



Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2021

Directors' Review

In £m 2020/21 prices unless stated otherwise

Introduction

This financial year was the second year of Network Rail's five-year spending plan, covering the period from 1 April 2019 – 31 March 2024. This review will look back over the last year where the pandemic reduced overall passenger levels by around two-thirds.

The Government has supported our industry throughout the pandemic so that our direct customers, the passenger and freight operating companies, have continued to pay amounts owed to Network Rail as they fall due. In addition, Network Rail has been able to use the risk funds available in the five-year spending plan to mitigate increased Covid 19- related costs. As a result, there has been no material change to our delivery plan.

Network Rail has also been able to take actions to offset lower station retail income and additional Covid-19-related costs. As a result, we've made a profit this year that is broadly in line with our plans. Every penny of this profit is used to fund our railway investment programme.

We're ahead on our efficiency plans and have targeted a further £500m of savings to augment our original £3.5bn five-year efficiency programme. This will offset the headwinds caused by the pandemic. This year we delivered around £700m towards our updated £4bn target by reducing our activity-adjusted annual cost-base in operations, maintenance and renewals. This means that over £1bn of the £4bn target has been achieved in the first two years of this control period.

This year saw unprecedented measures put in place to minimise the spread of the coronavirus. The response to the pandemic has changed the way of life for our passengers, suppliers and employees, impacting our operations, ways of working and project delivery. We've kept the infrastructure running and the businesses in our supply chain in a position to return to normal service levels as soon as it was advisable to do so. Keeping infrastructure running supported the economy and provided services for passengers and particularly key workers. We remain on a firm financial footing and the actions taken by the Department for Transport (DfT) and Transport Scotland (TS) to support services for passengers has secured the financial position of our key customers.

Directors' Review continued

In £m 2020/21 prices unless stated otherwise

Summary income and expenditure for 2020/21

	Actual	Baseline	Variance	FPM
Income				
Grant Income	6,641	6,471	170	0
Franchised track access charges	2,464	2,727	(263)	(90)
Other Single Till Income	496	723	(227)	(227)
Total income	9,601	9,921	(320)	(317)
Operating expenditure				
Network operations	714	657	(57)	(57)
Support costs	956	872	(84)	19
Traction electricity, industry costs and rates	845	945	100	1
Maintenance	1,892	1,720	(172)	(157)
Schedule 4	288	323	35	22
Schedule 8	(347)	48	395	395
	4,348	4,565	217	223
Capital expenditure				
Renewals	3,910	3,596	(314)	(307)
Enhancements	1,620	2,310	690	(23)
	5,530	5,906	376	(330)
Other expenditure				
Risk	0	404	404	0
Financing costs	1,696	2,233	537	0
Corporation tax	52	23	(29)	0
Total expenditure	11,626	13,131	1,505	(107)

Income

Grant income was £0.2bn higher 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, including additional renewals delivered this year. 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. Income is also lower as fewer trains were ran this year, owing to the pandemic. Network Rail receives money from operators for every train it runs, contributing to the financial underperformance this year.

Other single till income is lower than the regulatory baseline mainly due to lower property income, as measures were put in place to curb the pandemic. Property sales were lower than expected due to the pandemic and deliberate rephasing of disposals into future years. The pandemic's impact is more pronounced in Other single till income compared to Franchised track access income as around two-thirds of the latter is largely fixed under contractual arrangements

Directors' Review continued

In £m 2020/21 prices unless stated otherwise

Operating expenditure

Network Operations costs were higher than the regulatory baseline mainly due to the impact of Covid-19, necessitating a number of mitigating costs, such as extra staff, cleaning and equipment which resulted in financial underperformance this year.

Support costs were higher than the regulatory baseline due to a number of contributory factors. These included: implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, which have been partly offset by the savings made as a result of the reduced PRP expense incurred.

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 due to extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. These extra costs resulted in financial underperformance this year.

Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Savings were made this year which were largely due to better planning where we were able to secure longer possessions to undertake necessary works at a time when fewer passengers were inconvenienced. Overall, weather was less disruptive this year than expected, generating further outperformance.

Payments to operators under the Schedule 8 performance regime were lower than expected, Stronger train performance, a continuation of the previous year's trends, as a result of less network traffic as the number of services were scaled back during the pandemic has generated this financial outperformance.

Capital expenditure

During 2014-2019 (Control Period 5 (CP5)) Network Rail delivered a major rail investment programme that is now translated into new services for our passengers, ready as Covid-related restrictions ease. This year we delivered £5.5bn of railway investment, excluding work funded by parties other than DfT and Transport Scotland. Overall spend was £0.4bn lower than the regulatory baseline, although this reflected higher renewals offset by lower enhancements.

Enhancements that will increase the capacity of the network have amounted to £2.0bn, including £0.4bn funded by parties other than DfT and Transport Scotland. This included £1.3bn of DfT-funded schemes, £0.2bn funded by Transport Scotland and £0.6bn of other grant-funded projects. Major schemes included improvements on the Midland Mainline between London and Corby, Trans-Pennine improvements, East West Rail, HS2-related projects, East Coast Main Line improvements and in Scotland, improvements relating to the Inverness to Aberdeen and Edinburgh to Glasgow lines. Financial performance this year across the portfolio was broadly in line with the regulatory targets.

Directors' Review continued

In £m 2020/21 prices unless stated otherwise

We have also invested £3.9bn in renewals, £0.3bn higher than the regulatory baseline. This included £1.1bn of track renewals which delivered over 1,200km of new track and replaced over 850 switches and crossings. In addition £0.8bn was spent on signalling renewals, £0.8bn on structures (including around 63,000 square meters of bridges), £0.3bn on electrification assets, £0.3bn on buildings & property, including improving stations for passengers), and £0.6bn on other renewals including telecoms, IT, plant and equipment, drainage, intelligent infrastructure and faster electrical isolation equipment. The like-for-like costs of delivering the investment was higher than planned. This included disruption caused by the pandemic impacting delivery and planning of projects. Supply chain costs also included.

In the year, we delivered 112 per cent of our seven key renewal volumes.

This year we have also invested £1.6bn 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

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

Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on 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-issued debt. Interest rates on DfT debt are derived from market interest rates at the time of debt issuance so the tranches maturing in 2020/21 were largely re-financed at lower rates reflecting historically low Bank of England base rates. Due to the lack of influence Network Rail can exert on Financing costs they are outside the scope of financial performance.

Corporation tax payable by Network Rail was higher than the regulatory expectation as taxable profit exceeded targets.

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 £72.5bn to £72.7bn. In line with the regulatory financial framework, the RAB is inflated each year. Additions of £3.9bn were offset by amortisation of the same value. Reductions were then made for property disposals to arrive at the final valuation. Under the ORR CP6 Regulatory Accounting Guidelines, enhancements are not added to the RAB as the costs of enhancements are directly funded through capital grants paid by the organisation requesting the enhancement, largely DfT and TS

Directors' Review continued

In £m 2020/21 prices unless stated otherwise

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. Investments are funded by grant, and from cash generated from operations, and fresh borrowing is used for refinancing maturing loans.

The regulatory settlement for CP6 provides strong security for future income and the DfT loan agreement provides a robust loan refinancing platform.

During the year ended 31 March 2021, we borrowed £10.8bn using the DfT loan facility to refinance maturing borrowing with DfT (£9.8bn) and commercial bonds (£1bn). RPI-linked bonds increased in line with the RPI index and there were some working capital benefits. As a result, net debt rose from £53.5bn to £53.6bn.

Financing arrangements

We do not expect to undertake any new net borrowing during 2019-2024. Instead our activities are largely funded by grants from the Department for Transport, Transport Scotland, and revenue from customers. We have 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.

Grant agreements with Department for Transport and Transport Scotland

Eight separate grants are in place between NRIL and DfT/TS, replacing the two grants (England and Wales network grant and Scotland network grant) that operated throughout CP5. These grants are:

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

With TS: network grant and enhancements grant.

Summary

The world has changed significantly in the past year and we must adapt too.

The Williams-Shapps plan for rail resulting from the Williams Rail Review was published in May 2021. The way the rail industry has responded to the pandemic shows what can be achieved when we work together as one industry. For example, the pace at which timetable changes have been implemented. This last year has seen Network Rail adapt to challenges and find solutions quickly, while focussing on putting passengers first and delivering value-for-money for taxpayers.

In the circumstances we delivered a broadly satisfactory outcome on our key financial targets and continued to make reasonable progress on our efficiency programme for the 2019-24 Control Period. Of course, that progress excludes the additional costs of the pandemic response and the lost income in the rail industry from lower passenger numbers. So, we recognise we need to focus on the efficiency programme further and have increased our 2019- 2024 target from £3.5bn to £4bn of savings.

The next year will require continued ingenuity and focus from the committed, caring and hard-working people that make up the rail industry, whilst also focussing on cost efficiencies and delivering our plans to build back better.

Directors' Review continued

In £m 2020/21 prices unless stated otherwise

Looking beyond the pandemic recovery period, rail will be an increasingly important part of our national infrastructure. It remains the most efficient and environmentally sustainable option both for passengers wishing to travel between towns and cities, and freight distribution.

The rail industry and we as a company are committed to providing the infrastructure for building a greener and lower carbon society that delivers a better, more reliable and cost-effective railway that continues to put 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 10th September 2021.

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 2021 and (save as otherwise provided in Condition 9 or the CP6 Regulatory Accounting Guidelines December 2019) on a consistent basis in respect of each financial year;
- maintain all systems of control and other governance arrangements that ensure the information collected and reported to ORR is in all material respects accurate, complete and fairly presented and ensure that such governance arrangements are kept under regular review by the directors of the licence holder so that they remain effective for this purpose.
- include the confirmation required under Condition 9.5 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 9, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 9.5 and (where applicable) with Condition 9.9 and, if so requested by the ORR, evidence in support of that confirmation.

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

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

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

Opinion

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2021 which comprise the following statements (separately for GB, England and Wales, and Scotland and the Regions except where stated otherwise below):

- 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.

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

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

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

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

- fairly presented in accordance with Condition 9 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies, the state of the Company's financial position at 31 March 2021 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.

Other information

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

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

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

I have nothing to report in this regard.

Responsibilities of the directors

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

Auditor's responsibilities for the audit of the Regulatory Accounts

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

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

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

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

Other matters

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

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

I have nothing to report arising from this duty.

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

Use of my report

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

My opinion on the Regulatory Accounts is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2021, 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)

13th September 2021



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 2021, 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 independent reporters to review some of the information provided by Network Rail in the regulatory financial statements. This will complement the work of the auditors.

Work completed – basis of opinion

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

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

Opinion

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

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

Yours faithfully.



Mark Rudman

Named Independent Reporter

Ove Arup & Partners Ltd

13th September 2021

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 2021 which were approved by the Directors on 20 July 2021 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.

Great Britain

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	6,641	6,471	170	-	5,276
Franchised track access charges	2,464	2,727	(263)	(90)	2,584
Other Single Till Income	496	723	(227)	(227)	1,148
Total Income	9,601	9,921	(320)	(317)	9,008
Operating expenditure					
Network operations	714	657	(57)	(57)	659
Support costs	956	872	(84)	19	664
Traction electricity, industry costs and rates	845	945	100	1	800
Maintenance	1,892	1,720	(172)	(157)	1,742
Schedule 4	288	323	35	22	304
Schedule 8	(347)	48	395	395	57
	4,348	4,565	217	223	4,226
Capital expenditure					
Renewals	3,910	3,596	(314)	(307)	2,917
Enhancements	1,620	2,310	690	(23)	1,830
	5,530	5,906	376	(330)	4,747
Risk expenditure					
Risk (Centrally-held)	-	129	129	-	-
Risk (Route-controlled)	-	133	133	-	-
Risk (Contingent asset management funding)	-	142	142	-	-
	-	404	404	-	-
Other expenditure					
Financing costs	1,696	2,233	537	-	2,111
Corporation tax	52	23	(29)	-	-
	1,748	2,256	508	-	2,111
Total expenditure	11,626	13,131	1,505	(107)	11,084

Total Financial Out/(under) performance

(424)

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	11,901	12,359	(458)	-
Franchised track access charges	5,041	5,366	(325)	(88)
Other Single Till Income	1,640	1,376	264	(212)
Total Income	18,582	19,101	(519)	(300)
Operating expenditure				
Network operations	1,371	1,322	(49)	(52)
Support costs	1,618	1,746	128	116
Traction electricity, industry costs and rates	1,643	1,801	158	3
Maintenance	3,629	3,434	(195)	(200)
Schedule 4	591	638	47	47
Schedule 8	(290)	142	432	432
	8,562	9,083	521	346
Capital expenditure				
Renewals	6,818	6,560	(258)	(341)
Enhancements	3,444	4,215	771	(109)
	10,262	10,775	513	(450)
Risk expenditure				
Risk (Centrally-held)	-	122	122	-
Risk (Route-controlled)	-	133	133	-
Risk (Contingent asset management funding)	-	178	178	-
	-	433	433	-
Other expenditure				
Financing costs	3,801	4,472	671	-
Corporation tax	52	32	(20)	-
	3,853	4,504	651	-
Total expenditure	22,677	24,795	2,118	(104)

Total Financial Out/(under) performance

(404)

Statement 1: Summary of regulatory financial performance, Great Britain

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Overall, Network operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience Network Operations costs are discussed in more detail in Statement 3.1. These extra costs, resulted in financial underperformance this year
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, which have been partly offset by the savings made as a result of the reduced PRP expense incurred. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date 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 business rates expenses. 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. 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 extra costs incurred to respond to the Covid-19 pandemic and investment in additional schemes to help asset resilience and train performance. These extra costs resulted in financial underperformance this year. Costs are higher than previous year as expected. As part of the CP6 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.
- (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 lower activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Schedule 4 costs are set out in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding due to savings elsewhere, notably DfT funded enhancements schemes. Significant causes for this increase include, financial underperformance within the Track portfolio, acceleration of jobs from future years mentioned above, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to a multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above. 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 and agreeing appropriate scope and costs due to Covid-19. Financial underperformance has been recognised this year, mostly in connection with ECML, Gatwick Station, EGIP and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS)). 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.
- (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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19, so risks are more likely to be realised, the further along we move into the control period. 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, Great Britain – continued

In £m cash prices unless stated

- (16) Other expenditure – Financing costs represents the interest payable in the year to debtholders, including 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 higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Great Britain

