three-quarters of the saving is due to not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. This has been partly offset by non-utilisation of risk credits (offset in Region-managed costs). Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Variances in risk credit utilisation have also been treated in neutral as the credits have been rephrased into future years of control period 6. The level of credits reported in Group is lower than the previous year (in other words, costs are higher). This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	1	-	(1)	(1)	1
	1	-	(1)	(1)	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	82	94	12	-	89
Business rates	55	55	-	-	52
British transport police costs	20	20	-	-	19
ORR licence fee and railway safety levy	2	2	-	-	1
RDG membership costs	1	1	-	-	1
RSSB costs	3	3	-	-	2
Reporters fees	-	-	-	-	1
	163	175	12	-	165
Total traction electricity, industry costs and rates	164	175	11	(1)	166

Statement 3.4: Analysis of traction electricity, industry costs and rates, North West & Central

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are broadly in line with the previous year.

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are broadly in line with the previous year. 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are broadly in line with the previous year.

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	63	76	13	2	49
Access charge supplement Income	(59)	(51)	8	-	(35)
Net (income)/cost	4	25	21	2	14
Schedule 8					
Performance element income	(15)	-	15	15	(1)
Performance element costs	86	27	(59)	(59)	68
Net (income)/cost	71	27	(44)	(44)	67
Centrally managed					
Schedule 4					
Performance element costs	(1)	14	15	15	22
Access charge supplement Income	(12)	(16)	(4)	-	(2)
Net (income)/cost	(13)	(2)	11	15	20
Schedule 8					
Performance element costs	3	3	-	-	(2)
Net (income)/cost	3	3	-	-	(2)
Total					
Schedule 4					
Performance element costs	62	90	28	17	71
Access charge supplement Income	(71)	(67)	4	-	(37)
Net (income)/cost	(9)	23	32	17	34
Schedule 8					
Performance element income	(15)	-	15	15	(1)
Performance element costs	89	30	(59)	(59)	66
Net (income)/cost	74	30	(44)	(44)	65

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central

In £m 2019-20 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) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.
- (2) Overall Schedule 8 costs are higher than the regulatory baseline, mainly due to worse than expected train performance. This included a higher concentration of one-off incidents (such as rising numbers of trespass and suicide) in this Region, repeated damage to overhead lines in key locations and the adverse impact of weather, along with a challenging timetable and congested network. Costs are higher than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. However, the issues in the current year referenced above more than offset this recalibration.

Statement 3.5: Schedule 4 and Schedule 8 income and costs, North West & Central – continued

In £m 2019-20 prices unless stated

Region-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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are lower than the regulatory baseline as extra capital delivery has been more than offset by lower like-for-like costs. The extra capital delivery includes additional drainage and buildings activity completed this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The lower like-for-like costs have been achieved despite the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Savings were made from efficient packaging of works, especially around the festive period, which also helped reduce disruption for passengers over a longer period. There were also benefits from successful resolution of commercial claims. Performance costs are higher than the previous year owing to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Schedule 8 costs are noticeably higher than the baseline due to train performance being worse than expected. This included a higher concentration of one-off incidents (such as rising numbers of trespass and suicide) in this Region, repeated damage to overhead lines in key locations and the adverse impact of weather, as noted above. These incidents were underpinned by a congested network meaning that the ability to recover from delays was reduced, a situation that was exacerbated following the introduction of a new timetable in the year. Costs were broadly in line with the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. The benefits of this were more than offset by the factors impacting current year performance noted above.

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, North West & Central – continued

In £m 2019-20 prices unless stated

- (2) Schedule 4 – Performance element costs - Schedule 4 Access charge supplement is broadly in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the costs in the Regionally-managed section above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.

Statement 3.6: Analysis of renewals expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	36	43	7	-	-
PL Replace Partial	31	16	(15)	-	-
PL High Output	29	26	(3)	-	18
PL Refurbishment	3	18	15	-	11
Switches & Crossing - Replace	32	28	(4)	-	43
Switches & Crossing - Other	7	9	2	-	6
Off Track	7	11	4	-	-
Track Other	6	-	(6)	-	53
	151	151	-	(3)	131
Signalling					
Signalling Full	31	47	16	-	-
Signalling Partial	4	4	-	-	-
Signalling Refurb	5	3	(2)	-	-
Level crossings	3	5	2	-	2
Minor works	25	21	(4)	-	20
Other	-	-	-	-	92
	68	80	12	(5)	114
Civils					
Underbridges	25	26	1	-	28
Overbridges	5	10	5	-	15
Major structures	-	-	-	-	7
Tunnels	8	11	3	-	4
Minor works	25	23	(2)	-	-
Other	11	13	2	-	11
	74	83	9	4	65
Earthworks					
Earthworks - Embankments	14	22	8	-	6
Earthworks - Soil Cuttings	18	22	4	-	7
Earthworks - Rock Cuttings	4	2	(2)	-	-
Earthworks - Other	3	-	(3)	-	2
	39	46	7	(1)	15
Buildings					
Managed stations	7	5	(2)	-	15
Franchised stations	39	34	(5)	-	26
Light maint depots	3	3	-	-	1
Depot plant	1	-	(1)	-	-
Lineside buildings	5	2	(3)	-	2
MDU buildings	2	2	-	-	1
	57	46	(11)	(5)	45
Electrical power and fixed plant					
AC distribution	2	1	(1)	-	2
Overhead Line	15	16	1	-	14
DC distribution	7	3	(4)	-	1
Signalling Power Supplies	16	13	(3)	-	-
Other	-	-	-	-	2
Fixed plant	1	1	-	-	16
	41	34	(7)	1	35
Drainage					
Drainage (Track)	16	23	7	-	23
Drainage (Earthworks)	8	4	(4)	-	5
	24	27	3	(3)	28
Property					
	-	-	-	-	-
Total regionally-managed renewals expenditure	454	467	13	(12)	433

Statement 3.6: Analysis of renewals expenditure, North West & Central - continued

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	5	-	(5)	-	-
Telecoms					
Operational communications	1	3	2	-	2
Network	2	2	-	-	3
SISS	1	1	-	-	1
Projects and other	-	1	1	-	1
Non-route capital expenditure	22	18	(4)	-	7
	26	25	(1)	-	14
Wheeled plant and machinery					
High output	3	4	1	-	3
Infrastructure monitoring	1	2	1	-	2
Intervention	1	2	1	-	1
Materials delivery	2	7	5	-	2
On track plant	1	1	-	-	5
Seasonal	-	1	1	-	-
Other	1	(1)	(2)	-	2
	9	16	7	-	15
Route Services					
Business Improvement	25	24	(1)	-	-
IT Renewals	11	4	(7)	-	29
Other	1	1	-	-	2
	37	29	(8)	-	31
STE Renewals					
Intelligent infrastructure	7	7	-	-	7
Faster Isolations	6	16	10	-	16
Centrally Managed Signalling Costs	1	2	1	-	2
Research and development	7	6	(1)	-	2
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	6	7	1	-	4
Small plant	-	2	2	-	3
Other	5	5	-	-	7
	32	48	16	-	41
Property					
Property	3	3	-	-	3
	3	3	-	-	3
Other renewals					
ETCS	3	4	1	-	2
Digital Railway	-	1	1	-	-
Civils - Insurance Fund	-	6	6	3	-
Buildings - Insurance Fund	-	3	3	-	-
Opex/capex Adjustment	(17)	(16)	1	-	-
System Operator	2	2	-	-	-
Other renewals	2	1	(1)	3	(5)
	(10)	1	11	6	(3)
Total centrally-managed renewals expenditure	102	122	20	6	101
Total renewals expenditure	556	589	33	(6)	534

Statement 3.6: Analysis of renewals expenditure, North West & Central

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is slightly lower than the regulatory baseline. Although there are numerous variances, slower progress on Signalling, STE managed projects and fewer insurable events were partly offset by acceleration of Building and Electrification works. Some minor net financial underperformance has been recognised this year with higher like-for-like Regionally-managed costs being partly mitigated by savings in Centrally-managed projects. Overall expenditure was higher than last year, reflecting the new activity baselines for CP6.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were lower than the regulatory baseline with the largest underspend in Signalling due to delays in large programmes, notably works around Birmingham New Street. Net financial underperformance has been recognised this year across the Renewals estate, notably Buildings, Signalling and Track. Expenditure was higher than the previous year reflecting the new expectations for investment in CP6, notably in Track, Civils, Buildings and Earthworks partly offset by reduced spend on large Signalling programmes.
- (2) Track – overall track expenditure was in line with the regulatory baseline this year but there are variances within the Track subheadings. Asset management decisions were made to invest in more Plain Line Replace Partial rather than Plain Line Refurbishment to deliver a longer useful life. This can be seen by the largely offsetting variances to the regulatory baselines between these categories. Financial underperformance has been reported this year which is mainly due to impact of lost volumes. Reductions in activity do not result in commensurate reductions in cost due to fixed costs of Track delivery and other contractual commitments with third parties. Notable examples this year include reduced access at Water Orton following withdrawal of HS2 works, meaning less Switches & Crossings could be delivered during the planned possession, ballast and material trains not being able to get to site as other Regions took priority and works lost from plant failure and wildlife protection. Expenditure is higher than the previous year which is in line with the higher regulatory baseline this year as the Region increases its delivery to meet the requirements and challenges of the new control period.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (3) Signalling – expenditure was lower than the regulatory baseline this year, mainly due to delays in works around Birmingham New Street. Large Signalling projects are inherently complex, requiring design and integration of new equipment and layouts into existing infrastructure. Higher tender prices on parts of this programme have prompted a review of the proposed delivery method and outputs. Financial underperformance has been recognised this year. This includes the impact of reduced workbanks this year compared to expectation. Consequently, the fixed costs of the Signalling team were spread over fewer projects resulting in higher like-for-like costs. Additional complexity on Trafford Park scheme, including Japanese Knotweed and integration of other works in the area, and Greenbank/ Northwich life extension, worse asset condition, also contributed to the negative performance reported this year. Expenditure is lower than the previous year which included major work on Weaver to Wavertree and Liverpool Lime Street, which are now largely completed. This was partly offset by design works on a number of newer projects and lower value programmes, such as Trafford park works.
- (4) Civils – expenditure was lower than the regulatory baseline this year. This included slower progress on an asbestos-removal project due to greater complexity and on-going negotiations with landlords for site access, higher than expected tender prices necessitating reassessment of asset management solutions and savings from cheaper like-for-like delivery. Tunnels projects also suffered from a lack of resource to complete design works. Financial outperformance was recognised this year including favourable settlement of commercial claims, successful control of risk on complex projects and workbank packaging on jobs in the Wigan area with shared project management, security and storage costs. Expenditure is higher than the previous year which was largely expected in the increased regulatory baseline this year to help the Region achieve the regulatory outputs required for CP6.
- (5) Earthworks – expenditure in the year was lower than the regulatory baseline this year. This included difficulties gaining access to sites with the adverse weather in February preventing safe work on planned weekend works as well as successful settlement of commercial claims. Some minor financial underperformance has been reported this year. This included Blackthorn and Piddington where weather events in February leaving the site flooded, causing project prolongation and Harbury where obtaining site access from landlords proved problematic as did local council planning requirements which added costs and prolonged the project. Expenditure is higher than the previous year which was largely expected in the increased regulatory baseline this year to help the Region achieve the regulatory outputs required for CP6.
- (6) Buildings – additional investment was undertaken this year compared to the regulatory baseline. This was mostly due to lower levels of project slippage occurring compared to the assumption in the baseline as works were successfully planned and delivered. The aforementioned objective to utilise available funding meant that advancement on these projects did not need to be curtailed. Financial underperformance has been reported this year. This was partly caused by inaccurate design on sectional appendix works where the length and condition of platforms at multiple sites were misrepresented in the baselines, notably at Greenfield and Moston sites. Financial performance was also impacted by discovery of asbestos at Tamworth station leading to extra re-planning and remediation costs as well as numerous projects proving more complex, and so expensive, than the baseline assumptions such as Birmingham International, Crewe and Worcester Shrub Hill. Investment was higher than the previous year mainly due to the extra delivery undertaken this year compared to the baseline expectation.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (7) Electrical power and fixed plant – expenditure was higher than the regulatory baseline this year. This included extra costs on Signalling Power Supplies due to higher tender prices and costs of redesign as well as acceleration of activity into the current year to optimise available resources, such as DC cabling projects on Merseyrail and at Aigburth. Investment was higher than the previous year mainly due to the extra delivery undertaken this year compared to the baseline expectation.
- (8) Drainage – investment was broadly in line with the regulatory expectation this year, with lower levels of Track substituted with acceleration of Earthworks. Financial underperformance has been reported this year. This includes the impact of reduced outputs at New Lane where the lower volumes adversely effected unit rates compared to the target rates as did invasive weeds at Golborne Down. Additional intrusive investigations at Codsall and Townend Road also added to project costs as did the issues on the Blackthorn and Piddington project referenced above in the Earthworks comment. Overall expenditure was similar to the previous year.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is generally the same as the previous year.
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is broadly in line with the regulatory baseline with the portfolio being managed in line with the funding available this year with Operational communications deferrals compensated for by Non-route capital expenditure acceleration. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
- a. Materials delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is broadly consistent with the previous year.
 - b. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, a mobile elevated working platform.
 - c. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.
- (5) Route Services – Expenditure is higher than the regulatory baselines this year as work has been accelerated from future years. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year, mainly reflecting the additional spend this year compared to the regulatory baseline. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Intelligent infrastructure – costs are broadly in line with the regulatory expectation this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance, as agreed with the regulator. Investment is generally in line with the previous year.
 - b. Faster isolations – costs are lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are lower than the previous year which included some significant projects delivered.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- c. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - d. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - e. Small Plant – investment is lower than the regulatory baseline this year. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Expenditure is lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
- (7) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

Statement 3.6: Analysis of renewals expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- c. 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). This is a new item for CP6, so there is no prior year value to compare to.
- d. System Operator – expenditure this year is similar to the regulatory baseline. This is a new funding category for the current control period and so there is no prior year activity.
- e. Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, North West & Central

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
East West Rail Phase 2	92	113	-
North West Train Lengthening	17	32	-
London Euston (in support of High Speed Rail Group scheme)	6	10	-
Access for All	6	-	-
Integrated Crewe Hub - HS2	6	8	-
NWEP Phase 7 Lostock - Wigan	-	5	-
Portfolio Contingency (including T-12)	5	29	23
Depots & Stabling Fund	5	-	-
Northern Hub	41	39	(1)
West Coast PSU	2	16	-
High Speed 2	7	-	-
Other	20	28	-
Total	207	280	22
Other Capital Expenditure	17	-	-
Other third party funded schemes			
HS2	189	-	-
Other third Party	48	-	-
Total	237	-	-
Total enhancements	461	280	22
Total enhancements less Other third party funded schemes	224	280	22

Statement 3.7: Analysis of enhancement expenditure, North West & Central

In £m 2019-20 prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with DfT. The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather than the core North West & Central 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. 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 DfT.
- (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 North West & Central funder (DfT) was £224m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£461m) less the PAYGO schemes funded by other third parties (£237m).
- (2) Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. There were a number of differences between the profile of delivery of individual programmes compared to the original regulatory expectation. Some financial outperformance has been recognised, reflecting tight cost control across the portfolio. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as North West & Central delivers a different set of programmes at the direction of DfT.