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	1,229	1,248	(19)	-	1,204
Variable usage charge	200	276	(76)	(76)	257
Electrification asset usage charge	19	24	(5)	(5)	22
Capacity charge	-	-	-	-	2
Open access income	25	29	(4)	(4)	29
Managed stations long term charge	73	73	-	-	72
Franchised stations long term charge	177	180	(3)	(3)	175
Schedule 4 access charge supplement	218	220	(2)	(2)	273
	1,941	2,050	(109)	(90)	2,034
Other single till income					
Freight income					
Freight variable usage charge	50	54	(4)	(4)	54
Freight other income	1	1	-	-	1
	51	55	(4)	(4)	55
Stations income					
Managed stations qualifying expenditure	92	99	(7)	(7)	91
Franchised stations lease income	54	52	2	2	53
	146	151	(5)	(5)	144
Facility and financing charges					
Facility charges	61	63	(2)	(2)	60
	61	63	(2)	(2)	60
Property income					
Property rental	70	240	(170)	(170)	-
Property sales	16	28	(12)	(12)	-
	86	268	(182)	(182)	-
Depots Income	100	92	8	8	94
Other income	8	4	4	4	6
Total other single till income	452	633	(181)	(181)	359
Total Regionally-managed income	2,393	2,683	(290)	(271)	2,393
Centrally-managed income					
Network grant	5,204	4,897	307	-	3,776
Internal financing grant	648	809	(161)	-	702
External financing grant	642	646	(4)	-	704
BTP grant	95	96	(1)	-	94
Corporation tax grant	52	23	29	-	-
Infrastructure cost charges	50	51	(1)	-	54
Schedule 4 access charge supplement	52	53	(1)	-	57
Traction electricity charges	421	573	(152)	-	439
Freight traction electricity charges	7	8	(1)	-	7
	7,171	7,156	15	-	5,833
Other single till income					
Property income					
Property rental	11	19	(8)	(8)	255
Property sales	26	63	(37)	(38)	527
	37	82	(45)	(46)	782
Total other single till income	37	82	(45)	(46)	782
Total centrally-managed income	7,208	7,238	(30)	(46)	6,615
Total income	9,601	9,921	(320)	(317)	9,008

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	2,429	2,455	(26)	-
Variable usage charge	456	530	(74)	(74)
Electrification asset usage charge	41	46	(5)	(5)
Capacity charge	2	-	2	2
Open access income	54	58	(4)	(4)
Managed stations long term charge	145	145	-	-
Franchised stations long term charge	352	357	(5)	(5)
Schedule 4 access charge supplement	490	492	(2)	(2)
	3,969	4,083	(114)	(88)
Other single till income				
Freight income				
Freight variable usage charge	104	105	(1)	(1)
Freight other income	2	2	-	-
	106	107	(1)	(1)
Stations income				
Managed stations qualifying expenditure	182	195	(13)	(13)
Franchised stations lease income	107	103	4	4
	289	298	(9)	(9)
Facility and financing charges				
Facility charges	121	123	(2)	(2)
	121	123	(2)	(2)
Property income				
Property rental	70	240	(170)	(170)
Property sales	16	28	(12)	(12)
	86	268	(182)	(182)
Depots Income	194	182	12	12
Other income	14	9	5	5
Total other single till income	810	987	(177)	(177)
Total Regionally-managed income	4,779	5,070	(291)	(265)
Centrally-managed income				
Network grant	8,968	9,236	(268)	-
Internal financing grant	1,348	1,543	(195)	-
External financing grant	1,344	1,359	(15)	-
BTP grant	189	189	-	-
Corporation tax grant	52	32	20	-
Infrastructure cost charges	104	104	-	-
Schedule 4 access charge supplement	109	110	(1)	-
Traction electricity charges	859	1,069	(210)	-
Freight traction electricity charges	14	14	-	-
	12,987	13,656	(669)	-
Other single till income				
Property income				
Property rental	265	268	(3)	(2)
Property sales	551	107	444	(33)
	816	375	441	(35)
Total other single till income	816	375	441	(35)
Total centrally-managed income	13,803	14,031	(228)	(35)
Total income	18,582	19,101	(519)	(300)

Statement 2: Analysis of income, Great Britain

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.d
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to financing grants, property related income and Traction electricity income offset by additional network grants received as a result of increased renewal investment in year. Income is higher than the previous year mostly due to additional grant income received, reflecting the new financial framework for CP6 but has been partially offset by lower property income due to Covid-19 and the proceeds recognised in 19/20 relating to the divestment of the Cardiff Valley lines to Transport for Wales. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received in FY20 plus lower than anticipated traction electricity income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This subsequently led to the financial underperformance for the year and the control period to date. Despite Covid-19, income is in line with the previous year. This is because responsibility for property has been devolved from Centrally-managed to Regionally-managed. This extra income largely offsets the reductions from running fewer train services this year.
- (2) Infrastructure cost charges - fixed charge income was slightly lower than the baseline this year. The 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 for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past two years, leading to reduced income. Income is slightly higher than the previous year which was anticipated in the regulatory baselines.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reduced some services considered superfluous by the industry. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income recognised in 2019/20 represents successful close out of commercial claims from CP5 relating to this element of income meaning that income this year is lower than the previous year.
- (5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As agreed with ORR, such variances are considered neutral when assessing financial performance. 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 the Schedule 4 access charge supplement is reset to reflect expected disruption arising from the work that needs to be completed on the railway (a factor of increased renewals and maintenance delivery) and changes in rates payable under the Schedule 4 mechanism.
- (6) Freight Income – income is slightly lower than the regulatory baseline this year due to the disruption caused by Covid-19. This was particularly apparent at the start of the pandemic where freight volumes experienced their lowest quarter since comparable records began in 1998-99. Reduced demand this year has offset the benefits of extra income from the Drax power facility and removal of waste materials from HS2 construction last year, meaning the control period to date is now broadly in line with the regulatory baseline. Income is lower than the previous year due to the aforementioned impact of the pandemic. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year and the control period to date. 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.
- (8) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (9) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is higher than the previous year as some of the responsibilities for property sales have been devolved from the centre. This means a reduction in Centrally-managed property sales income and an increase in Regionally-managed. However, the impact of the pandemic means that property sales have reduced year-on-year across Network Rail as a whole.
- (10) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2019/20.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to higher Network Grants being offset by lower Traction electricity income, lower financing grants and a reduction in property income. 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 offsets lower Property sales income, when 2019/20 benefitted from the divestment of the Cardiff Valley lines to Transport for Wales.
- (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 greater than the regulatory baseline as accelerated activity and higher like for like renewal costs has led to higher renewals expenditure than assumed in the regulatory baselines as noted in Statement 3. In the control period to date, the Network grant recognised is lower than the baseline as additional grants this year have been more than offset by lower grants in 2019/20 when savings were made in net operating costs and differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the control period compared to the regulatory baseline. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in Statement 3, the Network grant is substantially higher than last year.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower, as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government's attempts to stimulate the economy during these unprecedented times.
- (5) External financing grants – grants received in the year and for the control period to date are slightly lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.

Statement 2: Analysis of income, Great Britain – continued

In £m cash prices unless stated

- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. This is largely due to the aforementioned higher Network grant. As some of this funds renewals activity but there is no change in the corresponding renewals costs recognised in the Income Statement, this helps generate a profit on which tax must be paid. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. The Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand. Income is lower than the previous year as responsibility for most of the property estate has devolved meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is in line with the regulatory baseline despite the reductions this year due to additional income generated in 2019/20, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston.
- (11) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is lower than the previous year which included the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales. This transaction accounts for the huge increase compared to the baseline for the control period to date. However, this benefit is excluded from the assessment of financial performance for the control period to date. Similarly, there is also a neutralisation of income recognised in 2019/20 arising from the disposal of most of the commercial estate in the previous year. Adjusting for these items, there has been financial underperformance this control period so far arising from the shortfalls in the current year.

Great Britain

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	693	635	(58)	(58)	639
Maintenance	1,830	1,652	(178)	(169)	1,668
Support costs	369	226	(143)	(143)	213
Traction electricity, industry costs and rates	6	2	(4)	(4)	3
Schedule 4	273	271	(2)	(14)	318
Schedule 8	(298)	38	336	336	48
	2,873	2,824	(49)	(52)	2,889
Capital expenditure					
Renewals	3,396	3,126	(270)	(320)	2,476
Enhancements	1,461	2,310	849	(23)	1,638
	4,857	5,436	579	(343)	4,114
	-	-	-	-	-
Total Regionally-managed expenditure	7,730	8,260	530	(395)	7,003
Centrally-managed expenditure					
Operating expenditure					
Network operations	21	22	1	1	20
Maintenance	62	68	6	12	74
Support costs	587	646	59	162	451
Traction electricity, industry costs and rates	839	943	104	5	797
Schedule 4	15	52	37	36	(14)
Schedule 8	(49)	10	59	59	9
	1,475	1,741	266	275	1,337
Capital expenditure					
Renewals	514	470	(44)	13	441
Enhancements	159	-	(159)	-	192
	673	470	(203)	13	633
Risk Expenditure	-	404	404	-	-
Other					
Financing costs	1,696	2,233	537	-	2,111
Taxation	52	23	(29)	-	-
	1,748	2,256	508	-	2,111
	-	-	-	-	-
Total centrally-managed expenditure	3,896	4,871	975	288	4,081
	-	-	-	-	-
Total expenditure	11,626	13,131	1,505	(107)	11,084

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Or which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	1,330	1,273	(57)	(57)
Maintenance	3,493	3,292	(201)	(187)
Support costs	581	448	(133)	(133)
Traction electricity, industry costs and rates	9	4	(5)	(5)
Schedule 4	590	536	(54)	(53)
Schedule 8	(250)	122	372	372
	5,753	5,675	(78)	(63)
Capital expenditure				
Renewals	5,864	5,534	(330)	(380)
Enhancements	3,094	4,165	1,071	(146)
	8,958	9,699	741	(526)
Total Regionally-managed expenditure	14,711	15,374	663	(589)
Centrally-managed expenditure				
Operating expenditure				
Network operations	41	49	8	5
Maintenance	136	142	6	(13)
Support costs	1,037	1,298	261	249
Traction electricity, industry costs and rates	1,634	1,797	163	8
Schedule 4	1	102	101	100
Schedule 8	(40)	20	60	60
	2,809	3,408	599	409
Capital expenditure				
Renewals	954	1,026	72	39
Enhancements	350	50	(300)	37
	1,304	1,076	(228)	76
Risk Expenditure	-	433	433	-
Other				
Financing costs	3,801	4,472	671	-
Taxation	52	32	(20)	-
	3,853	4,504	651	-
Total centrally-managed expenditure	7,966	9,421	1,455	485
Total expenditure	22,677	24,795	2,118	(104)

Statement 3: Analysis of expenditure, Great Britain

In £m cash 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, lower finance expenses incurred and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes. Costs are higher than the previous year mainly due to increased renewals investment. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio.

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 and higher like for like costs for Renewals, higher operating expenditure as a result of extra investment in performance improvement plans, Putting Passenger First programme costs and the impact of Covid-19 across all expenditure line items. Costs are higher than the previous year mainly due to the aforementioned reasons. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to reduced financing costs and risk. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Great Britain

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	288	275	(13)	(13)	277
Operations Management	79	71	(8)	(8)	69
Controllers	65	65	-	-	64
Electrical control room operators	21	18	(3)	(3)	16
	453	429	(24)	(24)	426
Non signaller expenditure					
Mobile operations managers	47	40	(7)	(7)	43
Managed stations	98	79	(19)	(19)	77
Performance	8	14	6	6	11
Other	87	73	(14)	(14)	82
Total Regionally-managed Operations expenditure	693	635	(58)	(58)	639
Centrally-managed Operations expenditure					
Network Services	21	22	1	1	20
Total centrally-managed Operations expenditure	21	22	1	1	20
Total operations expenditure	714	657	(57)	(57)	659

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	564	557	(7)	(7)
Operations Management	148	142	(6)	(6)
Controllers	129	131	2	2
Electrical control room operators	37	37	-	-
	878	867	(11)	(11)
Non signaller expenditure				
Mobile operations managers	90	81	(9)	(9)
Managed stations	175	157	(18)	(18)
Performance	19	28	9	9
Other	168	140	(28)	(28)
Total Regionally-managed Operations expenditure	1,330	1,273	(57)	(57)
Centrally-managed Operations expenditure				
Network Services	41	49	8	5
Total centrally-managed Operations expenditure	41	49	8	5
Total operations expenditure	1,371	1,322	(49)	(52)

Statement 3.1: Analysis of operations expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. The Control Period to date spend is higher than the regulatory assumption, by virtue of the aforementioned costs. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (2) Total Regionally-managed costs were higher than the regulatory expectation this year and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. The Control Period to date spend is higher than the regulatory assumption, by virtue of the costs incurred this year through Network Rail's response to the Covid-19 pandemic. These additional costs have led to financial underperformance this year and for the control period to date.
- (3) Signaller and level crossing keepers - costs are higher than the regulatory expectation for the Control Period to date and the current year. Savings made last year due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic – this included ensuring appropriate cover for sick and self-isolating staff.
- (4) Operations management - costs are higher than the regulatory expectation for the Control Period to date. Savings made last year due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic – this included ensuring appropriate cover for sick and self-isolating staff.
- (5) Mobile operation managers – costs are higher than the regulatory target for this year and the Control Period to date. Premium hour costs have increased this year to provide extra resilience during the Covid-19 pandemic.

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

In £m cash prices unless stated

- (6) Managed stations – costs are significantly higher than the regulatory target this year and for the Control Period to date. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra agency staff have also been recruited to help manage passenger flow and help station staff enforce social distancing.
- (7) Other – costs are higher than the regulatory target. This is primarily due to investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Control Period costs to date are significantly higher than the regulatory assumption, largely due to investment in performance improvement initiatives.

Centrally-managed operations expenditure

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

Great Britain

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	778	721	(57)	(57)	712
Signalling & Telecoms	307	279	(28)	(28)	292
Civils	202	213	11	18	192
Buildings	99	96	(3)	(1)	97
Electrical power and fixed plant	131	133	2	2	123
Other network operations	313	210	(103)	(103)	252
	1,830	1,652	(178)	(169)	1,668
Centrally-managed maintenance expenditure					
Telecoms	21	29	8	8	19
Route Services - Asset Information	33	29	(4)	(4)	32
STE Maintenance	3	3	-	-	8
Property	-	-	-	-	9
Route Services - Other	(5)	-	5	5	19
Other	10	7	(3)	3	(13)
	62	68	6	12	74
Total maintenance expenditure	1,892	1,720	(172)	(157)	1,742

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	1,488	1,429	(59)	(59)
Signalling & Telecoms	598	553	(45)	(45)
Civils	393	416	23	32
Buildings	196	190	(6)	-
Electrical power and fixed plant	254	259	5	5
Other network operations	564	445	(119)	(120)
	3,493	3,292	(201)	(187)
Centrally-managed maintenance expenditure				
Telecoms	40	54	14	14
Route Services - Asset Information	65	57	(8)	(8)
STE Maintenance	11	12	1	1
Property	9	6	(3)	(3)
Route Services - Other	14	6	(8)	(27)
Other	(3)	7	10	10
	136	142	6	(13)
Total maintenance expenditure	3,629	3,434	(195)	(200)

Statement 3.2: Analysis of maintenance expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and the previous year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. The Control Period to date is also higher than the regulatory expectation, primarily due to the aforementioned reasons. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and last year's outturn. The primary cause for the increase in costs, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. The Control Period to date spend is also higher than the regulatory expectation, primarily due to the aforementioned reasons. These additional costs have led to financial underperformance this year and for the control period to date.
- (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. Costs are higher than the regulatory baseline both for the current year, and for the Control Period to date. Covid-19 resilience and compliance investment has contributed to this increased spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Implementation of the PPF structure has also led to increased track related costs, with an example being the new DU created in Middlesbrough, which saw 75 new jobs created. Spend is higher than last year, due to the aforementioned reasons.

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

In £m cash prices unless stated

- (3) Signalling & telecoms – Costs are higher than the regulatory baseline, both for the current year and the Control Period to date. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been additional resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Spend is higher than last year, due to the aforementioned reasons.
- (4) Civils – costs were lower than the regulatory baseline, both for the current year and the Control Period to date. Delays in Arches inspections and savings in inspections through better contract negotiations and planning of works allowing more productive workings patterns, have been offset by increased CEFA inspection costs. Reactive maintenance expenses were slightly higher than regulatory expectation. 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 higher than the previous year. Financial outperformance has been recognised in this year and the control period to date, as a result of the savings in inspection costs mentioned above.
- (5) Buildings – many 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 over what the regulator assumed. Reactive Maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with the previous year, and slightly over the Control Period to date's regulatory assumption. For the Control Period to date, the higher spend is due to reactive maintenance expenses being higher than forecast.
- (6) Electrical power and fixed plant – costs for the current year are slightly below the regulatory expectation but are higher than the previous year. The increase is across most Regions and was expected in the regulatory baselines for 2020/21. This reflects the asset management and outputs required for CP6. For the Control Period to date, expenditure is slightly below the regulatory baseline.

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

In £m cash prices unless stated

- (7) Other network operations – costs are significantly higher than the regulatory baseline for both the current year and the Control Period to date. There are numerous contributory factors including Covid-19 resilience and compliance investment contributing to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Additionally, there are various one-off expenses and other asset resilience initiatives to protect train performance.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are slightly higher than the previous year.
- (3) Route Services - Other – Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance.
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are lower than the regulatory baseline as the extra costs this year were more than offset by savings last year as noted above.

Great Britain

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	27	21	(6)	(6)	21
Finance	18	16	(2)	(2)	14
Accommodation	86	69	(17)	(17)	76
Utilities	72	71	(1)	(1)	74
Other	166	49	(117)	(117)	28
	369	226	(143)	(143)	213
Centrally-managed Support costs					
Finance & Legal	40	53	13	13	34
Communications	20	21	1	1	11
Human Resources	27	26	(1)	(1)	20
System Operator	33	46	13	13	39
Property	10	4	(6)	(6)	(10)
Telecoms	73	76	3	3	53
Network Services	20	37	17	17	20
Safety Technical and Engineering	39	44	5	5	34
RS - IT and Business Services	124	126	2	2	110
RS - Asset Information	13	33	20	20	14
RS - Directorate	37	24	(13)	(13)	18
Other corporate functions	11	5	(6)	(6)	27
Insurance	28	42	14	14	26
OPEX/CAPEX Adjustment	175	72	(103)	-	77
Group costs	(63)	37	100	100	(22)
	587	646	59	162	451
Total support costs	956	872	(84)	19	664

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	48	42	(6)	(6)
Finance	32	31	(1)	(1)
Accommodation	161	144	(17)	(17)
Utilities	146	143	(3)	(3)
Other	194	88	(106)	(106)
	581	448	(133)	(133)
Centrally-managed Support costs				
Finance & Legal	74	93	19	19
Communications	31	33	2	2
Human Resources	47	46	(1)	(1)
System Operator	72	99	27	27
Property	-	4	4	4
Telecoms	126	139	13	7
Network Services	40	64	24	24
Safety Technical and Engineering	73	82	9	9
RS - IT and Business Services	233	241	8	8
RS - Asset Information	27	49	22	22
RS - Directorate	55	44	(11)	(11)
Other corporate functions	38	65	27	(9)
Insurance	54	81	27	28
OPEX/CAPEX Adjustment	252	142	(110)	-
Group costs	(85)	116	201	120
	1,037	1,298	261	249
Total support costs	1,618	1,746	128	116

Statement 3.3: Analysis of support costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. 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 Capex costs). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.

These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. Financial outperformance has been recognised this year, primarily due to performance related pay reductions more than offsetting the increased costs incurred due to the aforementioned reasons. For the Control Period to date, expenditure is lower than the regulatory baseline, as the additional costs incurred this year due to PPF restructuring, Opex/Capex adjustment and Covid-19 related expenditure are offset by the deferral of investing Crossrail Supplementary Access Charge (CSAC) income from the previous year and reduction in performance related pay-outs mentioned above.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are significantly higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme, Covid-19 related expenditure and delivery of performance initiatives. This is reflected in the Control Period to date spend, which is also significantly above the regulatory assumption, primarily as a result of the aforementioned reasons. This has also led to financial underperformance being recognised for the both the current year, and the control period to date.

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

In £m cash prices unless stated

- (2) Human resources – costs in the current year are higher than the baseline expectation and 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 additional Human Resources staff situated locally, to support this initiative.
- (3) Finance – costs are marginally higher than the baseline expectation for both the current year and the Control Period to date, 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.
- (4) Accommodation – costs are higher than the baseline expectation, the previous year, and the Control Period to date, primarily as a result of Covid-19 compliance measures being implemented at NR sites.
- (5) Other – costs were significantly higher than the regulatory baseline this year and previous year's outturn. This is primarily due to implementation of the PPF programme, Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs, as less annual leave being taken during the year has led to an accrued increase in salary costs this year.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are several areas with savings, the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.

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

In £m cash prices unless stated

- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are higher than the regulatory baseline this year but lower for the control period to date. Although extra costs have been incurred at corporate offices this year, these have been offset by the favourable settlement of a long-running commercial dispute in the previous year. Net costs are higher than the previous year mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are lower than the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Financial overperformance has been recognised for the financial year, and the Control Period to date due to efficiencies made in headcount, as a result of the aforementioned efficiencies arising from headcount control. Control Period to date is below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regard to financial performance.
- (8) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (9) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.

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

In £m cash prices unless stated

- (10) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower than in the control period to date. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous year's Regulatory Financial Statements, savings last year were made through training costs through increased in-house delivery and utilising courses eligible under the government Apprenticeship Levy funding source and acceleration of some efficiency initiatives, including successful re-negotiation of contracts. Costs are higher than the previous year, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.
- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are slightly higher than the previous year due to variability in the benefits arising from actuarial reassessments.

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

In £m cash prices unless stated

- (15) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this was decision was taken at the end of the year, the benefit is currently showing in the Group category, but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

Great Britain

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	6	2	(4)	(4)	3
	6	2	(4)	(4)	3
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	424	581	157	-	442
Business rates	290	233	(57)	-	229
British transport police costs	89	94	5	5	91
ORR licence fee and railway safety levy	19	19	-	-	20
RDG membership costs	3	3	-	-	3
RSSB costs	12	12	-	-	11
Reporters fees	2	-	(2)	-	1
Other industry costs	-	1	1	-	-
	839	943	104	5	797
Total traction electricity, industry costs and rates	845	945	100	1	800

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
British transport police costs	9	4	(5)	(5)
	9	4	(5)	(5)
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	865	1,083	218	3
Business rates	518	461	(57)	-
British transport police costs	180	185	5	5
ORR licence fee and railway safety levy	39	38	(1)	-
RDG membership costs	6	-	(6)	-
RSSB costs	23	29	6	-
Reporters fees	3	-	(3)	-
Other industry costs	-	1	1	-
	1,634	1,797	163	8
Total traction electricity, industry costs and rates	1,643	1,801	158	3

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses.

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were higher than the regulatory baseline and the previous year due to additional services requested to keep the travelling public safe. The additional costs in the current year account for the control period to date variance.

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) British Transport Police costs - expenses in the year are lower than the regulatory baseline this year, and the control period to date.
- (4) ORR licence fee and railway safety – costs this year and the control period to date 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.

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

In £m cash prices unless stated

- (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

Great Britain

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

£m, Cash prices

				Of which financial out / (under) performance	
2020-21	Actual	Regulatory baseline	Variance		2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	273	271	(2)	(14)	318
Access charge supplement Income	(218)	(220)	(2)	-	(273)
Net (income)/cost	55	51	(4)	(14)	45
Schedule 8					
Performance element income	(311)	-	311	311	(114)
Performance element costs	13	38	25	25	162
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(298)	38	336	336	48
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	15	52	37	36	(14)
Access charge supplement Income	(52)	(53)	(1)	-	(57)
Net (income)/cost	(37)	(1)	36	36	(71)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(49)	10	59	59	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(49)	10	59	59	9
Total	-	-	-	-	-
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	288	323	35	22	304
Access charge supplement Income	(270)	(273)	(3)	-	(330)
Net (income)/cost	18	50	32	22	(26)
Schedule 8					
Performance element income	(311)	-	311	311	(114)
Performance element costs	(36)	48	84	84	171
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(347)	48	395	395	57
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	590	536	(54)	(53)	-
Access charge supplement Income	(490)	(492)	(2)	-	-
Net (income)/cost	100	44	(56)	(53)	
Schedule 8					
Performance element income	(425)	-	425	425	-
Performance element costs	175	122	(53)	(53)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(250)	122	372	372	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	102	101	100	-
Access charge supplement Income	(109)	(110)	(1)	-	-
Net (income)/cost	(108)	(8)	100	100	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(40)	20	60	60	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(40)	20	60	60	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	591	638	47	47	-
Access charge supplement Income	(599)	(602)	(3)	-	-
Net (income)/cost	(8)	36	44	47	
Schedule 8					
Performance element income	(425)	-	425	425	-
Performance element costs	135	142	7	7	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(290)	142	432	432	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Despite a few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). 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. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are broadly in line with the regulatory baseline. However, financial underperformance has been recognised as reduced renewal delivery means the cost incurred, was higher than expected for this level of activity. The control period to date expenditure is higher than the regulatory expectation and we have recognised financial under performance for this cost category. This is partly due to the aforementioned reason, but also due the adverse impact from weather events, notably the heat during the summer and the storms in February 2020 and February 2021. As well as being the wettest February on record in 2020, 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 resulting in financial outperformance overall. Performance element costs are lower than the previous year which endured adverse weather events, notably the heat during the summer and the storms in February
- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 has resulted in a highly favourable control period to date position.

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 – Access charge supplement income is in line with the regulatory baseline for both this year and the control period to date. 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 income is used to fund the theoretical costs of schedule 4. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.

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

In £m cash prices unless stated

- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

Great Britain

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	303	241	(62)	-	242
PL Replace Partial	220	174	(46)	-	150
PL High Output	135	172	37	-	139
PL Refurbishment	63	54	(9)	-	52
PL Track Slab Track	7	1	(6)	-	5
Switches & Crossing - Replace	200	212	12	-	198
Switches & Crossing - Other	59	44	(15)	-	41
Off Track	104	64	(40)	-	65
Track Other	57	4	(53)	-	45
	1,148	966	(182)	(155)	937
Signalling					
Signalling Full	320	293	(27)	-	213
Signalling Partial	48	106	58	-	66
Signalling Refurb	104	166	62	-	47
Level crossings	77	122	45	-	41
Minor works	193	160	(33)	-	143
Other	3	5	2	-	1
	745	852	107	(63)	511
Civils					
Underbridges	221	244	23	-	140
Overbridges	38	57	19	-	31
Major structures	32	28	(4)	-	18
Tunnels	20	37	17	-	23
Minor works	86	57	(29)	-	62
Other	56	54	(2)	-	35
	453	477	24	(28)	309
Earthworks					
Earthworks - Embankments	159	76	(83)	-	98
Earthworks - Soil Cuttings	100	78	(22)	-	73
Earthworks - Rock Cuttings	47	23	(24)	-	31
Earthworks - Other	12	10	(2)	-	5
	318	187	(131)	(44)	207
Buildings					
Managed stations	39	65	26	-	40
Franchised stations	201	147	(54)	-	132
Light maint depots	21	6	(15)	-	13
Depot plant	12	9	(3)	-	3
Lineside buildings	23	8	(15)	-	21
MDU buildings	31	32	1	-	29
Other	1	-	(1)	-	1
	328	267	(61)	(18)	239
Electrical power and fixed plant					
AC distribution	10	18	8	-	12
Overhead Line	104	74	(30)	-	77
DC distribution	46	31	(15)	-	20
Conductor rail	18	16	(2)	-	14
Signalling Power Supplies	36	59	23	-	41
Other	31	26	(5)	-	11
Fixed plant	27	25	(2)	-	28
	272	249	(23)	(4)	203
Drainage					
Drainage (Track)	70	67	(3)	-	48
Drainage (Earthworks)	24	18	(6)	-	17
Drainage (Resilience)	6	8	2	-	4
	100	93	(7)	(8)	69
Property					
Property	32	35	3	-	1
	32	35	3	-	1
Total Regionally-managed renewals expenditure					
	3,396	3,126	(270)	(320)	2,476