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. East West Rail Phase 2 – slower progress has been made on this project this year. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, a private sector consortium, with overview from DfT. This structure, whilst delivering benefits, has led to slower decision-making processes which has been exacerbated by HM Treasury's understandable interest in authorising tranches of work on the programme. The programme has had increased governance this year which has slowed decision-making but provided enhanced challenge over the use of tax-payers funding. Activity has been reprofiled to later in the control period.
 - b. North West Train Lengthening – slower progress has been made on this project this year. This was mainly due to delays in agreeing scope for unremitted elements of the scope with DfT. Those projects remitted by the start of the year delivered in line with expectation.
 - c. Access for All – no work was expected to be delivered this year in the DfT baseline but some schemes were accelerated. These include works at Tring, Mills Hill, Meols and Stetchford stations.
 - d. Portfolio Contingency (including T-12) – expenditure this year was lower than the baseline. 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 year against other projects within the portfolio. Actual costs reported in this category this year are for the element of possession costs caused by delays to timetable publications, as noted in the previous year's Regulatory Financial Statements.
 - e. West Coast PSU – minimal activity has been reported this year against this project. This has arisen from a review of required scope of the remainder of the project to align to other strategic considerations on that part of the network. Changes in potential design options have compounded this. Expenditure has been reprofiled into future years.
 - f. Other – this category covers a number of smaller projects, including CP5 close out projects. The underspend in this category this year reflects the reductions across the rest of the portfolio, as fewer new schemes have been approved by DfT for progression. The change in control period has also slowed progress as projects are having to move quickly from a standing start due to a lack of investment in early design works towards the end of CP5 as no funding

Statement 3.7: Analysis of enhancement expenditure, North West & Central – continued

In £m 2019-20 prices unless stated

- (4) 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: Merseyrail power supply and work on the Northern Powerhouse programme.
- (5) Other capital expenditure – this year, this category includes investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

Statement 3.8: Analysis of renewals unit costs, North West & Central

£m, 2019-20 prices unless stated

		Unit	AFC	FY20 AFV	Unit Costs	AFC	FY19 AFV	Unit Costs
Track	PL Replace Full	km	35	21	1,667	n/a	n/a	n/a
	PL Replace Partial	km	37	75	493	n/a	n/a	n/a
	PL High Output	km	28	29	966	n/a	n/a	n/a
	PL Refurbishment	km	4	40	100	n/a	n/a	n/a
	Switches & Crossing - Replace	point ends	22	63	349	n/a	n/a	n/a
	Switches & Crossing - Other	point ends	8	47	170	n/a	n/a	n/a
	Off Track	km/No.	5	48	104	n/a	n/a	n/a
Total			139	-	-	-	-	-
Signalling	Signalling Partial	SEU	5	16	313	n/a	n/a	n/a
	Signalling Refurb	SEU	1	4	250	n/a	n/a	n/a
	Total		6	-	-	-	-	-
Civils	Underbridges	m2	30	12,309	2	19	12,871	1
	Overbridges (incl BG3)	m2	6	2,122	3	17	3,956	4
	Tunnels	m2	10	5,150	2	9	18,895	0
	Culverts	m2	3	917	3	4	933	4
	Footbridges	m2	2	110	18	3	157	19
	Coastal & Estuarial Defences	m2	2	725	3	4	1,640	2
	Retaining Walls	m2	4	2,540	2	1	416	2
Total			57	-	-	57	-	-
Earthworks	Earthworks - Embankments	No.	29	167	174	n/a	n/a	n/a
	Earthworks - Soil Cuttings	No.	19	343	55	n/a	n/a	n/a
	Earthworks - Rock Cuttings	No.	3	42	71	n/a	n/a	n/a
	Earthworks - Other	No.	-	110	-	n/a	n/a	n/a
	Drainage - Earthworks	m	4	4,727	1	n/a	n/a	n/a
	Drainage - Other	m	11	10,245	1	21	15,160	1
Total			66	-	-	21	-	-
Buildings	Buildings (MS)	m2	-	-	-	1	650	2
	Platforms (MS)	m2	1	1,053	1	1	1,500	1
	Other (MS)	m2	-	-	-	1	308	3
	Buildings (FS)	m2	1	361	3	1	880	1
	Platforms (FS)	m2	19	4,704	4	7	34,747	0
	Canopies (FS)	m2	9	7,831	1	-	750	-
	Train sheds (FS)	m2	-	450	-	-	-	-
	Footbridges (FS)	m2	2	425	5	-	321	-
	Other (FS)	m2	2	28,961	0	2	13,198	0
	Light Maintenance Depots	m2	1	7,446	0	1	10,974	0
	Lineside Buildings	m2	5	1,417	4	4	2,975	1
	MDU Buildings	m2	1	827	1	1	3,454	0
Total			41	-	-	19	-	-

Statement 3.8: Analysis of renewals unit costs, North West & Central - continued

£m, 2019-20 prices unless stated

		FY20			FY19		
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Electrical Power & Fixed Plant	Structure renewals	No.	5	10	500	-	-
	Conductor rail	km	2	8	250	-	-
	HV cables DC	km	3	7	429	1	5
	UPS	No.	5	54	93	n/a	n/a
	Points Heaters	point end	-	-	-	3	75
	Signalling Power Cables	km	47	127	370	52	171
	Signalling Supply Points	point end	2	-	-	2	-
Total		64	-	-	58	-	-
Telecoms	Customer Information Systems	No.	-	-	-	1	404
	Public Address	No.	-	-	-	1	114
	CCTV	No.	-	-	-	2	535
	Other Surveillance	No.	-	-	-	1	4
	PABX Concentrator	No.	2	1,370	1	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-
	HMI Large	No.	-	21	-	-	-
	Radio		-	-	-	-	-
	Power		-	-	-	-	-
	Other comms		-	-	-	-	-
	Network	No.	2	30	67	-	4
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
Total		4	-	-	5	-	-

Statement 3.8: Analysis of renewals unit costs, North West & Central

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (3) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. However, no level crossing volumes were delivered in the current year

Statement 3.8: Analysis of renewals unit costs, North West & Central – continued

In £m 2019-20 prices unless stated

- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (5) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in 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) Electrification & Plant – There has been an increase in the unit costs for HV cables DC. However, there were only two projects spanning both years which makes analysis between the years difficult. The Aigburth project spanned both years whilst in the current year there was also the relatively more expensive cable renewal at Liverpool. It is a similar story in the signalling power cables category where the vast majority of volumes delivered in both years comes from the Distribution project.
- (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.

Statement 4: Regulatory financial position, North West & Central

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	15,355
Indexation to 2019-20 prices	15,585
RAB additions	
Renewals expenditure	556
Enhancements expenditure	-
Less amortisation	(556)
Property Sales	3
Closing RAB	15,588

Net debt

	£m
Opening net debt	11,237
Income	(1,768)
Expenditure	1,572
Financing Costs - Government borrowing	237
Financing Costs - index linked debt	167
Financing Costs - Other	43
Corporation tax	-
Working capital	(50)
Closing net debt	11,438

Statement 4: Regulatory financial position, North West & Central

In £m 2019-20 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 and enhancement 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 North West & Central part of the network and how it has moved from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was around £0.55bn. 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 from the position at the start of the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to North West & Central has increased by around £200m during the year. This was mostly due to increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.

Statement 4: Regulatory financial position, North West & Central – continued

In £m 2019-20 prices unless stated

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

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

(12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.

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

Statement 1: Summary of regulatory financial performance, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	1,281	1,442	(161)	-	785
Franchised track access charges	614	639	(25)	(1)	541
Other Single Till Income	269	232	37	33	1,045
Total Income	2,164	2,313	(149)	32	2,371
Operating expenditure					
Network operations	177	180	3	2	175
Support costs	141	180	39	8	107
Traction electricity, industry costs and rates	234	256	22	1	210
Maintenance	380	378	(2)	(11)	318
Schedule 4	75	83	8	14	93
Schedule 8	(27)	9	36	36	117
	980	1,086	106	50	1,020
Capital expenditure					
Renewals	706	681	(25)	(13)	764
Enhancements	209	221	12	12	506
	915	902	(13)	(1)	1,270
Risk expenditure					
Risk (Centrally-held)	-	(1)	(1)	-	-
	-	(1)	(1)	-	-
Other expenditure					
Financing costs	477	509	32	-	541
Corporation tax	-	2	2	-	-
	477	511	34	-	541
Total expenditure	2,372	2,498	126	49	2,831
Total Financial Out/(under) performance				81	

Statement 1: Summary of regulatory financial performance, Southern

In £m 2019-20 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 (the regulatory 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Southern's net expenditure (Total income less Total expenditure) was broadly in line with the regulatory baseline with Enhancement deferrals, operating costs savings train performance regime improvements largely offset by lower grant income and acceleration of Renewals.
- (2) This statement also shows that Southern made a strong start to the control period, beating the regulatory baselines this year, resulting in £81m of financial outperformance. This included lower operating expenditure and improvements in the train performance regime. The impact of Covid-19 will make continuing this outperformance in 2020/21 extremely challenging.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational, train performance regime and renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was slightly lower than the baseline due to lower electricity traction income which is offset by savings in the electricity traction costs reported this year (as shown by the variance in the Traction electricity, industry costs and rates heading). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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. Income is higher than the previous year reflecting the financial framework for Southern for CP6. Franchised track access income is discussed in more detail in Statement 2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m 2019-20 prices unless stated

- (5) Income – Other single till income in the year is higher than the baseline mostly due to additional Property sales. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity for Freight operators is 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, the current year includes some revenue recognised in connection with the major divestment of Network Rail's commercial estate that occurred last year which has been treated as neutral when assessing financial performance (as was the case in the 2018/19 Regulatory Financial Statements. Income is noticeably lower than the previous year which includes the aforementioned disposal of large parts of the commercial estate in 2018/19 which makes comparisons with the previous year meaningless. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network Operations costs are slightly lower than the regulatory baseline, reflecting achievement of efficiencies this year, and slightly higher than the previous year, reflecting the extra activity required in CP6. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Not all of these savings are eligible for inclusion in the assessment of financial performance. Costs are higher than the previous year reflecting changes in accounting policies for CP6. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the regulatory baseline largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Costs are higher than the previous year reflecting higher market electricity prices which is largely offset by higher charges to operators. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Maintenance costs are broadly in line the regulatory assumption. Costs are higher than the previous year mostly due to additional Regionally-managed costs, which was anticipated in the regulator's CP6 determination, to reflect expected asset management requirements and outputs for the new control period. Maintenance costs are discussed in more detail in Statement 3.2.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m 2019-20 prices unless stated

- (10) Operating expenditure - Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated, partly due to favourable settlement of commercial claims. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight. Schedule 8 flows are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is slightly higher than the regulatory baseline with acceleration of Track, Buildings and Earthworks being offset by less activity on Centrally-managed projects. Minor net financial underperformance has been recognised this year. Overall expenditure was lower than the previous year, with the largest contributions from reductions in CP5 Thameslink resilience fund (reported under Other renewals) and a change in accounting policy for CP6. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial outperformance has been reported this year as cost risk in the portfolio has largely been mitigated. 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 DfT. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Southern delivers a different set of programmes at the direction of DfT. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure – Other 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.

Statement 1: Summary of regulatory financial performance, Southern – continued

In £m 2019-20 prices unless stated

- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was minimal values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so fewer risks for the forthcoming year would be anticipated. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline expected due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax costs are lower than the regulatory baseline. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	229	228	1	-	144
Variable usage charge	52	53	(1)	(1)	38
Electrification asset usage charge	4	4	-	-	4
Capacity charge	-	-	-	-	102
Managed stations long term charge	22	22	-	-	14
Franchised stations long term charge	53	53	-	-	45
Schedule 4 access charge supplement	75	75	-	-	44
	435	435	-	(1)	391
Other single till income					
Freight income					
Freight variable usage charge	3	3	-	-	3
Freight other income	-	-	-	-	1
	3	3	-	-	4
Stations income					
Managed stations qualifying expenditure	32	35	(3)	(3)	26
Franchised stations lease income	28	25	3	3	26
	60	60	-	-	52
Facility and financing charges					
Facility charges	17	17	-	-	16
	17	17	-	-	16
Depots income	33	32	1	1	31
Other income	2	1	1	1	1
Total other single till income	115	113	2	2	104
Total regionally-managed income	550	548	2	1	495
Centrally-managed income					
Network grant	935	1,084	(149)	-	785
Internal financing grant	159	167	(8)	-	-
External financing grant	160	162	(2)	-	-
BTP grant	27	27	-	-	-
Corporation tax grant	-	2	(2)	-	-
Infrastructure cost charges	11	11	-	-	8
Schedule 4 access charge supplement	16	16	-	-	3
Traction electricity charges	152	177	(25)	-	139
Freight traction electricity charges	2	2	-	-	1
	1,462	1,648	(186)	-	936
Other single till income					
Property income					
Property rental	99	99	-	-	135
Property sales	53	18	35	31	805
	152	117	35	31	940
Crossrail finance charge	-	-	-	-	-
Total other single till income	152	117	35	31	940
Total centrally-managed income	1,614	1,765	(151)	31	1,876
Total income	2,164	2,313	(149)	32	2,371

Statement 2: Analysis of income, Southern

In £m 2019-20 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.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income offset by additional income arising from Property disposals. Income is lower than the previous year which benefitted from the divestment of most of Network Rail's commercial property portfolio. This has been partly offset by higher additional grant income this year, reflecting the new financial framework for CP6.

Regionally-managed income

- (1) Total Regionally-managed income is in line with the CP6 baseline. Income is higher than the previous year due to changes in the regulatory expenditure targets for CP6.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is generally in line with the regulatory target this year. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year.
- (5) Managed stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.
- (6) Franchised stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its franchised station portfolio.
- (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 the ORR use for the Regulatory financial statements. Income was higher than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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, Southern – continued

In £m 2019-20 prices unless stated

- (8) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year. 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. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its managed station portfolio.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income offset by additional income arising from Property disposals. Income is lower than the previous year which benefitted from the divestment of most of Network Rail's commercial property portfolio. As reported in last year's Regulatory Financial Statements, this disposal was undertaken to fund the ambitious enhancement programme delivered in the previous control period.
- (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 in a given 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, 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 was lower than the regulatory baseline as savings have been made compared to the net operating costs included in the CP6 Business Plan, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.
- (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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.

Statement 2: Analysis of income, Southern – continued

In £m 2019-20 prices unless stated

- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.
- (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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (9) Schedule 4 access charge supplement – 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 assumed in the CP6 baselines. Income is higher than the previous year. This largely reflects changes in funding in CP6 where the regulator has created a central fund for insurable events reflecting prior claims experience. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs (across the control period).
- (10) Property rental – although income is in line with the regulatory expectation this year it is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.
- (11) Property sales – sales this year are higher than the regulatory baseline as additional commercial opportunities have been identified this year. Income is lower than the previous year due to the disposal of the majority of Network Rail's commercial estate in 2018/19, as reported in last year's Regulatory Financial Statements. The magnitude of this single transaction makes comparisons with the previous year meaningless.

Statement 3: Analysis of expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	174	175	1	1	171
Maintenance	366	361	(5)	(9)	303
Support costs	46	52	6	6	37
Traction electricity, industry costs and rates	1	1	-	1	1
Schedule 4	87	72	(15)	(9)	66
Schedule 8	(29)	7	36	36	116
	645	668	23	26	694
Capital expenditure					
Renewals	595	531	(64)	(18)	571
Enhancements	172	203	31	(3)	457
	767	734	(33)	(21)	1,028
Total regionally-managed expenditure	1,412	1,402	(10)	5	1,722
Centrally-managed expenditure					
Operating expenditure					
Network operations	3	5	2	1	4
Maintenance	14	17	3	(2)	15
Support costs	95	128	33	2	70
Traction electricity, industry costs and rates	233	255	22	-	209
Schedule 4	(12)	11	23	23	27
Schedule 8	2	2	-	-	1
	335	418	83	24	326
Capital expenditure					
Renewals	111	150	39	5	193
Enhancements	37	18	(19)	15	49
	148	168	20	20	242
Risk expenditure	-	(1)	(1)	-	-
Other					
Financing costs	477	509	32	-	541
Taxation	-	2	2	-	-
	477	511	34	-	541
Total centrally-managed expenditure	960	1,096	136	44	1,109
Total expenditure	2,372	2,498	126	49	2,831

Statement 3: Analysis of expenditure, Southern

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport and also from train performance regime costs.

Regionally-managed expenditure

- (1) Regionally-managed costs are broadly in line with the regulatory baseline assumption with accelerated capital expenditure partly offsetting train performance regime savings. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport. 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 operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Financing costs, following the removal of the Financial Indemnity Mechanism fee for CP6, and reduced Renewals. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	57	59	2	2	57
Operations Management	11	12	1	1	9
Controllers	31	32	1	1	29
Electrical control room operators	7	8	1	1	7
	106	111	5	5	102
Non signaller expenditure					
Mobile operations managers	11	9	(2)	(2)	9
Managed stations	31	30	(1)	(1)	22
Performance	8	9	1	1	8
Other	18	16	(2)	(2)	30
Total regionally-managed operations expenditure	174	175	1	1	171
Centrally-managed operations expenditure					
Network Services	3	5	2	1	4
Total centrally-managed operations expenditure	3	5	2	1	4
Total operations expenditure	177	180	3	2	175

Statement 3.1: Analysis of operations expenditure, Southern

In £m 2019-20 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.

Comments:

- (1) Overall operations costs are slightly lower than the regulatory baseline, reflecting achievement of efficiencies this year, and slightly higher than the previous year, reflecting the extra activity required in CP6.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs are broadly in line with the regulatory assumption this year as efficiency targets have been largely achieved. Costs are slightly higher than the previous year reflecting additional resource included at Managed stations, particularly the enlarged Waterloo station to help support passengers through their journey. This has been partly offset by a reduction in performance improvement schemes undertaken in 2018/19 as noted in the prior year Regulatory Financial Statements.

Centrally-managed operations expenditure

- (1) Network Services – costs are lower than the regulatory baseline this year. This includes lower expenditure on the Performance Innovation Fund, a ring-fenced allowance in the regulator's determination to invest new approaches to improve collaboration between Network and passenger operators to benefit customers. However, progress has been slower due to delays in setting up necessary governance and approvals process along with a dearth of suitable schemes identified so far. This underspend has been treated as neutral when assessing financial performance. There have also been delays to the charter train toilet emissions project which have been treated as neutral when assessing financial performance. Other savings include benefits from contract negotiation, reductions in pay outs to staff under performance-related pay schemes and tight headcount control. Costs are generally consistent with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	157	150	(7)	(7)	126
Signalling & Telecoms	65	63	(2)	(2)	53
Civils	36	39	3	(2)	30
Buildings	32	30	(2)	(1)	23
Electrical power and fixed plant	25	27	2	2	21
Other network operations	51	52	1	1	50
	366	361	(5)	(9)	303
Centrally-managed maintenance expenditure					
Telecoms	4	6	2	2	5
Route Services - Asset Information	5	4	(1)	(1)	6
STE Maintenance	2	2	-	-	2
Property	3	4	1	1	4
Route Services - Other	3	1	(2)	(6)	1
Other	(3)	-	3	2	(3)
	14	17	3	(2)	15
Total maintenance expenditure	380	378	(2)	(11)	318

Statement 3.2: Analysis of maintenance expenditure, Southern

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are broadly in line the regulatory assumption. Costs are higher than the previous year mostly due to additional Regionally-managed costs, which was anticipated in the regulator's CP6 determination, to reflect expected asset management requirements and outputs for the new control period.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are broadly in line with the regulatory baseline this year. Costs are higher than the previous year, as expected in the regulatory baselines following the finalisation of the CP6 funding and asset management requirements.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Costs are slightly higher than the regulatory baseline this year due to additional investment in resilience works and slightly higher material prices than planned. Costs have increased since the previous year. This was anticipated in the regulatory baselines to help meet performance challenges and recognises the average age of the track assets in this Region. There is notable extra investment in the strategically-important Thameslink part of the network, but also in other areas to control defect propagation and minimise reactive, post-event interventions.
- (3) Signalling & telecoms – costs are broadly in line with the regulatory assumption this year. Costs are higher than the previous year. This increase was anticipated as part of the determination process which provided more funding in this space to help address asset management and performance improvement plans and catch up a backlog of activity in this area in the previous control period.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m 2019-20 prices unless stated

- (4) Civils – costs were lower than the regulatory baseline mainly as a result of extra civils inspection costs more than offset by savings in 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. 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 other main area of expenditure is asset inspections which were higher than the regulatory expectation and also included some extra work following numerous landslips across the network this year requiring some additional remediation costs. Costs are higher than the previous year due to extra reactive maintenance activity.
- (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 in this category is slightly higher than the regulatory baseline. 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 are higher than the previous year due to the inherent variability in reactive maintenance requirements.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are broadly in line with the regulatory baseline this year. As expected by the regulatory baselines, costs were slightly higher than the previous year, reflecting higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m 2019-20 prices unless stated

- (2) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the Region for the services provided as well as some additional income generated from sales of scrap rail. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge has been ignored when assessing financial performance.
- (3) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline assumed this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is slightly lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	7	9	2	2	6
Finance	4	5	1	1	3
Accommodation	19	20	1	1	20
Utilities	16	17	1	1	14
Other	-	1	1	1	(6)
	46	52	6	6	37
Centrally-managed support costs					
Finance & Legal	7	8	1	1	6
Communications	2	2	-	-	3
Human Resources	4	4	-	-	3
System Operator	8	11	3	3	9
Property	8	3	(5)	(5)	11
Telecoms	12	14	2	1	10
Network Services	4	7	3	3	2
Safety Technical and Engineering	7	7	-	-	9
RS - IT and Business Services	21	22	1	1	21
RS - Asset Information	2	3	1	1	3
RS - Directorate	4	4	-	-	4
Other corporate functions	5	12	7	(1)	2
Insurance	6	8	2	2	4
Opex/capex Adjustment	10	9	(1)	-	-
Group costs	(5)	14	19	(4)	(17)
	95	128	33	2	70
Total support costs	141	180	39	8	107

Statement 3.3: Analysis of support costs, Southern

In £m 2019-20 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.

Comments:

- (1) Overall, Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are lower than the regulatory baseline due to some minor efficiencies across a number of categories including controls over recruitment, salary increases and reductions in 2018/19 performance-related pay awards. Costs are higher than the previous year in line with the regulatory expectation. As part of the devolution of decision-making to Regions to support the Putting Passengers First initiative, the scope of Support services in the Region has been extended to offer increased safety, communications and other back-office services to facilitate the front-line activities.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year with the largest contribution from changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are broadly in line with the previous year.

Statement 3.3: Analysis of support costs, Southern – continued

In £m 2019-20 prices unless stated

- (3) Property – costs were higher than the baseline this year due to some one-off costs in this Region compared to the assumption in the regulatory baseline, including higher doubtful debts and lower auxiliary income earned. The saving compared to the previous year arises from a reduction in the scope of the department. This is mostly due to the divestment of most of the commercial estate towards the end of 2018/19 meaning there is nearly a full year of costs in the previous year, but major reductions this year.
- (4) Telecoms – costs are lower than the regulatory baseline this year. This includes slower rollout of the cab radio programme along with additional efficiencies mostly arising from headcount control, contract negotiation and reductions in performance-related pay. Rollout of the cab radio programme is to improve safety and performance by ameliorating signal interference. When assessing financial performance, the saving been treated as neutral as the core outputs have not been delivered. Costs are slightly higher than the previous year, reflecting the increased scope and deliverables of Telecoms in this control period partly offset by the cost reductions noted above.
- (5) Network Services – costs are lower than the regulatory assumption this year. These savings have been achieved through a combination of reduced use of consultants with internal staff stretched to deliver more, better utilisation of consultant frameworks to enhance productivity reductions in pay-outs under performance-related pay schemes, headcount control and favourable settlement of claims. Costs are higher than the previous year, the majority of which was expected through the regulatory baseline increase to reflect the scope of this department in CP6.
- (6) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year with the main contribution coming from reductions in pay outs under performance-related pay schemes. Costs are lower than the previous year. In CP5 there were some specific projects being delivered by this department, such as Interdisciplinary Standards Programme, Integrated Management System and Whole Life Cost modelling which are now all funded through the Renewals allowances (refer to Statement 3.6).
- (7) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are higher than the previous year due to the aforementioned Putting Passengers First programme ramping up in the current year.
- (8) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.

Statement 3.3: Analysis of support costs, Southern – continued

In £m 2019-20 prices unless stated

- (9) Group – there are noticeable savings this year compared to the regulatory expectation. This includes savings from not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Costs are higher than the previous year. This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	1	1	-	1	1
	1	1	-	1	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	157	178	21	-	141
Business rates	42	42	-	-	40
British transport police costs	26	26	-	-	19
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	1	1	-	-	1
RSSB costs	2	2	-	-	2
Other industry costs	-	1	1	-	1
	233	255	22	-	209
Total traction electricity, industry costs and rates	234	256	22	1	210

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

In £m 2019-20 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) Overall, this category of costs is lower than the regulator's assumption in the current year mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices which have been offset by additional charges made to operators (refer to 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 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 – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. Expenses are broadly in line with the previous year.
- (3) British Transport Police costs - expenses in the year are broadly in line with the expectation for this year but are slightly higher than the previous year reflecting increased costs of the British Transport Police Authority's operating costs.

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	87	72	(15)	(9)	66
Access charge supplement Income	(75)	(92)	(17)	-	(44)
Net (income)/cost	12	(20)	(32)	(9)	22
Schedule 8					
Performance element income	(48)	-	48	48	(1)
Performance element costs	19	7	(12)	(12)	117
Net (income)/cost	(29)	7	36	36	116
Centrally managed					
Schedule 4					
Performance element costs	(12)	11	23	23	27
Access charge supplement Income	(16)	(13)	3	-	(3)
Net (income)/cost	(28)	(2)	26	23	24
Schedule 8					
Performance element costs	2	2	-	-	1
Net (income)/cost	2	2	-	-	1
Total					
Schedule 4					
Performance element costs	75	83	8	14	93
Access charge supplement Income	(91)	(105)	(14)	-	(47)
Net (income)/cost	(16)	(22)	(6)	14	46
Schedule 8					
Performance element income	(48)	-	48	48	(1)
Performance element costs	21	9	(12)	(12)	118
Net (income)/cost	(27)	9	36	36	117

Statement 3.5: Schedule 4 and Schedule 8 income and costs, Southern

In £m 2019-20 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) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals this year meaning that the financial outperformance reported exceeds the arithmetic variance. Despite disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February, the overall impact on Schedule 4 was less than anticipated, partly due to favourable settlement of commercial claims. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Overall Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline due to a combination of extra capital delivery and higher like-for-like costs. The extra capital delivery includes additional plain line track, drainage and structures activity completed this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The higher like-for-like costs include the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Southern was impacted by a number of landslips including those at Godstone, near Guildford and East Grinstead. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are higher than the previous year owing to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Southern invested extra opex this year to improve train performance which have helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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, Southern – continued

In £m 2019-20 prices unless stated

- (2) Schedule 4 – Performance element costs - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to the regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspend by Regions as described above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level, where costs are favourable despite the additional volumes delivered. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.