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	18
	-	-	-	-	18
Telecoms					
Operational communications	9	21	12	-	9
Network	9	15	6	-	5
SISS	14	41	27	-	9
Projects and other	5	3	(2)	-	3
Non-route capital expenditure	79	65	(14)	-	89
	116	145	29	(8)	115
Wheeled plant and machinery					
High output	21	22	1	-	16
Incident response	-	-	-	-	-
Infrastructure monitoring	4	12	8	-	3
Intervention	14	28	14	-	8
Materials delivery	(3)	33	36	-	12
On track plant	4	9	5	-	2
Seasonal	6	14	8	-	2
Other	26	13	(13)	-	7
	72	131	59	-	50
Route Services					
Business Improvement	73	24	(49)	-	97
IT Renewals	40	80	40	-	40
Asset Information	9	15	6	-	1
Other	7	3	(4)	-	3
	129	122	(7)	-	141
STE Renewals					
Intelligent infrastructure	68	44	(24)	-	29
Faster Isolations	64	64	-	-	40
Centrally Managed Signalling Costs	6	10	4	-	4
Research and development	54	44	(10)	-	30
Integrated Management System (Incl. BCR)	-	11	11	-	-
Other National SCADA Programmes	21	25	4	-	26
Small plant	7	8	1	-	3
Other	72	15	(57)	-	19
	292	221	(71)	-	151
Property					
Property	11	23	12	-	21
	11	23	12	-	21
Other renewals					
ETCS	21	24	3	-	15
Digital Railway	4	(18)	(22)	-	1
Civils - Insurance Fund	14	27	13	-	-
Buildings - Insurance Fund	-	16	16	-	-
OPEX/CAPEX Adjustment	(158)	(72)	86	-	(77)
Phasing overlay	-	(173)	(173)	-	-
System Operator	12	18	6	-	8
Other renewals	1	6	5	21	(2)
	(106)	(172)	(66)	21	(55)
Total centrally-managed renewals expenditure	514	470	(44)	13	441
	-	-	-	-	-
TOTAL RENEWALS EXPENDITURE	3,910	3,596	(314)	(307)	2,917

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	544	467	(77)	-
PL Replace Partial	370	283	(87)	-
PL High Output	274	317	43	-
PL Refurbishment	115	121	6	-
PL Track Slab Track	12	8	(4)	-
Switches & Crossing - Replace	397	392	(5)	-
Switches & Crossing - Other	100	86	(14)	-
Off Track	169	122	(47)	-
Track Other	102	27	(75)	-
	2,083	1,823	(260)	(168)
Signalling				
Signalling Full	532	513	(19)	-
Signalling Partial	114	186	72	-
Signalling Refurb	151	258	107	-
Level crossings	118	177	59	-
Minor works	335	295	(40)	-
Other	4	9	5	-
	1,254	1,438	184	(80)
Civils				
Underbridges	360	406	46	-
Overbridges	69	91	22	-
Major structures	50	45	(5)	-
Tunnels	43	59	16	-
Minor works	148	111	(37)	-
Other	91	94	3	-
	761	806	45	(24)
Earthworks				
Earthworks - Embankments	256	141	(115)	-
Earthworks - Soil Cuttings	173	139	(34)	-
Earthworks - Rock Cuttings	78	47	(31)	-
Earthworks - Other	17	13	(4)	-
	524	340	(184)	(49)
Buildings				
Managed stations	79	98	19	-
Franchised stations	332	281	(51)	-
Light maint depots	34	17	(17)	-
Depot plant	15	14	(1)	-
Lineside buildings	44	17	(27)	-
MDU buildings	60	54	(6)	-
Other	2	-	(2)	-
	566	481	(85)	(31)
Electrical power and fixed plant				
AC distribution	22	37	15	-
Overhead Line	180	137	(43)	-
DC distribution	66	52	(14)	-
Conductor rail	32	21	(11)	-
Signalling Power Supplies	77	104	27	-
Other	42	40	(2)	-
Fixed plant	55	46	(9)	-
	474	437	(37)	(16)
Drainage				
Drainage (Track)	118	129	11	-
Drainage (Earthworks)	41	31	(10)	-
Drainage (Resilience)	10	12	2	-
	169	172	3	(12)
Property				
Property	33	37	4	-
	33	37	4	-
Total Regionally-managed renewals expenditure	5,864	5,534	(330)	(380)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	18	-	(18)	-
	18	-	(18)	-
Telecoms				
Operational communications	18	39	21	-
Network	14	27	13	-
SISS	23	49	26	-
Projects and other	8	5	(3)	-
Non-route capital expenditure	168	145	(23)	-
	231	265	34	(8)
Wheeled plant and machinery				
High output	37	54	17	-
Incident response	-	-	-	-
Infrastructure monitoring	7	19	12	-
Intervention	22	40	18	-
Materials delivery	9	64	55	-
On track plant	6	10	4	-
Seasonal	8	20	12	-
Other	33	6	(27)	-
	122	213	91	-
Route Services				
Business Improvement	170	128	(42)	-
IT Renewals	80	95	15	-
Asset Information	10	16	6	-
Other	10	6	(4)	-
	270	245	(25)	-
STE Renewals				
Intelligent infrastructure	97	76	(21)	-
Faster Isolations	103	116	13	-
Centrally Managed Signalling Costs	10	19	9	-
Research and development	84	70	(14)	-
Integrated Management System (Incl. BCR)	-	24	24	-
Other National SCADA Programmes	47	55	8	-
Small plant	10	17	7	-
Other	91	38	(53)	-
	442	415	(27)	-
Property				
Property	32	54	22	-
	32	54	22	-
Other renewals				
ETCS	36	45	9	-
Digital Railway	5	(17)	(22)	-
Civils - Insurance Fund	14	54	40	12
Buildings - Insurance Fund	-	32	32	-
OPEX/CAPEX Adjustment	(235)	(142)	93	-
Phasing overlay	-	(173)	(173)	-
System Operator	20	26	6	-
Other renewals	(1)	9	10	35
	(161)	(166)	(5)	47
Total centrally-managed renewals expenditure	954	1,026	72	39
TOTAL RENEWALS EXPENDITURE	6,818	6,560	(258)	(341)

Statement 3.6: Analysis of renewals expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated

Comments:

- (1) Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Significant causes for this increase include, financial underperformance within the Track portfolio, acceleration of jobs from future years, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to a multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of the reasons highlighted above.

Regionally-managed renewals

- (1) Regionally managed Renewals expenditure is higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Significant causes for this increase include, financial underperformance within the Track portfolio, acceleration of jobs from future years and increased expenditure in Earthworks post the Stonehaven derailment. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to a multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is also higher than the regulatory baseline for the control period to date, primarily as a result of the reasons highlighted above.

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

In £m cash prices unless stated

- (2) Track – investment this year is higher than the regulatory baseline and last year's outturn, which is primarily due to higher net like for like costs. Volumes delivered in year are slightly higher than that assumed in the regulatory baseline. However, we incurred significant financial underperformance in year, due to a multitude of factors. This included the additional costs projects had to bear due to Covid-19. A number of regions had to re prioritise work at the beginning of the pandemic, extra welfare, increased labour, PPE purchases and vehicle costs were borne, to ensure adherence to social distancing rules. Lost volumes, particularly in High output where operators were stranded in eastern Europe due to Covid-19 travelling restrictions, also contributed to the financial underperformance in year. Access disputes with train operators have led to changes in possessions needing to be implemented, contributing to significant increases project costs. Several delivery issues have also occurred in year, ranging from abortive costs due to hot weather, site complexity impacting interventions required and haulage and freight clashes leading to programmes needing to be prolonged. The control period to date expenditure is significantly higher than the regulatory baseline, due to the extra volume was delivered in year one of the control period, plus the increase in financial underperformance mentioned above.
- (3) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects, particularly Edinburgh recontrol and Port Talbot West Phase 2. 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 and the move to a low cost digital ready signalling system in wales 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. Covid-19 had a significant impact on financial performance this year. Prolongation due to Covid-19, plus the associated claims have led to projects incurring extra cost. There has also been a need to re prioritise the workbank due to Covid-19, which has impacted the portfolio. Investment was considerably higher than than the previous year reflecting the relative lifecycle stages of multi-year programmes, as certain programmes slipped into this year such as Birmingham New street.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges, Overbridges and Tunnels due to some schemes being reprofiled within the control period. Asset management led decisions to carry out increased reactive maintenance activity which is classified an OPEX intervention and prioritising investment on other assets such as Track and Earthwork, has also led to this reduction in spend. Financial underperformance was experienced due to Covid-19 and extra work items being required to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather and associated flooding during the Christmas of 2020, a number of reactive schemes needed to be urgently delivered. Expenditure was significantly higher than the previous year, which was expected per the increase in regulatory baseline but is also caused by a portion of the FY20 portfolio slipping into year. Control period financial underperformance has been recognised due to the aforementioned causes.

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

In £m cash prices unless stated

- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. There was also acceleration of activity to utilise available resources this year and remediation costs required in the aftermath of damage caused by the weather in February 2020, which was the wettest on record in the UK. Financial underperformance was experienced due to the impact of Covid-19 and reactive jobs arising to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather resulting in numerous landslips, particularly in the southern region, and associated flooding during the Christmas of 2020, reactive schemes needed to be quickly mobilised and delivered. 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 relates to the management led decision to invest more into Earthwork interventions in the aftermath of the Stonehaven disaster. Control period to date spend on the earthworks asset is significantly higher than the regulatory baseline, due to the aforementioned focus on asset sustainability. Control period Financial Underperformance has been recognised due to the aforementioned reasons
- (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. Financial underperformance was experienced this year as a result of higher costs caused by additional works being requested, Covid-19 and project complexity, which led to higher design and scope creep costs. Expenditure was higher than the previous year, which was anticipated by the higher regulatory allowance this year to reflect the asset management requirements for CP6 and acceleration of schemes, mentioned above. Financial underperformance has been recognised for the control period to date due to higher costs caused by increased project complexity, including discovery of asbestos in year 1, which led to higher design and delivery costs and impact of Covid-19 as mentioned above.
- (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 AFC increases due to design alterations needing to be implemented to deliver the scope of work Covid-19 and retendering of jobs due to underperformance from contractors, which led to prolongation costs. These higher like-for-like costs resulted in Financial underperformance this year. Expenditure was higher than the previous year, which was assumed in the regulatory baseline for the year. Financial underperformance has been recognised control period to date due to the aforementioned reasons in addition to the extra costs incurred last year due to access related challenges leading project prolongation and Supply chain prices being higher than expected.
- (8) Drainage – expenditure is higher than the regulatory baseline and last year's outturn. Financial underperformance was experienced due to Covid-19 and extra work items being required to respond to inclement weather. Several schemes experienced additional costs as a result of Covid-19 and there were also additional costs incurred as surveys identified additional complexities across the portfolio. Expenditure was significantly higher than the previous year which was expected in the regulatory baseline. Financial underperformance has been recognised control period to date, due to the aforementioned reasons.

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

In £m cash prices unless stated

- (9) Property – expenditure is significantly higher than last year's actual but slightly below the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn.
Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities.
- (2) Track – no costs were incurred 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. Last year 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 lower than the regulatory baseline. Slippage on operation communications and SISS projects have been slightly offset by Non-route capital expenditure acceleration. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. There has been some financial underperformance experienced this year due to delays in the programme testing and delivery because of complexity of design works, plus hardware malfunctions.

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

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 broadly in line with the regulatory baseline due but higher than last year's outturn. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is 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 but higher than last year's outturn. This is 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 for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory. Negative spend has been recognised in year, as the sunk costs realised in production of the sleeper factory have been expensed to the P&L, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower with the regulatory baselines but higher than the previous year. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred into future years.
 - 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 but lower than last year's outturn. Last year's significant investment to major programmes included 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. Whilst this spend has continued into this year, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.

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

In £m cash prices unless stated

(6) STE renewals – overall STE expenditure is significantly higher 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 higher than the regulatory baseline and last year's outturn. Although last year there were fewer schemes being identified and progressed due to delays in design and tendering processes, the programme delivery has accelerated this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
- b. Faster isolations – costs are in line with the regulator baseline but higher than last year's outturn. Last year, there were fewer schemes being identified and progressed. This 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.
- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but slightly higher than last year's outturn. This reflects the lower overall signalling costs this year compared to expectation.
- d. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
- e. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
- f. Other national SCADA programmes – investment is lower than the regulatory baseline and last year's outturn, due to further 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 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 higher than the previous year due to investment in purchases and refurbishment projects to utilise available resource
- h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.

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

In £m cash prices unless stated

- (7) Property – expenditure is lower than the regulatory baseline this year and control period to date, 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.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is marginally lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund
 - 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.
 - 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.
 - e. System Operator – expenditure this year is lower than the regulatory baseline but higher than last year's outturn
 - f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Great Britain

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	59	98	4	134	156	-
Great Western Electrification	36	29	1	213	239	(53)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	23	34	-	45	51	-
West Anglia Main Line Capacity	-	-	-	5	9	-
Midland Main Line Programme	166	187	(1)	450	480	(2)
Wessex Enhancements (Waterloo and South London HV Grid)	(10)	20	-	11	39	(2)
Trans Pennine Route Upgrade	266	749	3	448	953	3
Hope Valley Capacity	2	26	-	2	30	-
Cambridge South Station Dvpt 2	4	6	1	7	11	1
Victoria station redevelopment	2	4	-	2	5	-
Gatwick Station	51	33	(10)	62	39	(10)
East West Rail Phase 2	207	197	1	299	310	1
Oxford Corridor Capacity Phase 2	3	21	-	8	37	-
GWEP Distribution Network Operators clearance work	-	-	-	5	6	-
East Coast Main Line Enhancements Programme	189	254	(9)	374	412	(4)
North West Train Lengthening	2	-	-	19	32	-
Reading Independent Feeder (Power Supply)	-	37	-	10	61	-
Bristol East Junction	35	41	(2)	42	53	(2)
Kings Lynn to Cambridge 8 Car	7	4	(1)	26	22	(1)
South West Rail Resilience Programme	27	7	-	45	50	-
St Albans Station Capacity	2	1	-	2	4	-
London Euston (in support of High Speed Rail Group scheme)	11	6	-	17	16	-
SFN-Freight Forecasts project	19	31	-	24	38	-
Access for All	12	40	-	31	86	-
Thameslink Resilience Programme	7	2	-	18	25	2
Midlands Hub - Continued Design and Early Development	1	2	-	1	1	-
Western Rail Access to Heathrow	6	27	-	14	37	-
Crossrail	36	70	(1)	113	152	(77)
Integrated Crewe Hub - HS2	-	-	-	6	8	-
Reading, Ascot to Waterloo Train Lengthening	3	4	1	15	21	1
Dr Days to Filton Abbey Wood Capacity	-	(3)	-	9	7	-
Portfolio Contingency (including T-12)	-	-	(3)	10	50	37
Depots & Stabling Fund	(1)	14	-	21	31	-
Northern Hub	8	3	(1)	49	42	(2)
Thames Valley EMU Capability	1	-	-	10	5	-
West Coast PSU	10	-	-	12	16	-
IEP Western Capability	6	1	-	15	14	-
West of England Plat Length	3	-	-	3	5	-
Feltham	7	7	-	7	12	-
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	14	6	(8)	14	10	(8)
Access to Assets	1	6	-	5	18	-
Northumberland line passenger service re-introduction	-	9	-	-	10	-
University Station	-	4	-	-	6	-
Energy Coast Rail Upgrade Project	3	3	1	5	7	1
GWML W10-W12 Gauge Enhancement	6	7	-	10	8	-
Okehampton Line Works	7	13	-	7	13	-
NWEP Phase 7 Lostock - Wigan	1	4	-	1	9	-
Crumlin River Bridge	4	5	1	4	5	1
W009 West of England DMU Capability	1	10	-	6	12	-
Anglia Traction PSU	5	-	-	5	4	-
Other	58	62	6	89	94	2
Total	1,300	2,081	(17)	2,753	3,778	(112)