Statement 3.6: Analysis of renewals expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	56	55	(1)	-	-
PL Replace Partial	24	18	(6)	-	-
PL High Output	19	21	2	-	11
PL Refurbishment	28	22	(6)	-	23
Switches & Crossing - Replace	37	38	1	-	32
Switches & Crossing - Other	16	13	(3)	-	13
Off Track	22	11	(11)	-	-
Track Other	9	10	1	-	93
	211	188	(23)	-	172
Signalling					
Signalling Full	89	97	8	-	-
Signalling Partial	16	2	(14)	-	-
Signalling Refurb	4	11	7	-	-
Level crossings	7	8	1	-	11
Minor works	25	28	3	-	32
Other	1	4	3	-	102
	142	150	8	(6)	145
Civils					
Underbridges	16	23	7	-	28
Overbridges	4	4	-	-	9
Major structures	1	2	1	-	1
Tunnels	2	2	-	-	3
Minor works	16	17	1	-	-
Other	3	4	1	-	13
	42	52	10	2	54
Earthworks					
Earthworks - Embankments	42	8	(34)	-	9
Earthworks - Soil Cuttings	28	13	(15)	-	15
Earthworks - Rock Cuttings	1	2	1	-	1
Earthworks - Other	1	1	-	-	2
	72	24	(48)	(9)	27
Buildings					
Managed stations	5	4	(1)	-	15
Franchised stations	49	44	(5)	-	73
Light maint depots	8	4	(4)	-	3
Depot plant	-	2	2	-	-
Lineside buildings	8	-	(8)	-	2
MDU buildings	5	2	(3)	-	12
	75	56	(19)	(1)	105
Electrical power and fixed plant					
AC distribution	4	5	1	-	1
Overhead Line	-	1	1	-	-
DC distribution	13	17	4	-	18
Conductor rail	10	5	(5)	-	6
Signalling Power Supplies	5	6	1	-	-
Other	8	11	3	-	11
Fixed plant	4	2	(2)	-	21
	44	47	3	(4)	57
Drainage					
Drainage (Track)	5	10	5	-	9
Drainage (Earthworks)	4	4	-	-	2
Drainage (Resilience)	-	-	-	-	-
	9	14	5	-	11
Property					
	-	-	-	-	-
Total regionally-managed renewals expenditure	595	531	(64)	(18)	571

Statement 3.6: Analysis of renewals expenditure, Southern - continued

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Track					
Track Other	5	-	(5)	-	-
Telecoms					
Operational communications	3	5	2	-	4
Network	-	2	2	-	1
SiSS	4	3	(1)	-	15
Projects and other	1	1	-	-	1
Non-route capital expenditure	19	18	(1)	-	8
	27	29	2	-	29
Wheeled plant and machinery					
High output	-	7	7	-	4
Infrastructure monitoring	1	2	1	-	-
Intervention	3	3	-	-	3
Materials delivery	2	4	2	-	-
On track plant	-	-	-	-	4
Seasonal	1	3	2	-	1
Other	1	(1)	(2)	-	3
	8	18	10	-	15
Route Services					
Business Improvement	19	23	4	-	-
IT Renewals	7	3	(4)	-	21
Other	1	1	-	-	-
	27	27	-	-	21
STE Renewals					
Intelligent infrastructure	7	7	-	-	8
Faster Isolations	22	24	2	-	58
Centrally Managed Signalling Costs	1	2	1	-	5
Research and development	7	6	(1)	-	3
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	6	7	1	-	9
Small plant	1	2	1	-	4
Other	3	5	2	-	6
	47	56	9	-	93
Property					
Property	9	14	5	-	3
	9	14	5	-	3
Other renewals					
ETCS	3	3	-	-	3
Civils - Insurance Fund	-	6	6	2	-
Buildings - Insurance Fund	-	3	3	-	-
Opex/capex Adjustment	(10)	(9)	1	-	-
System Operator	2	2	-	-	-
Other renewals	(7)	1	8	3	29
	(12)	6	18	5	32
Total centrally-managed renewals expenditure	111	150	39	5	193
Total renewals expenditure	706	681	(25)	(13)	764

Statement 3.6: Analysis of renewals expenditure, Southern

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is slightly higher than the regulatory baseline with more Regionally-managed activity offsetting reduced Centrally-managed costs. Minor net financial underperformance has been recognised this year. Overall expenditure was lower than the previous year, with the largest contributions from reductions in CP5 Thameslink resilience fund (reported under Other renewals) and a change in accounting policy for CP6, as shown through the Opex/ capex adjustment heading.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were higher than the regulatory assumption. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably Centrally-managed renewals. Some minor net financial underperformance has been reported across the Renewals estate. Expenditure was higher than the previous year reflecting the acceleration of activity undertaken this year.
- (2) Track – investment was higher than the regulatory baseline, mainly due to acceleration of activity to utilise available resource this year. Volumes delivered this year were higher across all of the categories in the above table. Increases in expenditure are broadly commensurate with higher volumes delivered resulting in negligible financial outperformance. Savings in rates due to securing additional, longer mid-week possessions to delivery high output units and successful delivery of high-risk schemes were largely offset by more complex activities on some projects and short-notice interventions to remove potential and actual speed restrictions on lines to minimise passenger disruption. Expenditure was higher than the previous year. This was partly expected by the higher regulatory baseline, which was then compounded by additional volumes delivered in the current year.
- (3) Signalling – expenditure is slightly lower than the regulatory baseline this year. Whilst there are variances across the portfolio the largest contributor is Brighton mainline upgrades which have been delayed due to higher tender prices necessitating a change in design and approach. Financial underperformance has been recognised this year. This includes higher tender and contractor prices compared to expectations, delays obtaining access from third parties and unfavourable settlement of commercial claims. Investment is broadly similar to the previous year. Higher spend on Hither Green and Feltham projects have been generally offset by reductions in Angerstein and Victoria schemes as those projects move through their multi-year lifecycle.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m 2019-20 prices unless stated

- (4) Civils – expenditure this year is lower than the regulatory baseline, mostly due to reprofiling of Underbridge schemes until later in the control period. This was primarily due to difficulty obtaining suitable possessions to deliver the work effectively and late development of schemes resulting in deferral. The lower overall costs are also due to some financial outperformance of the baseline. This including workbank packaging to reduce administration, mobilisation and project management costs and tight control over designs and scope to keep projects focused on agreed remits, which was aided by working closely with the subcontractors. Expenditure is lower than the previous year mainly due to the shortfalls in spend in the current year compared to the regulatory baseline.
- (5) Earthworks – investment was noticeably higher than the previous year. This included acceleration of works to utilise available resource but also remediation works in light of weather events and other asset failures. This included embankment works at Edenbridge, Epsom, Headcorn and Crouch Lane as well as soil works at Barnehurst, Hever, Wadhurst and Red Lane. Underperformance was recognised this year which included the additional costs of the aforementioned asset remediation works. Higher like-for-like costs also included re-routing underground utilities as part of asset improvements, delays in material delivery to site prolonging projects and higher contractor costs on some jobs. Expenditure was higher than the previous year reflecting the aforementioned additional works undertaken this year.
- (6) Buildings – investment exceeded the regulatory baseline this year, mainly due to acceleration of activity from future years to help utilise available funding. This included works directly delivered by Southeastern and Govia Thameslink Railway operators at franchised stations, canopy repairs, enhanced tactile paving to improve passenger journeys and roof remediation at Victoria station. There was also extra investment in car parks and acceleration of projects at lineside buildings to prevent water ingress following a previous incident and subsequent asset management guidelines. Expenditure is lower than the previous year which included additional investment to utilise available funding resources at the end of CP5, partly catching up shortfalls in expenditure earlier in that control period. The reduced level of spend was expected in the regulatory baseline for 2019/20.
- (7) Electrical power and fixed plant – investment in the year was broadly in line with the regulatory expectation. Financial underperformance has been recognised this year which included higher tender prices, more complex designs on some jobs, settlement of contractor claims and changes to layout and design to comply with third party utility providers. Expenditure was lower than the previous year, which was expected through the reduced regulatory baselines for this year. As noted in the previous year's Regulatory Financial Statements, there was investment in Whitley and Camberley substation, a project which was substantially completed by 2018/19.
- (8) Drainage – expenditure was lower than the regulatory baseline this year. Lower delivery was impacted by difficulties securing access, delays in agreeing contractor framework for CP6 and shortage of drainage plant in the Region. Steps are being taken to address these issues, including proceeding with mini-tenders for shorter periods of activity and increased internal resource to manage workbank. Expenditure was broadly in line with the previous year.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m 2019-20 prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year. The largest variance arises from a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line).
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is broadly in line with the regulatory baseline. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Expenditure is consistent with the previous year. Major projects this year included data centre improvements and GSM-R investment.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
 - a. High output – this year, minimal activity undertaken was attributable to Southern as activity was reprofiled into later years of the control period, including renewing high output ballast cleaner system fleet. Expenditure was also lower as fewer new schemes were identified and developed this year. Investment was lower than the prior year due to the negligible activity this year.
 - b. Material delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is higher than the previous year due to the work that has taken place on the aforementioned concrete sleeper factory.
 - c. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, notably a mobile elevated working platform.
 - d. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m 2019-20 prices unless stated

- (5) Route Services – expenditure is in line with the regulatory baseline this year. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is lower than the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Faster isolations – costs are slightly lower than the regulatory baseline, mostly due to fewer schemes being identified and progressed this year. This has included delays in designs and tendering process as best value for the portfolio is sought. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are lower than the previous year which included some significant projects delivered in the Southern region.
 - b. Centrally-managed signalling costs – costs are lower than the regulatory baseline, reflecting the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised. Costs are lower than the previous year mirroring the overall signalling renewals costs and the reduction in major schemes commissioned this year compared to 2018/19.
 - c. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.
 - d. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - e. Other national SCADA programmes – investment is lower than the regulatory baseline due to delays with the project. This activity has now been reprofiled into future years. As the underspend is due to timing rather than a genuine saving, no financial outperformance has been recognised this year.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m 2019-20 prices unless stated

- f. Small Plant – investment is lower than the regulatory baseline this year. To help with Network Rail's move to a more devolved structure, management of this fund will be passed to the Regions to enable them to prioritise those items which will provide them with the best local solutions. Expenditure is lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
 - g. Other – the lower investment this year is largely due to delays in the ORBIS programme, following supplier disputes. Investment is lower than the previous year for the same reason.
- (7) Property – expenditure is lower than the regulatory baseline this year mainly due to rephasing of activity within the control period, notably refurbishment of retail sites. As the outputs of the fund have not been deferred, no financial performance is reported on the saving. Investment is higher than the previous year. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year which included additional resilience works undertaken to improve the performance on the Thameslink line following the difficulties passengers endured following train operator industrial action. Notable items in the Other category include:
 - a. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m 2019-20 prices unless stated

- c. 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). This is a new item for CP6, so there is no prior year value to compare to.
- d. System Operator – expenditure this year is similar to the regulatory baseline. This is a new funding category for the current control period and so there is no prior year activity.
- e. Other renewals – expenditure in the previous year primarily relates to investment to improve resilience on the Thameslink part of the network in response to the disruption that passengers endured following train operator industrial action. This funding was only available in CP5. The credit balance reported this year includes the close out of old commercial claims on legacy programmes. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, Southern

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
Thameslink	60	47	(3)
Brighton mainline Upgrade Programme	12	11	-
CARS - Croydon Area Remod Scheme	10	6	-
Wessex Enhancements (Waterloo and South London HV Grid)	20	19	(2)
Gatwick Station	11	6	-
SFN-Freight Forecasts project	2	3	-
Access for All	9	37	-
Thameslink Resilience Programme	8	23	2
Reading, Ascot to Waterloo Train Lengthening	12	17	-
Portfolio Contingency (including T-12)	4	18	15
Depots & Stabling Fund	17	17	-
Feltham	-	5	-
Other	11	12	-
Total	176	221	12
Other Capital Expenditure	33	-	-
Other third party funded schemes			
Other third Party	19	-	-
Total	19	-	-
Total enhancements	228	221	12
Total enhancements less Other third party funded schemes	209	221	12

Statement 3.7: Analysis of enhancement expenditure, Southern

In £m 2019-20 prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with DfT. The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather than the core Southern 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. 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 DfT.
- (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 Southern funder (DfT) was £209m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£228m) less the PAYGO schemes funded by other third parties (£19m).
- (2) Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This mainly related to slower identification of suitable schemes with funders, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Financial outperformance has been reported this year as cost risk in the portfolio has largely been mitigated. 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 DfT. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Southern delivers a different set of programmes at the direction of DfT.

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m 2019-20 prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Thameslink – expenditure this year is higher than the baseline due to acceleration of activity and higher programme costs. The accelerated activity includes the purchase of Chart Leacon Depot originally scheduled for 2020/21. The higher programme costs are primarily due to the prolongation of Rail Systems Residual activity which have resulted in financial underperformance being recognised this year.
 - b. Wessex enhancements (Waterloo and South London HV Grid) – although expenditure this year is broadly in line with the baseline, financial underperformance has been recognised this year. This is due to higher contractor costs, unforeseen complexity of works at Waterloo station and project prolongation.
 - c. Access for All – slower progress has been made on this programme this year. The funding on this programme allowed for numerous improvements to be made across the network. However, fewer new schemes with appropriate benefits were identified and approved this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - d. Thameslink Resilience Programme – slower progress has been made on this project this year. This is mainly due to reprofiling activity to coincide with other large projects on that part of the network to minimise disruption to passengers. There has also been a saving in possession management costs following effective workbank planning and successful negotiation with operators. This has resulted in a reduction in the total programme costs, an element of which has been recognised as financial outperformance this year.
 - e. Portfolio Contingency (including T-12) – expenditure this year was lower than the baseline. 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 year against other projects within the portfolio. Actual costs reported in this category this year are for the element of possession costs caused by delays to timetable publications, as noted in the previous year's Regulatory Financial Statements.
 - f. Other – this category covers a number of smaller projects, including CP5 close out projects. Expenditure this year is broadly in line with the regulatory baseline.
- (4) Third party funded schemes – notable schemes delivered this year include: works to increase Sandwich station capacity and developments at East Croydon as part of the London Overground Capacity Improvement Plan.
- (5) Other capital expenditure – this year, this category includes investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

Statement 3.8: Analysis of renewals unit costs, Southern

£m, 2019-20 prices unless stated

		FY20		Unit Costs	FY19		Unit Costs
		AFC	AFV		AFC	AFV	
		Unit					
Track	PL Replace Full	km	61	41	1,488	n/a	n/a
	PL Replace Partial	km	55	197	279	n/a	n/a
	PL High Output	km	22	17	1,294	n/a	n/a
	PL Refurbishment	km	57	328	174	n/a	n/a
	Switches & Crossing - Replace	point ends	26	44	591	n/a	n/a
	Switches & Crossing - Other	point ends	38	451	84	n/a	n/a
	Off Track	km/No.	40	1,404	28	n/a	n/a
Total			299	-	-	-	-
Signalling	Signalling Full	SEU	134	132	1,015	n/a	n/a
	Signalling Partial	SEU	5	18	278	n/a	n/a
	Signalling Refurb	SEU	5	14	357	n/a	n/a
	Level crossings	No.	2	4	500	11	8
	Total		146	-	-	11	-
Civils	Underbridges	m2	19	3,135	6	58	5,317
	Overbridges (incl BG3)	m2	13	5,749	2	10	2,000
	Tunnels	m2	2	1,656	1	3	1,042
	Culverts	m2	9	756	12	-	-
	Footbridges	m2	4	1,803	2	5	1,158
	Retaining Walls	m2	1	255	4	-	-
	Total		48	-	-	76	-
Earthworks	Earthworks - Embankments	No.	35	283	124	n/a	n/a
	Earthworks - Soil Cuttings	No.	21	471	45	n/a	n/a
	Earthworks - Rock Cuttings	No.	6	121	50	n/a	n/a
	Drainage - Earthworks	m	14	17,069	1	n/a	n/a
	Drainage - Other	m	33	57,641	1	22	92,535
	Total		109	-	-	22	-
Buildings	Train sheds (MS)	m2	4	15,270	0	1	12,169
	Buildings (FS)	m2	1	227	4	-	145
	Platforms (FS)	m2	12	19,322	1	-	-
	Canopies (FS)	m2	14	9,950	1	1	900
	Footbridges (FS)	m2	6	1,036	6	6	2,205
	Other (FS)	m2	1	8,772	0	-	-
	Light Maintenance Depots	m2	-	1,452	-	-	13,817
	Lineside Buildings	m2	7	22,685	0	2	4,414
	Total		45	-	-	10	-

Statement 3.8: Analysis of renewals unit costs, Southern - continued

£m, 2019-20 prices unless stated

		FY20		Unit Costs	FY19		Unit Costs
	Unit	AFC	AFV		AFC	AFV	
Electrical Power & Fixed Plant	Other OLE	No.	-	7	-	-	-
	Conductor rail	km	23	102	25	147	170
	HV switchgear renewal DC	No.	11	15	9	20	450
	HV cables DC	km	-	-	1	-	-
	LV cables DC	km	11	47	21	89	236
	Transformer Rectifiers DC	No.	-	-	-	1	-
	LV switchgear renewal DC	No.	-	-	1	12	83
	Protection Relays DC	No.	1	14	-	-	-
	Points Heaters	point end	-	-	2	35	57
	Signalling Power Cables	km	4	17	2	24	83
	Signalling Supply Points	point end	-	-	-	1	-
	NSCD / Track Feeder Switch	No.	10	524	n/a	n/a	n/a
Total		60	-	-	61	-	-
Telecoms	Customer Information Systems	No.	13	525	16	1,060	15
	Public Address	No.	11	3,791	4	6,125	1
	Other Surveillance	No.	1	100	6	240	25
	PABX Concentrator	No.	-	-	3	770	4
	HMI Large	No.	-	-	-	12	-
Total		25	-	-	29	-	-

Statement 3.8: Analysis of renewals unit costs, Southern

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (3) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. In level crossings the unit rate has significantly decreased in the year. The sample size in each year is small so it is difficult to do any meaningful analysis. In the prior year there were two expensive jobs (Lewis to Newhaven and Yapton) which dragged up the unit rate.

Statement 3.8: Analysis of renewals unit costs, Southern – continued

In £m 2019-20 prices unless stated

- (4) Civils – There has been a decrease in the unit cost of underbridges in the current year. This is due to the fact that in the current year there was a lower proportion of replacement work compared to the prior year. In the previous year there were major jobs at Wandsworth Town, Bellenden Road and Westdown Road.
- (5) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in 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) Electrification & Plant – There has been an increase in the unit rate for conduction rail. The main reason is that in the prior year there were a significant volume of hook switches delivered in the year compared to zero this year. These hook switches are cheaper than standard renewals so drive down the unit rate. There has been a significant increase in the unit cost for HV switchgear renewal DC. However, there was only two projects in each year. This low sample size makes any variance analysis meaningless. There has been an increase in the rate for signalling power cables. However, there was just one project in each year which took place on the Wessex route of the network.
- (8) Telecoms – There has been an increase in the unit rate for customer information systems. There were only two projects in the current financial year, and both of these also delivered volumes in the previous financial year. The only difference therefore was that in 2018-19 there was a third project (Sussex SISS Renewals) which dragged down the unit rate. However, this was skewed by the fact that in 2018-19 there was one project that had expenditure of over four million pounds compared to a total of one million for all the projects in 2019-20.

Statement 4: Regulatory financial position, Southern

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	15,720
Indexation to 2019-20 prices	15,956
RAB additions	
Renewals expenditure	706
Enhancements expenditure	-
Less amortisation	(706)
Property Sales	(53)
Closing RAB	15,903

Net debt

	£m
Opening net debt	12,149
Income	(2,164)
Expenditure	1,686
Financing Costs - Government borrowing	253
Financing Costs - index linked debt	177
Financing Costs - Other	47
Corporation tax	-
Working capital	(45)
Closing net debt	12,103

Statement 4: Regulatory financial position, Southern

In £m 2019-20 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 and enhancement 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 from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 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 to Southern and how it has moved from the position at the start of the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Southern has increased by around £45m during the year. This was due to increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.

Statement 4: Regulatory financial position, Southern – continued

In £m 2019-20 prices unless stated

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

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

(12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.

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

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Income					
Grant Income	786	876	(90)	-	696
Franchised track access charges	391	388	3	7	329
Other Single Till Income	556	81	475	3	376
Total Income	1,733	1,345	388	10	1,401
Operating expenditure					
Network operations	88	83	(5)	(5)	94
Support costs	107	160	53	32	85
Traction electricity, industry costs and rates	86	91	5	1	89
Maintenance	256	249	(7)	(12)	221
Schedule 4	36	31	(5)	(6)	48
Schedule 8	(28)	1	29	29	38
	545	615	70	39	575
Capital expenditure					
Renewals	460	456	(4)	(5)	525
Enhancements	387	432	45	(87)	858
	847	888	41	(92)	1,383
Risk expenditure					
Risk (Centrally-held)	-	(2)	(2)	-	-
	-	(2)	(2)	-	-
Other expenditure					
Financing costs	410	443	33	-	467
Corporation tax	-	1	1	-	-
	410	444	34	-	467
Total expenditure	1,802	1,945	143	(53)	2,425
Total Financial Out/(under) performance				(43)	

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

In £m 2019-20 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 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. Therefore, the figures may be different to those disclosed in the published 2018/19 Regulatory Financial Statements. Reconciliations have been shared with ORR and the auditors.

Comments:

- (1) This statement shows that Wales & Western's net expenditure (Total income less Total expenditure) was significantly lower than the regulatory baseline. This was mainly due to the revenue recognised from disposing part of the railway network in Wales.
- (2) This statement also shows that with the exception of enhancements, Wales & Western made a solid start to the control period, beating the regulatory baselines this year. However, the impact of increases in the costs of Great Western Electrification and Crossrail programmes resulted in financial underperformance overall. The impact of Covid-19 will present further risks to financial performance in 2020/21.
- (3) Income – Grant income in the year was lower than the regulatory baseline. This was mostly due to savings in operational costs and train performance regime outflows. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. There is a different financial framework in place for CP6 compared to CP5. In CP5, Network Rail was expected to fund some of its core operations through borrowing whereas in CP6, grants are received in the current year to meet expenditure requirements. Grant income is discussed in more detail in Statement 2.
- (4) Income – Franchised track access charges income in the year was in line with the baseline with slightly lower electricity traction income mitigated by additional variable income from running more services. Not all of the variance to baseline is included as financial performance. Variances in Traction electricity 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. Income is higher than the previous year reflecting the new financial framework for Wales & Western in CP6. 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 baseline mostly due to additional the divestment of part of the network in Wales. This transaction is not included in the assessment of financial performance. There are also some other elements of the variance to the baseline excluded from the scope of financial performance. Variances in Traction electricity for Freight operators is 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). Income is higher than the previous year due to the aforementioned divestment in Wales. The previous year was also high as it included the disposal of large parts of the commercial estate. Other single till income is discussed in more detail in Statement 2.

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

In £m 2019-20 prices unless stated

- (6) Operating expenditure - Network Operations costs are higher than the regulatory assumption this year. This included re-investment of Schedule 8 savings in schemes to help operators improve fleet performance by targeting specific sites and known hotspots with hand-distributed sand. Additional staff costs also incurred due to sustained signaller recruitment drive to help produce the next wave of skilled signallers to operate the network, especially in the strategically-important Thames Valley area. Costs are lower than the previous year which was largely expected through the regulatory allowances provided this year, reflecting the required scope in CP6. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: settlement of historic property disputes, slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Not all of these savings are eligible when assessing financial performance. Costs are higher than the previous year reflecting changes in accounting policies for CP6. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure - Traction electricity, industry costs and rates are slightly favourable to the regulatory baseline due to lower electricity costs (offset by lower recoveries of these costs from operators through income). Not all of the variance to baseline is included as financial performance. Variances in Traction electricity are considered in conjunction with variances in Traction electricity income (the net impact on financial performance is disclosed under this category). In addition, in line with the ORR's Regulatory Accounting Guidelines 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. Costs are broadly in line with the prior year. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Maintenance costs are marginally higher than the regulatory baseline which was mostly due to additional vegetation management maintenance works to assist train performance. Costs are higher than the previous year which was anticipated in the regulator's CP6 determination, to reflect expected asset management requirements and outputs for the new control period. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure – Schedule 4 costs are slightly higher than the regulatory baseline. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February drove this result. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review. 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 2019-20 prices unless stated

- (11) Operating expenditure – Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful. Schedule 8 flows are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is broadly in line with the regulatory baseline with higher Regionally-managed activity offsetting reduced Centrally-managed activity. Minor net financial underperformance has been recognised this year. Overall expenditure was lower than the previous year, with the largest contributions from lower Plant & machinery costs following significant investment in the previous control period, and a change in accounting policy for CP6. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes with the largest contributions came from further delays to the Great Western Electrification and Crossrail programmes. Financial underperformance was also reported this year mainly arising from these two programmes. 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 DfT. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Wales & Western delivers a different set of programmes at the direction of DfT. Enhancement investment is set out in more detail in Statement 3.7.
- (14) Capital expenditure – Other 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.
- (15) Risk expenditure – the financial framework for CP6 provided funding to mitigate impact of risk, including inflation, train performance and efficiency achievement. If the funding is not required to alleviate emerging risks, it will be used to deliver additional outputs for the network. This year there was minimal values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so fewer risks for the forthcoming year would be anticipated. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement

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

In £m 2019-20 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs in the current year are lower than the regulatory baseline expected due to a combination of lower RPI compared to the baseline and lower interest rates on DfT debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2019/20 were re-financed at lower rates reflecting the lower market rates this year following reductions in the Bank of England base rate. Costs are slightly lower than the previous year mainly due to a change in the Network Rail's financial framework for CP6 meaning that the Financial Indemnity Mechanism fee paid to DfT in CP5 is no longer required. As agreed with the Regulator, variances in this category are excluded in the assessment of financial performance. Financing costs are set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax are lower than the regulatory baseline. Costs are in line with the previous year when minimal current Corporation tax was reported in the 2018/19 Regulatory Financial Statements. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Statement 2: Analysis of income, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	221	221	-	-	126
Variable usage charge	36	30	6	6	25
Electrification asset usage charge	2	3	(1)	(1)	1
Capacity charge	2	-	2	2	62
Open access income	10	10	-	-	9
Managed stations long term charge	8	8	-	-	5
Franchised stations long term charge	26	26	-	-	19
Schedule 4 access charge supplement	25	25	-	-	32
	330	323	7	7	279
Other single till income					
Freight income					
Freight variable usage charge	10	10	-	-	11
Freight other income	-	-	-	-	-
	10	10	-	-	11
Stations income					
Managed stations qualifying expenditure	11	10	1	1	10
Franchised stations lease income	5	5	-	-	5
	16	15	1	1	15
Facility and financing charges					
Facility charges	16	16	-	-	18
	16	16	-	-	18
Depots income	10	10	-	-	12
Other income	1	-	1	1	1
Total other single till income	53	51	2	2	57
Total regionally-managed income	383	374	9	9	336
Centrally-managed income					
Network grant	498	578	(80)	-	696
Internal financing grant	139	146	(7)	-	-
External financing grant	139	141	(2)	-	-
BTP grant	10	10	-	-	-
Corporation tax grant	-	1	(1)	-	-
Infrastructure cost charges	11	11	-	-	8
Schedule 4 access charge supplement	5	6	(1)	-	3
Traction electricity charges	45	48	(3)	-	39
Freight traction electricity charges	1	1	-	-	-
	848	942	(94)	-	746
Other single till income					
Property income					
Property rental	28	25	3	3	32
Property sales	474	4	470	(2)	219
	502	29	473	1	251
Crossrail finance charge	-	-	-	-	68
Total other single till income	502	29	473	1	319
Total centrally-managed income	1,350	971	379	1	1,065
Total income	1,733	1,345	388	10	1,401

Statement 2: Analysis of income, Wales & Western

In £m 2019-20 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.

Comments:

- (1) Overall, income is higher than the CP6 baseline mainly due to the proceeds recognised from the Cardiff Valley Lines divestment during the year. This more than offset lower Network Grants and Traction electricity income. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6, and higher Property sales income.

Regionally-managed income

- (1) Total Regionally-managed income is slightly higher than the CP6 baseline this year mainly due to additional Variable income earned by meeting increased customer demand. Income is higher than the previous year due to changes in the regulatory expenditure targets for CP6.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. Income is higher than the previous year which was anticipated in the regulatory baselines. Under the financial framework for the new control period a higher proportion of income is designed to come from Infrastructure cost charges instead of Capacity charges.
- (3) Variable usage charge – income from variable usage charges paid by train operators is higher than the regulatory target this year reflecting extra train paths provided by the Region in response to customer demand. Income generated under this mechanism is higher than the previous year reflecting the new charging principles for CP6.
- (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 which explains the sharp decrease compared to the previous year. The income recognised this year represents successful close out of commercial claims from CP5 relating to this element of income.
- (5) Franchised stations long term charge – income earned in the year is broadly in line with the regulatory expectation. Income is higher than the previous year reflecting the recalibration of the charges undertaken as part of the regulator's PR18 process and reflects the additional services that Network Rail provides to operators across its franchised station portfolio.
- (6) 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 the ORR use for the Regulatory financial statements. Income was lower than the previous year, which was in line with the regulator's assumption. As part of setting the baselines for CP6, income earned through 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, Wales & Western – continued

In £m 2019-20 prices unless stated

Centrally-managed income

- (1) Aggregate Centrally-managed income is higher than the CP6 baseline mainly due to additional income arising from divestment of the Cardiff Valley Lines part of the network partly offset by lower Network Grants and Traction electricity. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6, and higher income from Property divestment.
- (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 in a given 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, 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 was lower than the regulatory baseline expected as savings have been made compared to the net operating costs included in the CP6 Business Plan, as set out in Statement 3. In addition, differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the year compared to the regulatory baseline. As there was only a single grant receivable in CP5, this has been included against Network grant even though some of the 2018/19 grant would have also been to cover assumed finance costs, BTP and Corporation tax. This explains why Network Grants have reduced this year. However, overall grant income is higher than the previous year reflecting the new financial framework in place for CP6 and the additional investment that Network Rail has been challenged with delivering for the industry this control period.
- (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 were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (5) External financing grants – grants received in the year were generally in line with the regulatory baseline as external finance costs were in consistent with expectations and so the corresponding grants were also in line with expectation. Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (6) BTP grant – income in the year is broadly in line with the target, reflecting that BTP costs were in line with the regulatory baseline (refer to Statement 3.4). Revenue is higher than the previous year, when these expenses were funded as part of the overall Network grant that Network Rail received.
- (7) Corporation tax grant – this year, Network Rail has not drawn down any of the funding available for Corporation tax costs as no Corporation tax has been payable this year. Income from this source is in line with the previous year.