Statement 3.7: Analysis of enhancements expenditure - continued**Transport Scotland funded**

Edinburgh to Glasgow Improvement Programme	17	11	(7)	54	58	(2)
Aberdeen to Inverness	1	1	-	70	72	4
Kintore Station	2	1	(1)	14	14	(1)
Rolling Programme of Electrification	4	18	-	14	28	(5)
East Kilbride Barrhead	16	14	-	23	21	-
New Down Platform Dunbar	-	-	4	7	9	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	2	7	-	3	17	-
Cadder HST Depot	20	20	-	20	20	-
Hairmyres Land Purchase	14	11	-	14	12	-
Feeder St/Power Mod Ele	27	11	-	27	11	-
Edinburgh Waverley Western Approaches	3	13	1	4	14	1
Reston Station	3	11	-	3	12	-
North Hanover Street Development	2	9	-	4	12	-
West of Fife Enhancements	3	8	-	4	9	-
A9 Interface- Lynebeg Bridge	2	7	-	2	7	-
Far North Line Route Enhanceme	5	6	-	7	10	-
East Linton Station	5	6	-	6	7	-
Other	35	75	(3)	69	97	-
Total	161	229	(6)	351	437	3
Other Capital Expenditure	159	-	-	340	-	-
Other third party funded schemes						
HS2	247	-	-	436	-	-
Other third Party	162	-	-	396	-	-
Total	409	-	-	832	-	-
Total enhancements	2,029	2,310	(23)	4,276	4,215	(109)
Total enhancements less Other third party funded schemes	1,620	2,310	(23)	3,444	4,215	(109)

Statement 3.7: Analysis of enhancement expenditure, Great Britain

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, 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 and has no regulatory baseline.

Comments:

- (1) Enhancement expenditure in the year paid for by the core Network Rail funders (DfT and Transport Scotland) was £1,620m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£2,029m) less the PAYGO schemes funded by other third parties (£409m).
- (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 due to Covid-19. Activity has generally been reprofiled into future years. Financial underperformance has been recognised this year, mostly in connection with ECML, Gatwick Station, EGIP and Birmingham New Street Gateway. Projects in development stages are excluded from consideration until they are sufficiently advanced to have a clear view of the agreed baselines for scope, outputs and costs with funders (DfT and TS). The bespoke nature of the Enhancement portfolio means that annual variances are expected as Network Rail delivers a different set of programmes at the direction of funders (Department for Transport (DfT) and Transport Scotland (TS)).

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

In £m cash prices unless stated

- (3) Department for Transport funded schemes – expenditure this year 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 – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Majority of the works relating to Key Output 2 which involved upgrades, primarily to signalling to accommodate 24 train paths per hour and major platform, track and associated infrastructure remodelling at London Bridge station is complete. Expenditure this year is lower than the baseline with some minor improvements works still being made at London Bridge station of adding new retail units and improving facilities. Cumulative financial performance is now neutral at an overall level.
 - b. Great Western Electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than the baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - c. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. Progress has been slower this year than baseline expectations due to funding restrictions and in relation to purchase and maintenance of key land and buildings essential for any future development opportunities.
 - d. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations. Continuation of L2C commissioning during Covid-19 pandemic, reprofiling activities into the future years.
 - e. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Negative expenditure in the year is due to release of Liability held by Network rail for Waterloo International Terminal construction lease, for which payment has been made directly by the DfT. Previously baselined works for South London HV Grid were deferred pending funding decision and is reprofiled in future years of the control period.

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

In £m cash prices unless stated

- f. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure is lower than the original CP5 Hendy baseline this year. DfT have agreed a new baseline and funding profile to design and deliver notable schemes which included line speed, signalling, station and electrification work.
- g. Hope Valley capacity – This project is to increase passenger and freight capacity on the Hope Valley line between Sheffield and Manchester. Design works have progressed slower than anticipated, with works deferred into future years subject to further government investment.
- h. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge. Increased spend in year due to acceleration of works primarily driven by access opportunities arising due to Covid-19. Adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
- i. East West Rail Phase 2 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, 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.
- j. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. The design works are slower than anticipated this year and have been rephased into future years, working to submission in June 2021 of a Transport and Works Act Order (TWAO) to the DfT for land purchase.
- k. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and under financial performance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.
- l. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Slower progress has been made on this project this year as work has been reprofiled into future years of the control period, awaiting finalisation of funding decisions.

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

In £m cash prices unless stated

- m. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Progress this year has been slower than anticipated, minimising disruption to passenger service.
- n. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Project has accelerated delivery this year, following procurement of contracts to enable offshore piling works.
- o. Access for All – The Access for All (AFA) Programme aims to provide an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- p. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers. Cumulative outperformance is due to reduction in anticipated total programme costs following effective work bank planning and cost savings negotiated on possession management.
- q. Western Rail Access to Heathrow – Project provides new rail link from the Great Western Main Line to Heathrow Airport. Progress has been slower this year compared to the baseline. DfT decided to pause the submission of the Development Consent Order (DCO) until winter 2022, reprofiling works into future years.
- r. Welsh Valley Lines Electrification – This project is electrification of the Valley Lines in South Wales.
- s. Crossrail – This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Covid-19 had caused a temporary pause in construction and slowdown impacting on Schedule delays into future years, which has led to the underspend in year. The programme has adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London.
- t. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
- u. Okehampton Line Works – This project is in partnership with Great Western Railway (GWR) and Devon County Council to reopen the Dartmoor Line from Okehampton to Exeter. Slower progress than anticipated reflects latest delivery plan and staged approval of authority / funding from HMT. The project is part of the Department for Transport's 'Restoring your Railway' initiative and is expected to re-open the line end of 2021.

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

In £m cash prices unless stated

- v. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial outperformance in this category this year reflects Leeds Intermediate Interventions, Energy Coast and other schemes.
- (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 underperformance. Some notable variances at programme level this year include:
- a. Edinburgh to Glasgow Improvement Programme (EGIP) – The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Expenditure this year has accelerated, with cumulative outturn now close to the baseline expectations. Financial underperformance is a result of Covid-19 impact and additional platform and staircase works on Glasgow Queen Street station project.
 - b. Aberdeen to Inverness – This project to upgrade the railway structure provided capacity for the construction of two new stations. Kintore opened October 2020 and Inverness Airport is due to open late 2022. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Expenditure was broadly in line with the regulatory expectation this year. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
 - c. Rolling Programme of Electrification – This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Progress this year is slower than anticipated and the cumulative financial underperformance relates to final compensation settlements on completed programme.
 - d. New Down Platform Dunbar – This project has a new platform constructed on the Down Line (northbound) at Dunbar to provide increased capacity and improve operational flexibility on the East Coast Main Line. The project was sustainably complete in 2019-20 and the financial outperformance in the current year has been recognised once everything had been finalised.
 - e. Feeder Station/Power Modelling Electrification – Projects part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Expenditure this year has accelerated development work on full traction power modelling for new and enhanced feeder stations.
 - f. Other – this heading captures investment activity on numerous smaller programmes that have incurred small amount of FPM
- (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 3.7: Analysis of enhancement expenditure, Great Britain – continued

In £m cash prices unless stated

- (6) 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.

Great Britain

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
Unit		AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	280	208	1,346	267	154	1,734
	PL Replace Partial	km	351	954	368	221	627	352
	PL High Output	km	149	124	1,202	139	143	972
	PL Refurbishment	km	120	863	139	87	661	132
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	127	268	474	126	263	479
	Switches & Crossing - Other	point ends	107	1,202	89	80	784	102
	Off Track	km/No.	167	4,144	40	122	3,060	40
	Track Other		-	-	-	-	-	-
Total		1,301	-	-	1,042	-	-	
Signalling	Signalling Full	SEU	145	357	406	240	233	1,030
	Signalling Partial	SEU	42	222	189	273	267	1,022
	Signalling Refurb	SEU	153	298	513	11	38	289
	Level crossings	No.	122	288	424	46	44	1,045
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		462	-	-	570	-	-
Civils	Underbridges	m2	284	88,087	3	268	122,077	2
	Overbridges (incl BG3)	m2	52	12,243	4	38	10,982	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	11	38,967	0	24	25,339	1
	Culverts	m2	18	5,810	3	25	4,716	5
	Footbridges	m2	12	2,291	5	11	3,086	4
	Coastal & Estuarial Defences	m2	9	16,425	1	4	13,475	0
	Retaining Walls	m2	20	14,208	1	18	15,161	1
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		406	-	-	388	-	-	
Earthworks	Earthworks - Embankments	No.	182	2,765	66	100	1,587	63
	Earthworks - Soil Cuttings	No.	146	8,798	17	87	2,457	35
	Earthworks - Rock Cuttings	No.	55	1,183	46	42	811	52
	Earthworks - Other	No.	7	243	29	-	113	-
	Drainage - Earthworks	m	25	161,046	0	23	74,005	0
	Drainage - Other	m	114	255,186	0	82	138,297	1
	TOTAL		529	-	-	334	-	-
Buildings	Buildings (MS)	m2	4	65,576	0	22	48,725	0
	Platforms (MS)	m2	24	410	59	1	1,053	1
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	1	11,915	0	4	15,270	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	7	4,064	2	1	22,710	0
	Buildings (FS)	m2	14	24,420	1	4	12,647	0
	Platforms (FS)	m2	63	89,597	1	37	30,002	1
	Canopies (FS)	m2	42	48,135	1	31	31,477	1
	Train sheds (FS)	m2	-	-	-	4	9,390	0
	Footbridges (FS)	m2	44	7,199	6	14	3,827	4
	Lifts & Escalators (FS)	m2	3	15	200	-	-	-
	Other (FS)	m2	32	303,617	0	23	152,075	0
	Light Maintenance Depots	m2	20	236,656	0	3	49,449	0
	Depot Plant	m2	3	1,773	2	-	145	-
	Lineside Buildings	m2	34	83,934	0	16	60,198	0
	MDU Buildings	m2	66	174,602	0	20	75,174	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		357	-	-	180	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	39	90	433	29	157	185
	mid-life refurbishment	Wire runs	-	-	-	7	55	127
	structure renewals	No.	42	908	46	53	764	69
	other OLE		1	2	500	-	7	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	33	107	308	25	110	227
	HV Switchgear Renewal AC	No.	6	72	83	4	67	60
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	1	6	167
	HV switchgear renewal DC	No.	19	21	905	11	15	733
	HV cables DC	km	16	33	485	3	7	429
	LV cables DC	km	4	28	143	11	47	234
	Transformer Rectifiers DC	No.	-	1	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	10	-	1	14	71
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	10	104	96	7	91	77
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	20	50	1	42	24
	Signalling Power Cables	km	79	350	226	67	270	248
	Signalling Supply Points	point end	9	14	643	24	33	727
	NSCD / Track Feeder Switch (#)		10	476	21	10	524	19
	Total		269	-	-	254	-	-
Telecoms	Customer Information Systems	No.	2	146	14	15	721	21
	Public Address	No.	-	12	-	17	4,707	4
	CCTV	No.	2	417	5	3	575	5
	Other Surveillance	No.	-	10	-	1	100	10
	PABX Concentrator	No.	10	5,920	2	2	1,370	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	16	63	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	7	-	-	21	-
	Radio		-	-	-	-	-	-
	Power		6	465	13	5	402	12
	Other comms		-	-	-	-	-	-
	Network		2	30	67	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		23	-	-	45	-	-

Statement 3.8: Analysis of renewals unit costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 – The High Output volumes delivered in the year are lower than the volumes delivered in the prior year. In high output volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The decreased volumes tell the story of why the unit cost has increased. In Plain Line Replace Full and Switches and Crossings Other there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small.

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

In £m cash prices unless stated

- (3) Signalling - There has been a significant decrease in the unit cost of Signalling Full in the year. The reason for this is that in 2019-20 there were a couple of projects (Port Talbot in Wales & Western and Feltham in Southern) that massively drove up the unit cost. These projects were completed in the prior year, so they had no effect on the unit cost in the current year. There has also been a big decrease in the unit cost of Signalling Partial in the year. As above these has been skewed by a couple of relatively more expensive projects in the prior year. These were Bristol in Wales & Western and Motherwell in Scotland. However there has been an increase in the unit cost of Signalling Refurb in the year. There have been some large projects in Scotland (Aberdeen to Stonehaven and Sonos South) and Wales & Western (Westbury) which have dragged up the unit cost. There has been a decrease in the unit cost of Level Crossings in the year. In the prior year there were particularly expensive projects in Scotland (Murie) and in Wales & Western (Porthmadog and Carmarthenshire). These projects had a significant effect on the unit cost in 2019/20 and as these finished in that year the current year's rate is lower.
- (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 – There has been a decrease in the unit cost of both Soil and Rock Cuttings in the year. There has been a decrease in the proportion of full renewals in the current year with less expensive refurb and maintain taking place instead.
- (6) Buildings – There has been a large increase in the unit cost for Managed Stations Platforms in the year. However, there was only one project in each year. This tiny sample size makes it difficult to do any meaningful analysis. The Kings Cross project in the year had a much greater unit cost than the one in Manchester last year.
- (7) Electrification & Plant - There has been an increase in the unit cost of Wiring in the year. This is primarily down to expensive projects at Stratford in the Eastern Region and the Alpha project in North West & Central. There has been a decrease in the unit cost of Structural Renewals in the year. This is because there has been a higher proportion of refurb work in the current year compared to the prior year and this is less expensive than full renewals. There has been an increase in unit cost on Conductor Rail in the year for the opposite reason to Structural Renewals. There hasn't been any refurb work in the current year. There has been an increase in unit cost on HV Switchgear Renewal (both AC and DC) in the year. This is due to expensive substation renewals in the Southern and Scotland regions. There has been a significant increase in unit cost on Points Heaters in the year. However, there was only one project each year within this category with the one in North West & Central this year being more expensive than the one in Eastern in 2019-20. There has been a decrease in the unit cost of Signalling Supply Points in the year. There was a major region wide project within Eastern in the prior year which delivered over half of the volumes in this category and skewed the unit cost upwards. There has been an increase in the unit cost of HV Cables DC due to the particularly expensive HV Feeder project in the Wessex Route in the current year.
- (8) Telecoms – There has been a decrease in the unit cost of Customer Information Systems in the year. However, there was only one project (in Eastern) which took place in the year. This project also recorded volumes in the prior year. Therefore, the sample size is far too small to do any meaningful analysis.

Great Britain

Statement 3.9: Analysis of staff costs

Cash prices

Workforce information

(Headcount)	Male		Female		Total
	Permanent Full time	Part time	Permanent Full time	Part time	
66 and over	646	49	57	9	761
61-65	2,456	48	191	28	2,723
56-60	4,333	16	515	38	4,902
51-55	5,075	19	798	33	5,925
46-50	4,486	7	894	81	5,468
41-45	3,632	14	965	122	4,733
36-40	4,107	9	1,121	133	5,370
31-35	4,396	6	1,168	70	5,640
26-30	3,799	5	1,182	26	5,012
21-25	2,064	2	601	4	2,671
20 and under	168	1	50	1	220
Total staff employed (Headcount)	35,162	176	7,542	545	43,425
of which:					
train drivers	-	-	-	-	-
apprentices	903	-	135	-	1,038
Agency staff / Contingent Labour	943	4	349	-	1,296
of which apprentices	-	-	-	-	-

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	15	5	20	15	5	20
Executive director / director	67	14	81	67	14	81
Bands 1	397	90	487	396	88	484
Bands 2	1,397	440	1,837	1,395	432	1,827
Bands 3	3,257	1,268	4,525	3,252	1,246	4,498
Bands 4	4,170	1,935	6,105	4,163	1,901	6,064
Signallers	4,209	412	4,621	4,202	405	4,607
Electrical control operators	180	4	184	180	4	184
Maintenance	16,004	229	16,233	15,979	225	16,204
Controllers	394	73	467	394	72	466
Bands 5-8	4,153	3,524	7,677	4,147	3,461	7,608
Other	1,095	93	1,188	1,094	92	1,186
Total permanent staff	35,338	8,087	43,425	35,284	7,945	43,229
Agency staff / Contingent Labour	947	349	1,296	945	349	1,294
Total staff (FTE)	36,285	8,436	44,721	36,229	8,294	44,523

Great Britain

Statement 3.9: Analysis of staff costs - Continued

(on an FTE basis)	Salary	Allowances	Performance Related Bonus	Overtime	Employer pension	Employer national insurance	Total paybill for payroll staff	Total cost for contingent labour	Total cost for consultants / consultancy	Grand total payroll costs
Board executive	1	-	-	-	-	-	1	-	-	1
Executive director / director	15	1	3	-	1	2	22	-	-	22
Bands 1	52	4	4	-	5	7	72	-	-	72
Bands 2	139	14	-	-	12	18	183	-	-	183
Bands 3	244	11	4	1	19	28	307	-	-	307
Bands 4	257	14	4	3	18	29	325	-	-	325
Signallers	194	11	4	63	12	31	315	-	-	315
Electrical control operators	12	1	-	6	1	2	22	-	-	22
Maintenance	566	52	13	198	39	91	959	-	-	959
Controllers	29	1	-	8	2	5	45	-	-	45
Bands 5-8	205	10	5	9	12	20	261	-	-	261
Other	57	3	1	20	4	10	95	-	-	95
Total Paybill	1,771	122	38	308	125	243	2,607	-	-	2,607
Agency staff / Contingent Labour										120
Total Staff Costs	1,771	122	38	308	125	243	2,607	120	-	2,727

Staff costs information

	Male	Female	Total
Salary	1,463	308	1,771
Allowances	106	16	122
Performance related pay	32	6	38
Overtime	299	9	308
Employer pension contribution	104	21	125
Employer NI contribution	209	34	243
Total Paybill	2,213	394	2,607
Agency staff / Contingent Labour			120
Total Staff Costs	2,213	394	2,727

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	557,000	14.3
Number of employees paid in excess of highest paid director	0	
Median remuneration of workforce	38,951	

Remuneration ranged from £0 to £557,000 (2019-20 £0 to £595,000)

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

Statement 3.9: Analysis of staff costs, Great Britain

In £m cash prices unless stated

Notes:

- (1) The format of the headcount information is determined by ORR through their Regulatory Accounting Guidelines (December 2019). This requires Network Rail to include data split between “Male” and “Female”. Reporting data in this binary manner is not particularly inclusive or representative of the diverse nature of the individuals employed by Network Rail.
- (2) The payroll amounts included in this statement are taken from Network Rail’s payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting Guidelines (December 2019). Therefore, the values in this statement may not be exactly the same as the staff costs disclosed in Network Rail’s Annual Report and Accounts for the year ended 31 March 2021 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities and performance related pay.
- (3) Headcount information is based on average headcount throughout the year.

Comments:

- (1) The first part of this statement sets out the proportion of the workforce based on the binary Male/ Female classification mandated by ORR. This shows that the proportion of Female staff is in line with last year. There has been an increase of female staff in managerial posts this year, where the proportion of female staff rose by 4 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. Network Rail are actively pursuing strategies to improve diversity amongst the work force, and will continue to do so.
- (2) The Remuneration ranges in the organisation are wider compared to the previous year as although the highest paid employee was paid less than in the previous year, the Median remuneration of the workforce also reduced. Network Rail’s reduction in PRP in 20/21, it have contributed to the reduction in the median remuneration figure.

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

Cash prices

Reporter information

	2020-21	2019-20
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.5	0.5
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	0.7

This includes £0.1m for the audit of subsidiaries that are not performed by the Comptroller and Auditor General.

Independent Reporters

	2020-21	
	Independent Reporter Expenditure (in year)*	Total in Year Expenditure
Expenditure with Independent Reporters		
Ove Arup & Partners	0.2	31.0
Steer Davies & Gleave Ltd t/a Steer	1.0	2.2
The Nichols Group	0.5	1.7
Gutteridge Haskins & Davey Ltd	0.2	0.2
Jacobs UK Ltd	0.1	23.5
Total Expenditure with Independent Reporters	2.0	58.6

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

In £m cash 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.

Great Britain

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	72,513
Indexation to 2020-21 prices	72,731
RAB additions	
Renewals expenditure	3,910
Enhancements expenditure	-
Less amortisation	(3,910)
Property Sales	(42)
Closing RAB	72,689

Net debt

	£m
Opening net debt	53,476
Income	(9,601)
Expenditure	8,258
Financing Costs - Government borrowing	940
Financing Costs - index linked debt	555
Financing Costs - Other	201
Corporation tax	52
Working capital	(289)
Closing net debt	53,592

Statement 4: Regulatory financial position, Great Britain

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 in the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was £3.9bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT, Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt** of Network Rail and how it has moved during the year. Note that Regulatory debt is calculated using the rules set out in the Regulatory Accounting Guidelines (December 2019) and is different to the net debt presented in Network Rail's annual report and accounts. A reconciliation is included in the Appendices to these financial statements.
- (8) 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 slightly higher than the opening debt. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures but no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

Statement 4: Regulatory financial position, Great Britain – continued

In £m cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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 funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

England & Wales

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	6,018	5,832	186	-	4,803
Franchised track access charges	2,090	2,329	(239)	(79)	2,216
Other Single Till Income	464	679	(215)	(215)	1,108
Total Income	8,572	8,840	(268)	(294)	8,127
Operating expenditure					
Network operations	654	606	(48)	(48)	607
Support costs	863	795	(68)	24	582
Traction electricity, industry costs and rates	777	865	88	1	731
Maintenance	1,713	1,556	(157)	(139)	1,578
Schedule 4	264	307	43	31	283
Schedule 8	(344)	42	386	386	47
	3,927	4,171	244	255	3,828
Capital expenditure					
Renewals	3,437	3,083	(354)	(275)	2,581
Enhancements	1,459	2,081	622	(17)	1,625
	4,896	5,164	268	(292)	4,206
Risk expenditure					
Risk (Centrally-held)	-	124	124	-	-
Risk (Route-controlled)	-	97	97	-	-
Risk (Contingent asset management)	-	142	142	-	-
	-	363	363	-	-
Other expenditure					
Financing costs	1,525	2,010	485	-	1,900
Corporation tax	46	20	(26)	-	-
	1,571	2,030	459	-	1,900
Total expenditure	10,394	11,728	1,334	(37)	9,934

Total Financial Out/(under) performance

(331)

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	10,807	11,221	(414)	-
Franchised track access charges	4,300	4,593	(293)	(72)
Other Single Till Income	1,568	1,288	280	(197)
Total Income	16,675	17,102	(427)	(269)
Operating expenditure				
Network operations	1,259	1,217	(42)	(46)
Support costs	1,443	1,582	139	119
Traction electricity, industry costs and rates	1,505	1,647	142	3
Maintenance	3,286	3,103	(183)	(181)
Schedule 4	546	609	63	64
Schedule 8	(297)	120	417	418
	7,742	8,278	536	377
Capital expenditure				
Renewals	6,010	5,659	(351)	(307)
Enhancements	3,080	3,778	698	(112)
	9,090	9,437	347	(419)
Risk expenditure				
Risk (Centrally-held)	-	117	117	-
Risk (Route-controlled)	-	97	97	-
Risk (Contingent asset management)	-	178	178	-
	-	392	392	-
Other expenditure				
Financing costs	3,420	4,025	605	-
Corporation tax	46	29	(17)	-
	3,466	4,054	588	-
Total expenditure	20,298	22,161	1,863	(42)

Total Financial Out/(under) performance

(311)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of England & Wales' income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £1.1bn lower than the regulatory baseline and £1.4bn lower than the control period to date regulatory baseline. This was mostly due to reprofiling enhancements expenditure into later years of the control period, Schedule 8 inflow due to outstanding train performance and lower than expected financing costs.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £331m this year and £311m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, other single till income and maintenance expenditure being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was higher than the regulatory baseline. This was mostly due increased expenditure on renewals. 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 variable usage charge and traction electricity income, as fewer trains ran in year as a result of the Covid-19 pandemic. 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 lower than the previous year mostly due to the reduction in variable usage charged mentioned above. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to impact of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience Network Operations costs are discussed in more detail in Statement 3.1. These extra costs, resulted in financial underperformance this year
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, which have been partly offset by the savings made as a result of the reduced PRP expense incurred. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses. 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. 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 extra costs incurred to respond to the Covid-19 pandemic, investment in additional schemes to help asset resilience and train performance. These extra 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.
- (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 lower activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Schedule 4 costs are set out in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Significant causes for this increase include, financial underperformance within the Track portfolio, acceleration of jobs from future years mentioned above, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to a multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above. 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 due to Covid-19. Financial underperformance has been recognised this year, mostly in connection with ECML, Gatwick Station, EGIP and Birmingham New Street Gateway. 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. 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. 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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so risks are more likely to be realised, the further along we move into the control period. 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, England & Wales – continued

In £m cash 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 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 higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

England & Wales

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	960	977	(17)	-	948
Variable usage charge	183	249	(66)	(66)	233
Electrification asset usage charge	17	22	(5)	(5)	20
Capacity charge	-	-	-	-	2
Open access income	25	29	(4)	(4)	29
Managed stations long term charge	66	65	1	1	65
Franchised stations long term charge	156	159	(3)	(3)	154
Schedule 4 access charge supplement	206	208	(2)	(2)	262
	1,613	1,709	(96)	(79)	1,713
Other single till income					
Freight income					
Freight variable usage charge	48	51	(3)	(3)	51
Freight other income	1	1	-	-	1
	49	52	(3)	(3)	52
Stations income					
Managed stations qualifying expenditure	85	90	(5)	(5)	84
Franchised stations lease income	52	50	2	2	51
	137	140	(3)	(3)	135
Facility and financing charges					
Facility charges	60	62	(2)	(2)	59
	60	62	(2)	(2)	59
Property income					
Property rental	65	224	(159)	(159)	-
Property sales	15	28	(13)	(13)	-
	80	252	(172)	(172)	-
Depots Income	90	85	5	5	85
Other income	7	4	3	3	5
Total other single till income	423	595	(172)	(172)	336
Total Regionally-managed income	2,036	2,304	(268)	(251)	2,049
Centrally-managed income					
Network grant	4,724	4,414	310	-	3,451
Internal financing grant	583	728	(145)	-	632
External financing grant	578	582	(4)	-	634
BTP grant	87	88	(1)	-	86
Corporation tax grant	46	20	26	-	-
Infrastructure cost charges	38	39	(1)	-	42
Schedule 4 access charge supplement	49	50	(1)	-	55
Traction electricity charges	390	531	(141)	-	406
Freight traction electricity charges	7	7	-	-	6
	6,502	6,459	43	-	5,312
Other single till income					
Property income					
Property rental	10	14	(4)	(4)	239
Property sales	24	63	(39)	(39)	527
	34	77	(43)	(43)	766
Total other single till income	34	77	(43)	(43)	766
Total centrally-managed income	6,536	6,536	-	(43)	6,078
Total income	8,572	8,840	(268)	(294)	8,127

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	1,905	1,930	(25)	-
Variable usage charge	415	476	(61)	(61)
Electrification asset usage charge	37	42	(5)	(5)
Capacity charge	2	-	2	2
Open access income	54	57	(3)	(3)
Managed stations long term charge	131	130	1	2
Franchised stations long term charge	310	315	(5)	(5)
Schedule 4 access charge supplement	467	469	(2)	(2)
	3,321	3,419	(98)	(72)
Other single till income				
Freight income				
Freight variable usage charge	99	100	(1)	(1)
Freight other income	2	2	-	-
	101	102	(1)	(1)
Stations income				
Managed stations qualifying expenditure	168	177	(9)	(9)
Franchised stations lease income	103	100	3	4
	271	277	(6)	(5)
Facility and financing charges				
Facility charges	119	121	(2)	(3)
	119	121	(2)	(3)
Property income				
Property rental	65	224	(159)	(159)
Property sales	15	28	(13)	(13)
	80	252	(172)	(172)
Depots Income	175	167	8	8
Other income	12	8	4	3
Total other single till income	758	927	(169)	(170)
Total Regionally-managed income	4,079	4,346	(267)	(242)
Centrally-managed income				
Network grant	8,165	8,407	(242)	-
Internal financing grant	1,213	1,389	(176)	-
External financing grant	1,210	1,223	(13)	-
BTP grant	173	173	-	-
Corporation tax grant	46	29	17	-
Infrastructure cost charges	80	80	-	-
Schedule 4 access charge supplement	104	105	(1)	-
Traction electricity charges	795	989	(194)	-
Freight traction electricity charges	13	13	-	-
	11,799	12,408	(609)	-
Other single till income				
Property income				
Property rental	248	244	4	6
Property sales	549	104	445	(33)
	797	348	449	(27)
Total other single till income	797	348	449	(27)
Total centrally-managed income	12,596	12,756	(160)	(27)
Total income	16,675	17,102	(427)	(269)

Statement 2: Analysis of income, England & Wales

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to financing grants, property related income and Traction electricity income offset by additional network grants received as a result of increased renewal investment in year. Income is higher than the previous year mostly due to additional grant income received, reflecting the new financial framework for CP6 but has been partially offset by lower property income due to Covid-19 and the proceeds recognised in 19/20 relating to the divestment of the Cardiff Valley lines to Transport for Wales. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received in FY20 plus lower than anticipated traction electricity income. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This also explains the lower income and financial underperformance in the control period to date. Despite Covid-19, income is only marginally lower than the previous year. This is because responsibility for property has been devolved from Centrally-managed to Regionally-managed. This extra income largely offsets the reductions from running fewer train services this year
- (2) Infrastructure cost charges - fixed charge income was slightly lower than the baseline this year. The 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 for the control period to date is lower than the regulatory baseline, as inflation has been lower than the baseline assumed in the past two years, leading to reduced income. Income is slightly higher than the previous year which was anticipated in the regulatory baselines.
- (3) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services considered superfluous by the industry. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.