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

In £m 2019-20 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. Revenue is lower than the baseline expected this year due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However, this is broadly balanced by an underspend on electricity costs (as shown in Statement 3.4). Income was higher than the previous year reflecting higher market prices and increases in the amount of the network using electrified assets but was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (9) Property rental – additional income has been generated this year, mainly from retail outlets at Network Rail's managed stations, with contributions from all managed stations in this Region. Given the challenging conditions arising from Covid-19 this outperformance is unlikely to recur in 2020/21. Rental is lower than the previous year. This is because Network Rail disposed of most of its commercial property portfolio towards the end of 2018/19, meaning no income was earned from these divested assets during the current year.
- (10) Property sales – the current year includes the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales which distorts the comparison to the CP6 baselines. This transaction is excluded from the assessment of financial performance. In future years, the saving from this transaction and the reduced income will be excluded from the assessment of financial performance to the extent that income and cost adjustments are agreed with DfT and Transport for Wales. When assessing financial performance, there is also a neutralisation of income recognised in the current year relating to the disposal of most of the commercial estate in the previous year. Adjusting for these events, financial underperformance has been reported as fewer sales have been achieved this year. Income is higher than the previous year owing to the aforementioned Cardiff Valley Lines divestment. This more than offset the benefit recognised last year from the disposal of large parts of Network Rail's commercial estate, an element of which related to Wales & Western Region, as reported in last year's Regulatory Financial Statements.
- (11) Crossrail finance income – there is no income earned through this classification this year under centrally-managed charges. This is consistent with the regulatory baseline. The value in the previous year related to contractual arrangements in place during Control Period 5 to compensate Network Rail for the borrowing costs associated with the construction of the new infrastructure. This arrangement came to an end during 2018/19.

Statement 3: Analysis of expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	85	79	(6)	(6)	91
Maintenance	245	239	(6)	(7)	213
Support costs	44	52	8	8	33
Schedule 4	36	25	(11)	(12)	37
Schedule 8	(29)	-	29	29	38
	381	395	14	12	412
Capital expenditure					
Renewals	399	382	(17)	(9)	408
Enhancements	335	429	94	(89)	849
	734	811	77	(98)	1,257
Total regionally-managed expenditure	1,115	1,206	91	(86)	1,669
Centrally-managed expenditure					
Operating expenditure					
Network operations	3	4	1	1	3
Maintenance	11	10	(1)	(5)	8
Support costs	63	108	45	24	52
Traction electricity, industry costs and rates	86	91	5	1	89
Schedule 4	-	6	6	6	11
Schedule 8	1	1	-	-	-
	164	220	56	27	163
Capital expenditure					
Renewals	61	74	13	4	117
Enhancements	52	3	(49)	2	9
	113	77	(36)	6	126
Risk expenditure	-	(2)	(2)	-	-
Other					
Financing costs	410	443	33	-	467
Taxation	-	1	1	-	-
	410	444	34	-	467
Total centrally-managed expenditure	687	739	52	33	756
Total expenditure	1,802	1,945	143	(53)	2,425

Statement 3: Analysis of expenditure, Wales & Western

In £m 2019-20 prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of Enhancement activity to later in the control period. There has also been operating expenditure savings, lower performance regime costs and industry expenses. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by Department for Transport.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year, which has been partly offset by acceleration of Renewals, higher operating expenditure and extra performance regime costs. Costs are lower than the previous year mainly due to lower Enhancements investment reflecting the different portfolio of programmes requested by funders (Department for Transport and Transport Scotland). Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3.

Centrally-managed expenditure

- (1) Centrally-managed costs are broadly consistent with the regulatory baseline as operating expenditure savings have been largely offset by higher capital expenditure. Costs are lower than the previous year mainly due to lower Financing costs, following the removal of the Financial Indemnity Mechanism fee for CP6. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Statement 3.1: Analysis of operations expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	41	39	(2)	(2)	39
Operations Management	6	5	(1)	(1)	4
Controllers	12	12	-	-	10
Electrical control room operators	1	1	-	-	2
	60	57	(3)	(3)	55
Non signaller expenditure					
Mobile operations managers	6	6	-	-	5
Managed stations	11	11	-	-	10
Performance	2	3	1	1	1
Other	6	2	(4)	(4)	20
Total regionally-managed operations expenditure	85	79	(6)	(6)	91
Centrally-managed operations expenditure					
Network Services	3	4	1	1	3
Total centrally-managed operations expenditure	3	4	1	1	3
Total operations expenditure	88	83	(5)	(5)	94

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m 2019-20 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.

Comments:

- (1) Costs are slightly higher than the regulatory baseline due to additional Regionally-managed costs. Costs are lower than the previous year, which was largely expected through the regulatory allowances provided this year, reflecting the required scope in CP6.

Regionally-managed operations expenditure

- (1) Regionally-managed operations costs are higher than the regulatory assumption this year. This included re-investment of Schedule 8 savings (refer to Statement 3.5) in schemes to help operators improve fleet performance by targeting specific sites and known hotspots with hand-distributed sand. Additional staff costs also incurred due to sustained signaller recruitment drive to help produce the next wave of skilled signallers to operate the network, especially in the strategically-important Thames Valley area. Costs are lower than the previous year which was largely expected through the regulatory allowances provided this year, reflecting the required scope in CP6.

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly consistent with the regulatory expectation and the previous year.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed maintenance expenditure					
Track	88	89	1	1	81
Signalling & Telecoms	47	45	(2)	(2)	45
Civils	27	30	3	3	29
Buildings	12	14	2	1	14
Electrical power and fixed plant	16	18	2	2	17
Other network operations	55	43	(12)	(12)	27
	245	239	(6)	(7)	213
Centrally-managed maintenance expenditure					
Telecoms	3	3	-	-	3
Route Services - Asset Information	5	5	-	-	4
STE Maintenance	1	1	-	-	2
Property	1	-	(1)	(1)	1
Route Services - Other	3	1	(2)	(5)	1
Other	(2)	-	2	1	(3)
	11	10	(1)	(5)	8
Total maintenance expenditure	256	249	(7)	(12)	221

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

In £m 2019-20 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)

Comments:

- (1) Overall, maintenance costs are broadly in line the regulatory assumption. Costs are higher than the previous year mostly due to higher Regionally-managed costs which was anticipated in the regulator's CP6 determination, to reflect expected asset management requirements and outputs for the new control period.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are marginally higher than the regulatory baseline which was mostly due to additional vegetation management maintenance works to assist train performance. Costs are higher than the previous year which was anticipated in the regulator's CP6 determination, to reflect expected asset management requirements and outputs for the new control period.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are broadly in line with the regulatory baseline. Costs have increased since the previous year. This was anticipated in the regulatory baselines to help meet performance challenges and recognises the track asset condition in this Region. This includes increased activity in off-track inspections and maintenance, with extra staff recruited to help meet the challenge.
- (3) Other network operations – costs for the current year are higher than the regulatory expectation. This is partly due to additional vegetation management interventions this year to assist train performance. Trees falling on the line or branches damaging overhead cables can both result in significant passenger delays as well as expensive, reactive repairs. These additional works were undertaken during block possessions agreed with Transport for Wales. These longer possessions allowed for increased productivity. In addition, there is also an additional efficiency stretch included in Other network operations to reflect additional savings targeted across the Maintenance portfolio for CP6. For Wales & Western, this stretch was included against this heading, whilst the savings from lower actual costs will have been recognised in the other lines within the Regionally-managed section (refer to Statement 3.3). Costs are higher than the previous year. This was anticipated in the regulatory baseline which reflects the extra asset management requirements and outputs for CP6 identified through the regulatory determination process and also includes the impact of the aforementioned increase in vegetation management activity.

Statement 3.2: Analysis of maintenance expenditure, Wales & Western – continued

In £m 2019-20 prices unless stated

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are broadly in line with the regulatory baseline. As expected by the regulatory baselines, costs were higher than the previous year, reflecting higher logistic costs in the current year along with a disposal of vehicles throughout 2018/19 which generated extra income in that year.
- (2) Route Services – Other – the extra costs this year mainly relate to Network Rail's material procurement and delivery function. As discussed in the previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the Regions, who are the beneficiaries of the services provided, and included in the direct costs of the appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the Regions for the services provided as well as some additional income generated from sales of scrap rail. The amounts recovered this year were lower than the previous year as less of the gross costs incurred by the function were off-charged to other areas. As noted above, the department aims to be cost neutral. Variance to regulatory baseline is actually larger on a like-for-like basis. Some of the Supply Chain Operations costs have been reclassified as renewals work this year (Statement 3.6). The impact of this recharge has been ignored when assessing financial performance.
- (3) Other – the credit balance on this account mostly relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the regulatory baseline assumed this year due to delays in disposing of older vehicles towards the end of CP5. As the fleet ages this has resulted in some additional costs reported within Other network operations. There are also some credits from central assessments of reactive maintenance which are treated as neutral when assessing financial performance. Income earned from this is lower than the previous year due to the disposal of vehicles that have occurred over the past two years.

Statement 3.3: Analysis of support expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed support costs					
Human resources	5	5	-	-	4
Finance	3	3	-	-	2
Accommodation	9	10	1	1	10
Utilities	13	12	(1)	(1)	13
Other	14	22	8	8	4
	44	52	8	8	33
Centrally-managed support costs					
Finance & Legal	6	7	1	1	6
Communications	2	2	-	-	2
Human Resources	3	3	-	-	3
System Operator	7	9	2	2	8
Property	(15)	(2)	13	13	1
Telecoms	7	8	1	-	7
Network Services	3	3	-	-	1
Safety Technical and Engineering	5	6	1	1	6
RS - IT and Business Services	18	19	1	1	12
RS - Asset Information	2	3	1	1	1
RS - Directorate	3	3	-	-	3
Other corporate functions	4	9	5	(1)	5
Insurance	4	6	2	2	2
Opex/capex Adjustment	16	15	(1)	-	-
Group costs	(2)	17	19	4	(5)
	63	108	45	24	52
Total support costs	107	160	53	32	85

Statement 3.3: Analysis of support costs, Wales & Western

In £m 2019-20 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.

Comments:

- (1) Support costs were lower than the regulatory baseline this year. Whilst there are a number of areas of saving the most significant items are: settlement of historic property disputes, slower implementation of PPF re-organisation programme, deferral of investing Crossrail Supplementary Access Charge (CSAC) income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year reflecting changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are lower than the regulatory baseline with most of the savings in the Other category. This is mostly due to extra efficiencies. Stretching efficiencies targets were included throughout Wales & Western's operating costs this year to challenge local budget holders with the corresponding budget included in this category. Costs are higher than the previous year. This was anticipated through the increased allowances provided in the regulatory baseline this year.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year. Whilst there are a number of areas of saving the most significant items are: successful resolution of commercial disputes in Property, slower implementation of PPF re-organisation programme, deferral of investing CSAC income as well as reductions in performance-related pay for staff, headcount control and other efficiencies. Costs are higher than the previous year with the most significant contribution arising from changes in accounting policies for CP6, shown through the Opex/ capex adjustment heading.
- (2) System Operator – costs are lower than the regulatory baseline. These savings include benefits from reductions in performance related pay-outs, headcount control and savings in consultancy expenses as more of the required tasks were completed in-house. Costs are similar to the previous year.
- (3) Property – the favourable position this year compared to the regulatory position is largely due to the favourable settlement of a long-running commercial dispute. The saving compared to the previous year also arises from the successful resolution of this commercial dispute.

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

In £m 2019-20 prices unless stated

- (4) Route Services – IT and Business Services – costs were broadly similar to the regulatory expectation. Costs are higher than the previous year. This includes a change in accounting policy under the ORR's CP6 Regulatory Reporting Guidelines so that a greater proportion of IT expenditure qualifies as opex rather than capex.
- (5) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Large parts of this plan have been reprofiled and are now expected to occur in 2021/22. The saving relating to the phasing of expenditure has been treated as neutral when assessing financial performance. Costs are consistent with the previous year.
- (6) 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 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 renewals 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. This is a new item for CP6, so there is no prior year value to compare to.
- (7) Group – there are noticeable savings this year compared to the regulatory expectation. Over three-quarters of the saving is due to not investing the extra revenue earned under the Crossrail Supplementary Access Charge. In order to help DfT meet funding pressures it was agreed that the investment of this fund would be reprofiled into later years of the control period. This saving is treated as neutral when assessing financial performance as no outputs have been delivered for the funding. Other savings include reductions in the performance-related pay for the 2018/19 scheme following a decision by Network Rail's Remuneration Committee to reduce pay-outs, HMRC rebates following successful discussions regarding employers NIC for employee benefits, vehicle sales deferred from 2018/19 and additional capitalisation of central costs. Savings relating to levels of central cost capitalisation have been treated as FPM neutral to the extent that they are offset in renewals – other (refer to Statement 3.6). Costs are higher than the previous year. This is mainly due to additional accruals for staff costs that are held centrally. Staff are paid every 28 days and regions and functions are charged these costs. The expense for the missing day (or days in the case of the 2019/20 being a leap year) is recognised in Group. This year, higher staff costs (from pay awards and headcount increases) and the extra leap year day all contributed to higher costs this year.

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

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	-	-	-	-	-
	-	-	-	-	-
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	43	49	6	1	38
Business rates	26	25	(1)	-	34
British transport police costs	10	10	-	-	12
ORR licence fee and railway safety levy	5	5	-	-	3
RDG membership costs	-	-	-	-	1
RSSB costs	2	2	-	-	2
Other industry costs	-	-	-	-	(1)
	86	91	5	1	89
Total traction electricity, industry costs and rates	86	91	5	1	89

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

In £m 2019-20 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 mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are higher than the previous year mainly due to increased market prices of electricity. Again, this has been offset by movements in electricity income (refer to Statement 2).

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were broadly in line with the regulatory baseline and the previous year.

Centrally-managed traction electricity, industry costs and rates

- (1) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are noticeably lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption as expected market price increases have not yet materialised. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 2). Costs are higher than the previous year due to higher market prices and increased electrification of assets on this part of the network which have been offset by additional charges made to operators (refer to 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 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, Wales & Western - continued

In £m 2019-20 prices unless stated

- (2) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest property valuations (and so costs) provided by the Valuation Office Agency with effect from 2017/18. As these costs were known ahead of the control period, costs 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. The difference in the expenses compared to the previous year are in line with the regulatory expectation.