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

In £m cash prices unless stated

- (4) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges. The income recognised in 2019/20 represents successful close out of commercial claims from CP5 relating to this element of income meaning that income this year is lower than the previous year.
- (5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates used to set the regulatory baselines. As agreed with ORR, such variances are considered neutral when assessing financial performance. 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.
- (6) Freight Income – income is slightly lower than the regulatory baseline this year due to the disruption caused by Covid-19. This was particularly apparent at the start of the pandemic where freight volumes experienced their lowest quarter since comparable records began in 1998-99. Reduced demand this year has offset the benefits of extra income from Drax power facility and removal of waste materials from HS2 construction last year, meaning the control period to date is now broadly in line with the regulatory baseline. Income is lower than the previous year due to the aforementioned impact of the pandemic. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (7) Managed stations Qualifying expenditure – income is lower than the regulatory assumption this year and the control period to date. 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.
- (8) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (9) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is higher than the previous year as some of the responsibilities for property sales have been devolved from the centre. This means a reduction in Centrally-managed property sales income and an increase in Regionally-managed. However, the impact of the pandemic means that property sales have reduced year-on-year across Network Rail as a whole.
- (10) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2019

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

In £m cash prices unless stated

Centrally-managed income

- (1) Aggregate Centrally-managed income is in line with the CP6 baseline mainly due to higher Network Grants being offset by lower Traction electricity income, lower financing grants and reduction in property income. 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 offsets lower Property sales income, when 2019/20 benefitted from divestment of the Cardiff Valley lines to Transport for Wales. Financial underperformance has been recognised this year and for the control period to date, due to lower than expected property related income as a result of Covid-19.
- (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 greater than the regulatory baseline as accelerated activity and higher like for like renewal costs has led to higher renewals expenditure than assumed in the regulatory baselines as noted in statement 3. In the control period to date, the Network grant recognised is lower than the baseline as additional grants this year have been more than offset by lower grants in 2019/20 when savings were made in net operating costs and differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the control period compared to the regulatory baseline. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in statement 3, the Network grant is substantially higher than last year.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times.
- (5) External financing grants – grants received in the year and the control period to date are lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.

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

In £m cash prices unless stated

- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. This is largely due to the aforementioned higher Network grant. As some of this funds renewals activity but there is no change in the corresponding renewals costs recognised in the Income Statement, this helps generate a profit on which tax has to be paid. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. Schedule 4 access charge supplement is largely designed to mirror Schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand. Income is lower than the previous year as responsibility for most of the property estate has devolved meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is favourable to the regulatory baseline despite the reductions this year due to additional income generated in 2019/20, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston.
- (11) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is lower than the previous year which included the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales. This transaction accounts for the huge increase compared to the baseline for the control period to date. However, this benefit is excluded from the assessment of financial performance for the control period to date. Similarly, there is also a neutralisation of income recognised in 2019/20 arising from the disposal of most of the commercial estate in the previous year. Adjusting for these items, there has been financial underperformance this control period so far arising from the shortfalls in the current year.

England & Wales

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	635	586	(49)	(49)	589
Maintenance	1,657	1,495	(162)	(150)	1,512
Support costs	334	208	(126)	(126)	181
Traction electricity, industry costs and rates	6	2	(4)	(4)	3
Schedule 4	250	257	7	(4)	297
Schedule 8	(303)	32	335	335	38
	2,579	2,580	1	2	2,620
Capital expenditure					
Renewals	2,974	2,663	(311)	(286)	2,186
Enhancements	1,300	2,081	781	(17)	1,446
	4,274	4,744	470	(303)	3,632
Total Regionally-managed expenditure	6,853	7,324	471	(301)	6,252
Centrally-managed expenditure					
Operating expenditure					
Network operations	19	20	1	1	18
Maintenance	56	61	5	11	66
Support costs	529	587	58	150	401
Traction electricity, industry costs and rates	771	863	92	5	728
Schedule 4	14	50	36	35	(14)
Schedule 8	(41)	10	51	51	9
	1,348	1,591	243	253	1,208
Capital expenditure					
Renewals	463	420	(43)	11	395
Enhancements	159	-	(159)	-	179
	622	420	(202)	11	574
Risk Expenditure	-	363	363	-	-
Other					
Financing costs	1,525	2,010	485	-	1,900
Taxation	46	20	(26)	-	-
	1,571	2,030	459	-	1,900
Total centrally-managed expenditure	3,541	4,404	863	264	3,682
Total expenditure	10,394	11,728	1,334	(37)	9,934

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	1,222	1,172	(50)	(50)
Maintenance	3,164	2,976	(188)	(169)
Support costs	514	403	(111)	(111)
Traction electricity, industry costs and rates	9	4	(5)	(5)
Schedule 4	546	511	(35)	(33)
Schedule 8	(265)	101	366	366
	5,190	5,167	(23)	(2)
Capital expenditure				
Renewals	5,153	4,745	(408)	(341)
Enhancements	2,743	3,728	985	(149)
	7,896	8,473	577	(490)
Total Regionally-managed expenditure	13,086	13,640	554	(492)
Centrally-managed expenditure				
Operating expenditure				
Network operations	37	45	8	4
Maintenance	122	127	5	(12)
Support costs	929	1,179	250	230
Traction electricity, industry costs and rates	1,496	1,643	147	8
Schedule 4	-	98	98	97
Schedule 8	(32)	19	51	52
	2,552	3,111	559	379
Capital expenditure				
Renewals	857	914	57	34
Enhancements	337	50	(287)	37
Other	-	-	-	-
	1,194	964	(230)	71
Risk Expenditure	-	392	392	-
Other				
Financing costs	3,420	4,025	605	-
Taxation	46	29	(17)	-
	3,466	4,054	588	-
Total centrally-managed expenditure	7,212	8,521	1,309	450
Total expenditure	20,298	22,161	1,863	(42)

Statement 3: Analysis of expenditure, England & Wales

In £m cash 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, lower finance expenses incurred and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes. Costs are higher than the previous year mainly due to increased renewals investment. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, primarily due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year and favourable Schedule 8 costs due to the exceptional levels of train performance, which has been partly offset by acceleration of Renewals, higher operating expenditure as a result of extra investment in performance improvement plans, Putting passenger first programme costs and the negative impact of Covid-19 across all expenditure line items excluding Schedule 8 costs. Costs are higher than the previous year mainly due to the aforementioned reasons. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to reduced financing costs and risk. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

England & Wales

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	256	246	(10)	(10)	248
Operations Management	75	69	(6)	(6)	66
Controllers	60	60	-	-	60
Electrical control room operators	19	17	(2)	(2)	14
	410	392	(18)	(18)	388
Non signaller expenditure					
Mobile operations managers	44	37	(7)	(7)	40
Managed stations	90	73	(17)	(17)	71
Performance	6	13	7	7	9
Other	85	71	(14)	(14)	81
Total Regionally-managed Operations expenditure	635	586	(49)	(49)	589
Centrally-managed Operations expenditure					
Network Services	19	20	1	1	18
Total centrally-managed Operations expenditure	19	20	1	1	18
Total operations expenditure	654	606	(48)	(48)	607

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	503	496	(7)	(7)
Operations Management	141	137	(4)	(4)
Controllers	120	122	2	2
Electrical control room operators	33	35	2	2
	797	790	(7)	(7)
Non signaller expenditure				
Mobile operations managers	84	75	(9)	(9)
Managed stations	161	145	(16)	(16)
Performance	15	25	10	10
Other	165	137	(28)	(28)
Total Regionally-managed Operations expenditure	1,222	1,172	(50)	(50)
Centrally-managed Operations expenditure				
Network Services	37	45	8	4
Total centrally-managed Operations expenditure	37	45	8	4
Total operations expenditure	1,259	1,217	(42)	(46)

Statement 3.1: Analysis of operations expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide extra resilience. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from the aforementioned reasons. These additional costs have also led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from the pandemic. These additional costs have led to financial underperformance this year and for the control period to date.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for the Control Period to date and the current year. Savings made last year due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic.
- (3) Operations management - costs are higher than the regulatory expectation for the Control Period to date and the current year. Savings made last year due to reduced recruitment, have been offset by increased in staff costs to ensure the railway kept moving during the Covid-19 pandemic.
- (4) Mobile operation managers – costs are higher than the regulatory target for this year and the Control Period to date. Premium hour costs have increased this year to provide extra resilience during the Covid-19 pandemic.

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

In £m cash prices unless stated

- (5) Managed stations – costs are significantly higher than the regulatory target this year and last year's actuals. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra agency staff have also been recruited to help manage passenger commuting and help station staff enforce social distancing. As is to be expected, the Control Period to date is higher than the regulatory target, primarily due to the reasons noted above.
- (6) Other – costs are significantly higher than the regulatory target this year, and higher than the previous year's actuals. This is primarily due to investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. For the Control Period to date, expenditure is higher than the regulatory assumption, primarily from the additional cost incurred this year due to the pandemic, and performance improvement schemes

Centrally-managed operations expenditure

- (1) Network Services – costs are broadly in line with the regulatory baseline and the previous year however are lower for the Control Period to date.

England & Wales

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	693	641	(52)	(52)	635
Signalling & Telecoms	282	259	(23)	(23)	269
Civils	180	187	7	17	165
Buildings	91	90	(1)	1	91
Electrical power and fixed plant	119	123	4	4	112
Other network operations	292	195	(97)	(97)	240
	1,657	1,495	(162)	(150)	1,512
Centrally-managed maintenance expenditure					
Telecoms	19	26	7	7	17
Route Services - Asset Information	29	26	(3)	(3)	28
STE Maintenance	3	3	-	-	7
Property	-	-	-	-	9
Route Services - Other	(4)	-	4	4	17
Other	9	6	(3)	3	(12)
	56	61	5	11	66
Total maintenance expenditure	1,713	1,556	(157)	(139)	1,578

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	1,326	1,267	(59)	(59)
Signalling & Telecoms	550	513	(37)	(37)
Civils	344	362	18	33
Buildings	182	179	(3)	2
Electrical power and fixed plant	231	240	9	9
Other network operations	531	415	(116)	(117)
	3,164	2,976	(188)	(169)
Centrally-managed maintenance expenditure				
Telecoms	36	48	12	12
Route Services - Asset Information	57	51	(6)	(6)
STE Maintenance	10	11	1	1
Property	9	6	(3)	(3)
Route Services - Other	13	5	(8)	(25)
Other	(3)	6	9	9
	122	127	5	(12)
Total maintenance expenditure	3,286	3,103	(183)	(181)

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and last year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and last year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year. These additional costs have led to financial underperformance this year and for the control period to date.

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

In £m cash prices unless stated

- (2) Track – track maintenance costs are the largest component of Network Rail’s maintenance costs. Given the circa 20,000 miles of track that requires inspection and remediation this is perhaps unsurprising. This year, costs are higher than the regulatory baseline and last year’s expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Implementation of the PPF restructure has also led to increased track related costs, with an example being the new DU created in Middlesbrough, which saw the creation of 75 new jobs. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.
- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been further resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Costs are higher than the previous year and for the Control Period to date, 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.
- (1) Civils – costs were lower than the regulatory baseline, as reactive maintenance expenses were higher than the regulatory expectation. Delays in Arches inspections and savings in inspections through better contract negotiations and planning of works allowing more productive workings patterns, have been offset by increased CEFA inspection costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail’s Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. 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 higher than the previous year. Control Period to date spend is lower than the regulatory baseline, primarily due to savings in inspections costs in the previous year, and higher reactive maintenance spend overall. Financial outperformance has been recognised in this year and the control period to date, as a result of the savings in inspection costs mentioned above.

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

- (4) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is slightly higher than the regulator assumed. Reactive Maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are marginally higher for the Control Period to date's regulatory baseline, primarily due to the additional costs incurred this year due to the inherent variability of Building's reactive maintenance costs.
- (5) Electrical power and fixed plant – costs for the current year are lower than the regulatory expectation but are higher than the previous year. Delays in recruitment have led to an underspend in this category. The increase from the previous year is across most Regions and was expected in the regulatory baselines for 2020/21. This reflects the asset management and outputs required for CP6. Control Period to date spend is lower than the regulatory baseline, primarily due to the delays in recruitment.
- (6) Other network operations – costs are significantly higher than the regulatory baseline and last year's actual. There are numerous contributory factors including Covid-19 resilience and compliance investment contributing to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Furthermore, there are various one-off expenses and other asset resilience initiatives to protect train performance. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are higher than the previous year

Statement 3.2: Analysis of maintenance expenditure, England & Wales

In £m cash prices unless stated

- (3) Route Services – Other - Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance.
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are below the regulatory baseline as the extra costs this year were offset by savings last year as noted above.