Statement 3.5: Analysis of Schedule 4 and Schedule 8 income and costs, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Schedule 4					
Performance element income					
Performance element costs	36	25	(11)	(12)	37
Access charge supplement Income	(25)	(22)	3	-	(32)
Net (income)/cost	11	3	(8)	(12)	5
Schedule 8					
Performance element income	(29)	-	29	29	(4)
Performance element costs	-	-	-	-	42
Net (income)/cost	(29)	-	29	29	38
Centrally managed					
Schedule 4					
Performance element costs	-	6	6	6	11
Access charge supplement Income	(5)	(6)	(1)	-	(3)
Net (income)/cost	(5)	-	5	6	8
Schedule 8					
Performance element costs	1	1	-	-	-
Net (income)/cost	1	1	-	-	-
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	36	31	(5)	(6)	48
Access charge supplement Income	(30)	(28)	2	-	(35)
Net (income)/cost	6	3	(3)	(6)	13
Schedule 8					
Performance element income	(29)	-	29	29	(4)
Performance element costs	1	1	-	-	42
Net (income)/cost	(28)	1	29	29	38

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

In £m 2019-20 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) Overall Schedule 4 performance costs are slightly higher than the regulatory baseline. Disturbances caused by adverse weather, such as the summer heat and heavy rainfall in February drove this result. Costs are lower than the previous year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance. This is partly offset by to changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review.
- (2) Overall Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 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). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the CP6 Delivery Plan target. This year, the performance element costs are greater than the regulatory baseline mainly due to higher like-for-like costs. The higher like-for-like costs include the adverse impact from weather events, notably the heat during the summer and the storms in February. As well as being the wettest February on record, there were a number of individual storms (Ciara, Dennis and Jorge) which resulted in line closures for safety reasons, necessitating compensation payments to operators. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are also slightly higher due to additional capital delivery in the year. These extra costs are treated as neutral when assessing Schedule 4 financial performance. Performance costs are similar to the previous year as changes in the regulatory rates for schedule 4 this control period as set out by the regulator in their CP6 periodic review have been offset by the aforementioned issues in the current year.
- (2) Schedule 8 reported income this year, favourable to the net outflow include in the regulatory baseline, mainly due to better than expected train performance. In addition, the level of delay minutes attributable to train operators has been higher than expected, meaning that Network Rail receive income under the performance regime. Western & Wales has invested extra opex this year and had a huge management focus on improving train performance which has paid dividend and helped generate these savings. Costs are notably lower than the previous year. As part of the new control period regulatory settlement, the benchmarks that performance is measured against are re-set by ORR. This involves changing the targets for the delay minutes allowed and also the financial penalty/ reward each delay minutes for each of the different train operators. Consequently, comparing the current year to the previous year does not provide any meaningful insight.

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

In £m 2019-20 prices unless stated

- (2) Schedule 4 – Performance element costs - Schedule 4 Access charge supplement is in line with the regulatory baseline. As this is a contractually based mechanism variances should only arise due to differences between the inflation used to uplift the baselines (which are done using the in-year CPI) and those used to uplift the payments in the track access agreements (which are done using the previous year's CPI). The Access charge supplement is used to fund the theoretical costs of schedule 4. The centrally-held schedule 4 allowance was a new feature of the CP6 regulatory settlement and so there was no income recognised in the previous year. Costs this year are favourable to the regulatory baseline. This includes the benefit of successful resolution of commercial claims this year. In addition, most of the impactful significant weather events this year were recognised by the Regions rather than Centrally. This contributed to the overspent in the Regionally-managed section above. Depending on the damage and disruption caused by the weather the cost is borne either Centrally or by Regions, so the total performance should be judged at a Network Rail level. Costs are lower than the prior year. As noted in the previous year's Regulatory Financial Statements, costs last year included an adverse impact from delays in publishing the May 2018 timetable, meaning that Network Rail could not benefit from discounts received from booking possessions in advance.

Statement 3.6: Analysis of renewals expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Regionally-managed					
Track					
PL Replace Full	33	31	(2)	-	-
PL Replace Partial	28	25	(3)	-	-
PL High Output	33	36	3	-	29
PL Refurbishment	3	11	8	-	7
PL Track Slab Track	-	1	1	-	-
Switches & Crossing - Replace	27	21	(6)	-	33
Switches & Crossing - Other	4	4	-	-	6
Off Track	8	8	-	-	-
Track Other	11	2	(9)	-	78
	147	139	(8)	(8)	153
Signalling					
Signalling Full	13	8	(5)	-	-
Signalling Partial	9	16	7	-	-
Signalling Refurb	26	37	11	-	-
Level crossings	6	7	1	-	8
Minor works	21	14	(7)	-	14
Other	-	-	-	-	86
	75	82	7	(3)	108
Civils					
Underbridges	27	33	6	-	30
Overbridges	9	9	-	-	7
Major structures	1	1	-	-	-
Tunnels	5	3	(2)	-	9
Minor works	12	5	(7)	-	-
Other	6	7	1	-	15
	60	58	(2)	4	61
Earthworks					
Earthworks - Embankments	18	16	(2)	-	8
Earthworks - Soil Cuttings	12	12	-	-	7
Earthworks - Rock Cuttings	14	9	(5)	-	5
Earthworks - Other	-	-	-	-	1
	44	37	(7)	2	21
Buildings					
Managed stations	3	3	-	-	3
Franchised stations	17	17	-	-	18
Light maint depots	1	1	-	-	1
Lineside buildings	1	3	2	-	3
MDU buildings	6	7	1	-	3
	28	31	3	(3)	28
Electrical power and fixed plant					
AC distribution	3	7	4	-	11
Overhead Line	4	3	(1)	-	1
Signalling Power Supplies	9	10	1	-	-
Other	2	1	(1)	-	-
Fixed plant	17	7	(10)	-	16
	35	28	(7)	(3)	28
Drainage					
Drainage (Track)	9	4	(5)	-	8
Drainage (Earthworks)	1	3	2	-	1
	10	7	(3)	2	9
Property					
	-	-	-	-	-
Total regionally-managed renewals expenditure	399	382	(17)	(9)	408

Statement 3.6: Analysis of renewals expenditure, Wales & Western - continued

£m, 2019-20 prices unless stated

	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2018-19 Actual
Centrally-managed					
Telecoms					
Operational communications	1	1	-	-	1
Network	-	1	1	-	-
SISS	1	1	-	-	-
Projects and other	1	-	(1)	-	-
Non-route capital expenditure	12	11	(1)	-	5
	15	14	(1)	-	6
Wheeled plant and machinery					
High output	3	7	4	-	3
Infrastructure monitoring	-	1	1	-	-
Intervention	1	2	1	-	2
Materials delivery	2	7	5	-	1
On track plant	-	-	-	-	44
Seasonal	1	-	(1)	-	-
Other	1	-	(1)	-	1
	8	17	9	-	51
Route Services					
Business Improvement	16	14	(2)	-	-
IT Renewals	6	2	(4)	-	18
Asset Information	1	-	(1)	-	-
	23	16	(7)	-	18
STE Renewals					
Intelligent infrastructure	4	4	-	-	6
Faster Isolations	7	4	(3)	-	6
Centrally Managed Signalling Costs	-	1	1	-	2
Research and development	4	3	(1)	-	1
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	3	4	1	-	-
Small plant	1	1	-	-	4
Other	3	4	1	-	5
	22	23	1	-	24
Property					
Property	3	3	-	-	7
	3	3	-	-	7
Other renewals					
ETCS	2	7	5	-	15
Civils - Insurance Fund	-	5	5	2	-
Buildings - Insurance Fund	-	3	3	-	-
Opex/capex Adjustment	(16)	(15)	1	-	-
System Operator	1	1	-	-	-
Other renewals	3	-	(3)	2	(4)
	(10)	1	11	4	11
Total centrally-managed renewals expenditure	61	74	13	4	117
Total renewals expenditure	460	456	(4)	(5)	525

Statement 3.6: Analysis of renewals expenditure, Wales & Western

In £m 2019-20 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) To provide greater transparency and insight in CP6, Network Rail has adopted a different set of Key Cost Lines to report renewals expenditure against. Consequently, some of the prior year data is not available at a comparable level of detail as the current year. In these instances, no value has been included in the prior year column. Consequently, the total of the individual Key Cost Lines for the previous year may not sum to the asset total reported.

Comments:

- (1) Overall, Renewals expenditure is broadly in line with the regulatory baseline with higher Regionally-managed activity offsetting reduced Centrally-managed costs. Minor net financial underperformance has been recognised this year. Overall expenditure was lower than the previous year, with the largest contributions from lower Plant & machinery costs and a change in accounting policy for CP6, as shown through the Opex/ capex adjustment heading.

Regionally-managed renewals

- (1) Total Regionally-managed renewals were higher than the regulatory assumption. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably Centrally-managed renewals. Some minor net financial underperformance has been reported across the Renewals estate. Expenditure was broadly in line with the previous year with reduced signalling largely compensated for by increased Earthworks investment, reflecting the challenges of the new control period.
- (2) Track – overall, costs in the year were slightly higher than the regulatory baseline. This included additional Plain Line full, Plain Line partial and Switches & Crossings – Replace costs due to higher volumes being delivered in all categories as activity was accelerated from later years of the control period. There were also higher costs in Track other. This included acceleration of activity but also because the regulatory baseline included some rephasing adjustments across the control period for the whole Track portfolio. These additional costs were partly offset by lower Plain Line High Output costs, reflecting reduced volumes, and lower Plain Line Refurbishment costs, which included favourable settlement of commercial claims. Financial underperformance has been reported this year for Track. This included the impact of lost volumes compared to the plan, notably Plain Line High Output. There were also some extra costs in the track delivery alliance supply chain compared to plan and specification changes and working methods on certain jobs, including Guildford and Yeoford. This was partly alleviated by the aforementioned favourable settlement of commercial claims. Costs were broadly similar to the previous year.

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

In £m 2019-20 prices unless stated

- (3) Signalling – major programmes this year include ETCS and Bristol Area Resignalling and Paddington Train Detection Conversion. Together, these costs account for nearly half of all expenditure this year. Overall, expenditure was less than expected. This was most evident in the Signalling refurbishment category where delays to the ETCS programme have reduced investment. This is a complex programme involving introducing new technology to a busy main line for the first time in the UK and the integration designs and standards have proved challenging. Delays to Bristol Area Resignalling programme have contributed to the reduced expenditure in the Signalling Partial category. This was partly offset by accelerating Minor works activity from future years. Some minor financial underperformance has been recognised this year which has mostly been caused by the prolongation to the ETCS programme noted above. This was partly mitigated by savings in Port Talbot recontrol from more effective planning to align work types and savings from contractor negotiations on final project settlements. Costs were lower than the previous year which is mainly due to lower costs on the Bristol Area Resignalling project which is now substantially complete.
- (4) Civils – expenditure in the year was higher than the regulatory baseline which was due to accelerated delivery partly offset by financial outperformance. There were fewer instances of project deferral than the plan anticipated which is reflected in the variance in the Minor Works category which included deliverability overlays for the Civils portfolio as a whole. Financial outperformance was delivered through a combination of enhanced planning, including successfully acquiring a blockade to deliver works at Yarnbrook, closer working with contractors to deliver works at River Parrett, and using innovative delivery methods, such as offsite production for Basildon Skew bridge and injection waterproofing for Mynydd bridge. Expenditure was broadly similar to the previous year.
- (5) Earthworks – investment this year was higher than the regulatory baseline expected which was due to accelerated delivery partly offset by financial outperformance. The extra investment included accelerating schemes at Little Haglow and Bargoed to utilise available resources. The regulatory baseline predicted a degree of reprofiling across the portfolio based on previous delivery experience. However, overall delivery was better than anticipated resulting in less slippage. Marginal financial outperformance has been reported this year. This was achieved through better workbank packaging, favourable tender prices and acquiring longer possessions at Llandudno Junction to facilitate more productive workings arrangements. Investment is higher than the previous year. As the increased regulatory baseline illustrates, most of this increase was expected.
- (6) Buildings – investment this year was broadly in line with the regulatory baseline. Slight financial underperformance has been reported this year, largely on workplace management schemes where extra scope has been introduced, including safer walking routes and better drainage. Damage caused by flooding on the Conwy Valley Line also necessitated some additional remediation costs at Dolgarrog Station. Expenditure was broadly similar to the previous year.
- (7) Electrical power and fixed plant – investment is higher than the regulatory baseline, mainly due to higher Fixed Plant costs, notably installation of Circuit Main Earths across the electrification system in the Region accelerated from future years. Some minor financial underperformance has been reported this year, including additional contractor costs on signalling cable projects owing to design delays and difficulties acquiring the required access. Costs are higher than the previous year, mainly due to the aforementioned Circuit Main Earths installation project.

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

In £m 2019-20 prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with lower spend on STE programmes and Wheeled plant & machinery. Most of the investment in this area is facilitative to the overall asset management of the network with outputs being less defined than in core renewals. Therefore, as agreed with the regulator, most of the funds are outside the scope of financial performance. Expenditure is lower than the previous year. The largest variance arises from Plant & Machinery. As noted in last year's Regulatory Financial Statements extra investment took place in 2018/19 in plant to facilitate maintenance and renewal of the new electrification assets delivered in CP5.
- (2) Track – no costs were incurred in the previous year or expected for this year. Network Rail's Supply Chain Operations team (part of Route Services) are responsible for procuring and delivery of track materials to the Regions to facilitate Track renewals. The costs recharged to the Regions for these products is based on assumed levels of activity, which means that the fixed costs are spread over a number of units and activity. However, due to delays in finalising the CP6 Business Plan, some volumes altered meaning that Supply Chain Operations were left with some costs that could not be off-charged to track capital activities. 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 (refer to Statement 3.2).
- (3) Telecoms – investment is broadly in line with the regulatory baseline with the portfolio being managed in line with the funding available this year with Operational communications deferrals compensated for by Non-route capital expenditure acceleration. Overall programme output delivery is consistent with funding assumptions, so no financial outperformance has been recognised this year. Investment is higher than the previous year, reflecting the regulator's expectation for additional investment in this control period to drive improvements in the asset condition and reflects the timing of when parts of the infrastructure require replacement. Major projects this year included data centre improvements and GSM-R investment.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and the previous year. 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 fully assess. Significant variances at Key Cost Line include:
 - a. High output – investment was lower than the regulatory baseline due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet. Expenditure was also lower as fewer new schemes were identified and developed this year. Investment was consistent with the previous year.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline mainly due to deferral of investment in mobile overhead line monitoring equipment and track geometry recording apparatus into future years of the control period.
 - c. Intervention – costs were lower than the regulatory baseline mainly due to delays in replacing track plain line stone blower machines. This work has been reprofiled into future years.

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

In £m 2019-20 prices unless stated

- d. Material delivery – investment was lower than the regulatory baseline assumption mainly due to the postponement of constructing a new concrete sleeper factory. These delays have largely been caused by planning consent issues from local authorities necessitating changes in design and approach. Investment is higher than the previous year due to the work that has taken place on the aforementioned concrete sleeper factory.
 - e. On track plant – expenditure in the year is in line with the regulatory baselines but noticeably lower than the previous year which included the purchase of equipment ahead of CP6, notably high output electrification equipment. As noted in last year's Regulatory Financial Statements extra investment took place in 2018/19 in plant to facilitate maintenance and renewal of the new electrification assets delivered in CP5.
 - f. Other – the regulatory baseline included a negative value to reflect the risk of delivery across the rest of the Wheeled plant & machinery portfolio. Removing the impact of this baseline adjustment, expenditure was broadly in line with the regulatory assumption.
- (5) Route Services – Expenditure is higher than the regulatory baselines this year as work has been accelerated from future years. Major programmes this year include investment in a new data centre to replace life-expired assets, reduce ongoing operating costs and improve customer experience as well as replacement of numerous desktops and laptops with modern technology. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Investment is higher than the previous year as expected in the baselines as additional IT projects are delivered to achieve the business challenges faced by Network Rail for control period 6. All expenditure in the previous year was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is broadly consistent with the regulatory expectation and the previous year. This is a new funding category for the current year and incorporates some of the categories that were reported against other asset categories in the prior year. Where the same Key Cost Line has been moved from a different asset category to STE renewals for CP6, the prior year has been included here to improve comparability. Notable variances at Key Cost Line include:
- a. Intelligent infrastructure – costs are broadly in line with the regulatory expectation this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance, as agreed with the regulator. Investment is lower than the previous year which largely reflects the lower regulatory baseline this year.
 - b. Faster isolations – costs are slightly higher than the regulatory baseline as some schemes have been accelerated from future years. Due to the lack of definable outputs, this fund is outside the scope of financial performance. Costs are broadly in line with the previous year.
 - c. Research & Development – progress on this fund has been slightly ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Expenditure is higher than the previous year due to additional funding being made available through the determination and business planning process for CP6 to enable the investment in solutions to improve the rail industry for passengers.

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

In £m 2019-20 prices unless stated

- d. Integrated Management System – there has been minimal activity on this programme this year. No financial outperformance has been recognised this year as the outputs have not been delivered. As this was a new fund for CP6 there is no prior year comparative.
 - e. Small plant – investment is in line with the regulatory baseline but lower than the previous year which included substantial purchase and refurbishment projects to utilise available resource at the end of CP5.
- (7) Property – expenditure is consistent with the regulatory baseline this year but lower than the previous year. As the regulatory baseline shows, this decrease was expected due to asset requirements for CP6.
- (8) Other – investment is lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower than the previous year mainly due to the previous year mainly due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. ECTS – expenditure is lower than the regulatory baseline due to delays in the project, notably on the Cardiff traffic Management projects and favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline. As expected in the regulatory baselines, expenditure is lower than the previous year.
 - b. 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 are managing 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. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.
 - c. 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 are managing this risk internally through a “self-insurance” arrangement. This means that there is some volatility expected in this area compared to the regulatory baseline assumptions depending on the number and severity of incidents that arise in any given year. The financial outperformance recognised 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, with costs expected to be incurred in 2020/21 too. This is a new fund for CP6, so there is no prior year value to compare to.

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

In £m 2019-20 prices unless stated

- d. 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). This is a new item for CP6, so there is no prior year value to compare to.
- e. Other renewals – expenditure in the previous year includes some legacy projects from CP4 and overheads to support delivery of the capital portfolio to close out CP5. These items were not present in the current year, resulting in a reduction in activity against this heading. The financial outperformance relates to additional costs that have been charged to renewals projects this year compared to the regulatory baseline. These costs resulted in higher costs across all projects but lower Support costs (refer to Statement 3.3). These savings have been treated as neutral when assessing Support financial performance but have been included as a benefit in Renewals.

Statement 3.7: Analysis of enhancements expenditure, Wales & Western

£m, 2019-20 prices unless stated

	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year
DfT funded schemes			
Great Western Electrification	177	210	(54)
Cardiff Central Operational Resilience	16	17	-
Oxford Corridor Capacity Phase 2	5	16	-
GWEP Distribution Network Operators clearance work	5	6	-
Reading Independent Feeder (Power Supply)	10	24	-
Bristol East Junction	7	12	-
Exeter St David's to Newton Abbot Resilience Improvement (Dawlish)	18	43	-
Access for All	2	1	-
Western Rail Access to Heathrow	8	10	-
Crossrail	44	35	(33)
Dr Days to Filton Abbey Wood Capacity	9	10	-
Portfolio Contingency (including T-12)	1	3	2
Thames Valley EMU Capability	9	5	-
IEP Western Capability	9	13	-
West of England Plat Length	-	5	-
Access to Assets	4	12	-
Other	12	10	(2)
Total	336	432	(87)
Other Capital Expenditure	51	-	-
Other third party funded schemes			
Other third Party	55	-	-
Total	55	-	-
Total enhancements	442	432	(87)
Total enhancements less Other third party funded schemes	387	432	(87)

Statement 3.7: Analysis of enhancement expenditure, Wales & Western

In £m 2019-20 prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with DfT. The change control process allows funders to vary the scope of programmes, along with a corresponding change to the target price for programmes.
- (2) Third party funded (PAYGO) refer to schemes funded by grants received from various bodies rather than the core Wales & Western 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. 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 DfT.
- (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 Wales & Western funder (DfT) was £387m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£442m) less the PAYGO schemes funded by other third parties (£55m).
- (2) Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes with the largest contributions came from further delays to the Great Western Electrification and Crossrail programmes. Financial underperformance was also reported this year mainly arising from these two programmes. 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 DfT. Overall, Enhancement expenditure is lower than the previous year due to a different portfolio of schemes being delivered this control period than in control period 6. The bespoke nature of the Enhancement portfolio means that annual variances are expected as Wales & Western delivers a different set of programmes at the direction of DfT.

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

In £m 2019-20 prices unless stated

- (3) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Some notable variances at programme level this year include:
- a. Great Western Electrification – progress this year has been slower than planned. The delays in the programme have resulted in increases in the total timescale for the project which has caused increases in the total anticipated final cost to more than the baseline, resulting in recognition of financial underperformance this year. Increases in the total anticipated final cost have also arisen from substantiation of disputed costs well as various cost pressures across the programme.
 - b. Oxford Corridor Capacity Phase 2 slower progress has been made on this project this year and activity has been rephased into future years. Delays to design and specification finalisation as well as combining planned activity with other works in the area to minimise passenger disruption have driven these timing differences.
 - c. Reading Independent Feeder (Power Supply) – slower progress has been made on this project this year as work has been reprofiled into future years of the control period. There has been savings on the Western SCADA programme this year, but these funds are required to mitigate risks on other parts of the programme expected to materialise in future years. Therefore, the total project costs remain the same and no financial outperformance has been recognised at this stage.]
 - d. Exeter St David's to Newton Abbot Resilience Improvement (Dawlish) – slower progress has been made on this project this year. This has been partly due to delays in letting contracts for parts of the programme in order to obtain acceptable contractor tenders to remain within the funding made available by DfT. In addition, delays in panel installation at the year end pushed some investment into 2020/21.
 - e. Crossrail – although expenditure was broadly in line with the plan, financial underperformance has been recognised this year as a result of increases in the total anticipated final cost to more than the baseline. This has been caused by increased scope with some contractors and value engineering challenges on the Western Station projects not being fully realised.
 - f. Portfolio Contingency (including T-12) – expenditure this year was lower than the baseline. 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 year against other projects within the portfolio. Actual costs reported in this category this year are for the element of possession costs caused by delays to timetable publications, as noted in the previous year's Regulatory Financial Statements.
 - g. Other – this category covers a number of smaller projects, including CP5 close out projects. Expenditure overall is broadly in line with the regulatory baseline.
- (4) Third party funded schemes – most of the works this year relate to works in and around the Old Oak Common site in West London.

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

In £m 2019-20 prices unless stated

- (5) Other capital expenditure – this year, this category includes expenditure on certain Crossrail schemes which are reported here to match funding agreements and investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

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

£m, 2019-20 prices unless stated

		Unit	AFC	FY20 AFV	Unit Costs	AFC	FY19 AFV	Unit Costs
Track	PL Replace Full	km	36	20	1,800	n/a	n/a	n/a
	PL Replace Partial	km	38	59	644	n/a	n/a	n/a
	PL High Output	km	33	31	1,065	n/a	n/a	n/a
	PL Refurbishment	km	3	56	54	n/a	n/a	n/a
	Switches & Crossing - Replace	point ends	18	42	429	n/a	n/a	n/a
	Switches & Crossing - Other	point ends	4	38	105	n/a	n/a	n/a
	Off Track	km/No.	8	156	51	n/a	n/a	n/a
	Total		140	-	-	-	-	-
Signalling	Signalling Full	SEU	52	5	10,400	n/a	n/a	n/a
	Signalling Partial	SEU	226	80	2,825	n/a	n/a	n/a
	Signalling Refurb	SEU	-	-	-	n/a	n/a	n/a
	Level crossings	No.	23	20	1,150	5	3	1,667
	Total		301	-	-	5	-	-
Civils	Underbridges	m2	49	15,579	3	50	16,619	3
	Overbridges (incl BG3)	m2	10	2,185	5	12	3,274	4
	Tunnels	m2	9	17,159	1	8	3,085	3
	Culverts	m2	4	1,013	4	4	2,116	2
	Footbridges	m2	1	243	4	4	1,342	3
	Coastal & Estuarial Defences	m2	2	12,750	0	1	2,219	0
	Retaining Walls	m2	3	7,034	0	1	535	2
	Total		78	-	-	80	-	-
Earthworks	Earthworks - Embankments	No.	15	553	27	n/a	n/a	n/a
	Earthworks - Soil Cuttings	No.	15	693	22	n/a	n/a	n/a
	Earthworks - Rock Cuttings	No.	17	317	54	n/a	n/a	n/a
	Earthworks - Other	No.	-	3	-	n/a	n/a	n/a
	Drainage - Earthworks	m	2	15,024	0	n/a	n/a	n/a
	Drainage - Other	m	9	30,605	0	13	64,485	0
	Total		58	-	-	13	-	-
Buildings	Buildings (MS)	m2	-	-	-	1	3,130	0
	Buildings (FS)	m2	-	400	-	-	-	-
	Platforms (FS)	m2	4	2,128	2	2	1,087	2
	Canopies (FS)	m2	4	8,626	0	2	4,311	0
	Train sheds (FS)	m2	-	-	-	-	747	-
	Footbridges (FS)	m2	4	1,186	3	6	1,287	5
	Other (FS)	m2	19	112,982	0	8	68,544	0
	Light Maintenance Depots	m2	-	-	-	1	6,816	0
	Lineside Buildings	m2	-	33	-	-	22,335	-
	MDU Buildings	m2	1	8,557	0	-	-	-
	Total		32	-	-	20	-	-

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

£m, 2019-20 prices unless stated

		FY20			FY19		
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Electrical Power & Fixed Plant	UPS	No.	2	37	54	n/a	n/a
	Points Heaters	point end	-	-	-	11	-
	Signalling Power Cables	km	1	9	111	-	-
	Signalling Supply Points	point end	-	-	-	2	500
	Total		3	-	-	1	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-
	Public Address	No.	-	-	-	61	-
	CCTV	No.	1	158	6	-	-
	Other Surveillance	No.	-	-	-	13	-
	PABX Concentrator	No.	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-
	PETS	No.	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-
	Radio		-	-	-	-	-
	Power	No.	-	11	-	1	20
	Other comms		-	-	-	-	-
	Network	No.	-	-	-	-	-
	Projects and Other		-	-	-	-	-
	Non Route capex		-	-	-	-	-
	Other		-	-	-	-	-
	Total		1	-	-	1	-

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

In £m 2019-20 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 2019/20 (or 2018/19 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 2018/19 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2019/20, 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 unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 3.6) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years in this asset.
- (3) Signalling - Network Rail's asset management teams updated the renewals cost and volume categories for the current control period. It is therefore not possible to compare and analyse between the current and previous financial years for most subcategories of this asset. The exception is for level crossings. In level crossings the unit rate has significantly decreased in the year. There has only been a total of five projects across the two years, so it is difficult to do any useful analysis. In the previous year there were relatively more expensive jobs at Salmon Pool and at Cornwall on the Western route.

Statement 3.8: Analysis of renewals unit costs, Wales & Western – continued

In £m 2019-20 prices unless stated

- (4) Civils – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (5) Earthworks & Drainage – The data collected in this category is new for this control period so there is nothing to compare it to in 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) 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.

Statement 4: Regulatory financial position, Wales & Western

£m, 2019-20 prices unless stated

Regulatory asset base (RAB)

	£m
Opening RAB (2018-19 Actual prices)	13,394
Indexation to 2019-20 prices	13,595
RAB additions	
Renewals expenditure	460
Enhancements expenditure	-
Less amortisation	(460)
Property Sales	(474)
Closing RAB	13,121

Net debt	-
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	£m
Opening net debt	10,582
Income	(1,733)
Expenditure	1,005
Financing Costs - Government borrowing	218
Financing Costs - index linked debt	152
Financing Costs - Other	40
Corporation tax	-
Working capital	(29)
Closing net debt	10,235

Statement 4: Regulatory financial position, Wales & Western

In £m 2019-20 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 and enhancement 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 from the position at the start of the year and since the start of the control period.
- (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 2018/19 prices and is inflated by the November 2019 CPI (1.5 per cent).
- (3) Renewals – renewals added to the RAB was over £0.45bn. 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). This year, the high value of disposals includes the divestment of the Cardiff Valley lines part of the network in Wales to the Welsh government.
- (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 from the position at the start of the.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in December 2019.
- (9) Network Rail's debt attributable to Wales & Western has decreased by around £350m during the year. This was mainly due to the divestment of the Cardiff Valley Lines part of the network this year. The proceeds of this transaction were used to pay off some of the debt relating to this part of the network. This was partly offset by increases in the level of index-related 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. These debt items have a maturity range between 2026 and 2052.

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

In £m 2019-20 prices unless stated

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

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

(12) 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. For index-linked bonds, part of the interest expense is added to the principle 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 (except 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.

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

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 2020

	£m
RAB valuation at 31 March 2020 (Statement 4)	72,513
Investment properties (including assets held for resale)	(227)
Adjustment for cash flow differences the CP6 Business Plan compared to Periodic Review 2018	(475)
Other	(2)
Property, plant and equipment per NRL statutory accounts at 31 March 2020	71,809

Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts

Year ended 31 March 2020

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2020 per the regulatory Statements (Statement 1)	2,117	1,737	3,854
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets	1,853		1,853
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	188		188
IFRS16 Leases adjustment	(114)		(114)
Other	(4)		(4)
	1,923	-	1,923
Operating and maintenance expenditure for year ended 31 March 2020 per NRL statutory accounts	4,040	1,737	5,777

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2020

	£m	£m
Regulatory income for year ended 31 March 2020 (Statement 1)		8,981
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(360)	
Income from property sales and other asset divestments	(525)	
Other	3	
		(882)
Turnover per NRL statutory accounts for year ended 31 March 2020		8,099

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2020

	£m	£m
Regulatory debt at 31 March 2020 (Statement 4)		53,476
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	617	
IFRS 16 Leases adjustment	411	
Foreign exchange differences	97	
		1,125
Net debt per NRL statutory accounts at 31 March 2020		54,601

Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure

Year ended 31 March 2020

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2020 (Statement 1)		4,732
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	423	
Other	21	
		444
Capital expenditure per NRL statutory accounts for the year ended 31 March 2020		5,176

Appendix F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense

Year ended 31 March 2020

	£m	£m
Total financing costs for the year ended 31 March 2020 (Statement 1)		2,105
Differences between regulatory interest expense and statutory interest expense		
Net finance costs relating to defined pension schemes assets and liabilities	58	
Investment revenue disclosed separately in statutory accounts	7	
		65
Interest expense per NRL statutory accounts for the year ended 31 March 2020		2,170