England & Wales

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	23	19	(4)	(4)	18
Finance	16	14	(2)	(2)	13
Accommodation	78	60	(18)	(18)	59
Utilities	65	67	2	2	67
Other	152	48	(104)	(104)	24
	334	208	(126)	(126)	181
Centrally-managed Support costs					
Finance & Legal	36	48	12	12	31
Communications	18	19	1	1	10
Human Resources	24	24	-	-	18
System Operator	29	40	11	11	35
Property	9	4	(5)	(5)	(11)
Telecoms	66	68	2	2	48
Network Services	18	34	16	16	18
Safety Technical and Engineering	34	38	4	4	30
RS - IT and Business Services	112	114	2	2	99
RS - Asset Information	12	29	17	17	12
RS - Directorate	33	22	(11)	(11)	16
Other corporate functions	10	4	(6)	(6)	24
Insurance	25	38	13	13	23
OPEX/CAPEX Adjustment	157	65	(92)	-	69
Group costs	(54)	40	94	94	(21)
	529	587	58	150	401
Total support costs	863	795	(68)	24	582

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	41	37	(4)	(4)
Finance	29	27	(2)	(2)
Accommodation	136	119	(17)	(17)
Utilities	132	135	3	3
Other	176	85	(91)	(91)
	514	403	(111)	(111)
Centrally-managed Support costs				
Finance & Legal	67	84	17	17
Communications	28	30	2	2
Human Resources	42	42	-	-
System Operator	64	87	23	23
Property	(2)	5	7	7
Telecoms	114	124	10	4
Network Services	36	58	22	22
Safety Technical and Engineering	64	71	7	7
RS - IT and Business Services	210	218	8	8
RS - Asset Information	24	43	19	19
RS - Directorate	49	40	(9)	(9)
Other corporate functions	34	59	25	(8)
Insurance	48	74	26	26
OPEX/CAPEX Adjustment	226	128	(98)	-
Group costs	(75)	116	191	112
	929	1,179	250	230
Total support costs	1,443	1,582	139	119

Statement 3.3: Analysis of support costs, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. 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 Capex costs). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.

These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. Financial outperformance has been recognised this year, primarily due to performance related pay reductions more than offsetting the increased costs incurred due to the aforementioned reasons. For the Control Period to date, expenditure is lower than the regulatory baseline, as the additional costs incurred this year due to PPF restructuring, Opex/Capex adjustment and Covid-19 related expenditure are offset by the deferral of investing Crossrail Supplementary Access Charge (CSAC) income from the previous year and reduction in performance related pay-outs mentioned above.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are significantly higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme, Covid-19 related expenditure and delivery of performance initiatives. This is reflected in the Control Period to date spend, which is also significantly higher than the regulatory assumption.

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

In £m cash prices unless stated

- (2) Human resources – costs in the current year are higher than the baseline expectation and 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. This narrative is reflected in the higher than expected Control Period to date cost.
- (3) Finance – costs in the current year and control period to date are marginally higher than the baseline expectation and 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.
- (4) Accommodation – costs are markedly higher than the baseline expectation and the previous year, as a result of further spend on Covid-19 compliancy measures for NR offices. This also corresponds to a similar increase in spend compared to the regulatory assumption for the Control Period to date.
- (5) Other – costs were significantly higher than the regulatory baseline this year and previous outturn. This is primarily due to implementation of the PPF programme, Project Alpha performance programme delivery in NWAC and Covid-19 related expenditure, such as PPE purchases and extra staff costs, as less annual leave has been taken during the year, leading to an increase in salary costs needing to be recognised this year.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.

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

In £m cash prices unless stated

- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are higher than the regulatory baseline this year but lower for the control period to date. Although extra costs have been incurred at corporate offices this year, these have been offset by the favourable settlement of a long-running commercial dispute in the previous year. Net costs are higher than the previous year mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are lower than the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Financial performance has been recognised for the financial year, and the Control Period to date due to efficiencies made in headcount, as a result of the aforementioned efficiencies arising from headcount control. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regards to financial performance
- (8) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (9) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.

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

In £m cash prices unless stated

- (10)Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and slightly lower than in the control period to date. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (11)Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12)Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (13)Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support functions. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganisational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.
- (14)Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are slightly higher than the previous year due to variability in the benefits arising from actuarial reassessments.

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

In £m cash prices unless stated

- (15) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this was decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

England & Wales

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	6	2	(4)	(4)	3
	6	2	(4)	(4)	3
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	392	538	146	-	409
Business rates	266	208	(58)	-	205
British transport police costs	81	86	5	5	83
ORR licence fee and railway safety levy	17	16	(1)	-	17
RDG membership costs	2	3	1	-	3
RSSB costs	11	11	-	-	10
Reporters fees	2	-	(2)	-	1
Other industry costs	-	1	1	-	-
	771	863	92	5	728
Total traction electricity, industry costs and rates	777	865	88	1	731

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	9	4	(5)	(5)	
	9	4	(5)	(5)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	800	1,002	202	3	
Business rates	470	412	(58)	-	
British transport police costs	164	169	5	5	
ORR licence fee and railway safety levy	34	33	(1)	-	
RDG membership costs	5	-	(5)	-	
RSSB costs	20	26	6	-	
Reporters fees	3	-	(3)	-	
Other industry costs	-	1	1	-	
	1,496	1,643	147	8	
Total traction electricity, industry costs and rates	1,505	1,647	142	3	

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses.

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were higher than the regulatory baseline and the previous year due to additional services requested to keep the travelling public safe. The additional costs in the current year account for the control period to date variance

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. 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.
- (3) British Transport Police costs - expenses in the year are lower than the regulatory baseline this year, and the control period to date.
- (4) ORR licence fee and railway safety – costs this year and the control period to date 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.

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

In £m cash prices unless stated

- (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.

England & Wales

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

£m, Cash prices

				Of which financial out / (under) performance	
2020-21	Actual	Regulatory baseline	Variance		2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	0	0	0	0	0
Performance element costs	250	257	7	(4)	297
Access charge supplement Income	(206)	(211)	(5)	-	(262)
Net (income)/cost	44	46	2	(4)	35
Schedule 8					
Performance element income	(313)	-	313	313	(114)
Performance element costs	10	32	22	22	152
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(303)	32	335	335	38
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	14	50	36	35	(14)
Access charge supplement Income	(49)	(51)	(2)	-	(55)
Net (income)/cost	(35)	(1)	34	35	(69)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(41)	10	51	51	9
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(41)	10	51	51	9
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	264	307	43	31	283
Access charge supplement Income	(255)	(262)	(7)	-	(317)
Net (income)/cost	9	45	36	31	(34)
Schedule 8					
Performance element income	(313)	-	313	313	(114)
Performance element costs	(31)	42	73	73	161
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(344)	42	386	386	47
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	546	511	(35)	(33)	
Access charge supplement Income	(467)	(475)	(8)	-	
Net (income)/cost	79	36	(43)	(33)	
Schedule 8					
Performance element income	(427)	-	427	427	
Performance element costs	162	101	(61)	(61)	
Access charge supplement Income	-	-	-	-	
Net (income)/cost	(265)	101	366	366	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	
Performance element costs	-	98	98	97	
Access charge supplement Income	(104)	(106)	(2)	-	
Net (income)/cost	(104)	(8)	96	97	
Schedule 8					
Performance element income	-	-	-	-	
Performance element costs	(32)	19	51	52	
Access charge supplement Income	-	-	-	-	
Net (income)/cost	(32)	19	51	52	
Total					
Schedule 4					
Performance element income	-	-	-	-	
Performance element costs	546	609	63	64	
Access charge supplement Income	(571)	(581)	(10)	-	
Net (income)/cost	(25)	28	53	64	
Schedule 8					
Performance element income	(427)	-	427	427	
Performance element costs	130	120	(10)	(9)	
Access charge supplement Income	-	-	-	-	
Net (income)/cost	(297)	120	417	418	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Despite a few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too and is similarly reflected in the financial outperformance to date.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). 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. The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are slightly lower than the regulatory baseline. However, small financial underperformance has been recognised as reduced renewal delivery means the cost incurred, was higher than expected for this level of activity. The control period to date expenditure is higher than the regulatory expectation and we have recognised financial underperformance for this cost category. This is partly due to the aforementioned reason, but also due the adverse impact from weather events, notably the heat during the summer and the storms in February 2020 and February 2021. As well as being the wettest February on record in 2020, 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 resulting in financial outperformance overall. Performance element costs are lower than the previous year which endured adverse weather events, notably the heat during the summer and the storms in February
- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 has resulted in a highly favourable control period to date position.

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 – Access charge supplement income is in line with the regulatory baseline for both this year and the control period to date. 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. Performance Element Costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

England & Wales

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	254	194	(60)	-	195
PL Replace Partial	179	150	(29)	-	128
PL High Output	114	121	7	-	135
PL Refurbishment	58	52	(6)	-	48
PL Track Slab Track	1	1	-	-	-
Switches & Crossing - Replace	179	184	5	-	175
Switches & Crossing - Other	52	37	(15)	-	36
Off Track	95	55	(40)	-	56
Track Other	36	(12)	(48)	-	39
	968	782	(186)	(135)	812
Signalling					
Signalling Full	315	280	(35)	0	212
Signalling Partial	19	60	41	0	44
Signalling Refurb	94	132	38	0	42
Level crossings	70	107	37	0	38
Minor works	182	145	(37)	0	134
Other	3	5	2	0	1
	683	729	46	(57)	471
Civils					
Underbridges	180	214	34	-	109
Overbridges	30	43	13	-	24
Major structures	21	16	(5)	-	11
Tunnels	20	34	14	-	22
Minor works	75	45	(30)	-	54
Other	43	49	6	-	28
	369	401	32	(23)	248
Earthworks					
Earthworks - Embankments	153	71	(82)	-	88
Earthworks - Soil Cuttings	81	61	(20)	-	61
Earthworks - Rock Cuttings	41	17	(24)	-	23
Earthworks - Other	11	8	(3)	-	5
	286	157	(129)	(47)	177
Buildings					
Managed stations	37	63	26	-	40
Franchised stations	178	132	(46)	-	119
Light maint depots	19	4	(15)	-	12
Depot plant	12	9	(3)	-	3
Lineside buildings	20	7	(13)	-	19
MDU buildings	30	32	2	-	28
Other	1	-	(1)	-	1
	297	247	(50)	(17)	222
Electrical power and fixed plant					
AC distribution	9	17	8	-	10
Overhead Line	101	72	(29)	-	74
DC distribution	46	31	(15)	-	20
Conductor rail	18	16	(2)	-	14
Signalling Power Supplies	31	53	22	-	40
Other	29	25	(4)	-	11
Fixed plant	25	22	(3)	-	25
	259	236	(23)	(3)	194
Drainage					
Drainage (Track)	64	57	(7)	-	43
Drainage (Earthworks)	11	15	4	-	14
Drainage (Resilience)	6	7	1	-	4
	81	79	(2)	(4)	61
Property					
Property	31	32	1	-	1
	31	32	1	-	1
	-	-	-	-	-
Total Regionally-managed renewals expenditure	2,974	2,663	(311)	(286)	2,186

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	16
	-	-	-	-	16
Telecoms					
Operational communications	8	17	9	-	8
Network	8	11	3	-	4
SISS	13	35	22	-	8
Projects and other	4	3	(1)	-	3
Non-route capital expenditure	71	58	(13)	-	80
	104	124	20	(7)	103
Wheeled plant and machinery					
High output	18	19	1	-	13
Incident response	-	-	-	-	-
Infrastructure monitoring	4	11	7	-	3
Intervention	13	25	12	-	7
Materials delivery	(3)	30	33	-	11
On track plant	1	6	5	-	2
Seasonal	5	12	7	-	2
Other	25	12	(13)	-	6
	63	115	52	-	44
Route Services					
Business Improvement	66	21	(45)	-	87
IT Renewals	36	73	37	-	36
Asset Information	8	13	5	-	1
Other	6	3	(3)	-	3
	116	110	(6)	-	127
STE Renewals					
Intelligent infrastructure	61	39	(22)	-	26
Faster Isolations	63	58	(5)	-	37
Centrally Managed Signalling Costs	6	9	3	-	3
Research and development	48	40	(8)	-	27
Integrated Management System (Incl. BCR)	-	10	10	-	-
Other National SCADA Programmes	18	22	4	-	23
Small plant	6	7	1	-	3
Other	67	14	(53)	-	17
	269	199	(70)	-	136
Property					
Property	11	23	12	-	18
	11	23	12	-	18
Other renewals					
ETCS	19	21	2	-	13
Digital Railway	4	(16)	(20)	-	1
Civils - Insurance Fund	12	25	13	-	-
Buildings - Insurance Fund	-	14	14	-	-
OPEX/CAPEX Adjustment	(141)	(65)	76	-	(69)
Phasing overlay	-	(151)	(151)	-	-
System Operator	11	16	5	-	7
Other renewals	(5)	5	10	18	(1)
	(100)	(151)	(51)	18	(49)
Total centrally-managed renewals expenditure	463	420	(43)	11	395
TOTAL RENEWALS EXPENDITURE	3,437	3,083	(354)	(275)	2,581

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	448	381	(67)	-
PL Replace Partial	307	241	(66)	-
PL High Output	249	267	18	-
PL Refurbishment	106	116	10	-
PL Track Slab Track	1	2	1	-
Switches & Crossing - Replace	353	347	(6)	-
Switches & Crossing - Other	88	73	(15)	-
Off Track	151	103	(48)	-
Track Other	75	(5)	(80)	-
	1,778	1,525	(253)	(148)
Signalling				
Signalling Full	526	492	(34)	-
Signalling Partial	63	107	44	-
Signalling Refurb	136	208	72	-
Level crossings	108	156	48	-
Minor works	315	265	(50)	-
Other	4	9	5	-
	1,152	1,237	85	(71)
Civils				
Underbridges	289	344	55	-
Overbridges	54	72	18	-
Major structures	32	25	(7)	-
Tunnels	42	56	14	-
Minor works	129	88	(41)	-
Other	71	83	12	-
	617	668	51	(16)
Earthworks				
Earthworks - Embankments	240	130	(110)	-
Earthworks - Soil Cuttings	142	110	(32)	-
Earthworks - Rock Cuttings	64	35	(29)	-
Earthworks - Other	16	9	(7)	-
	462	284	(178)	(57)
Buildings				
Managed stations	77	95	18	-
Franchised stations	296	248	(48)	-
Light maint depots	31	13	(18)	-
Depot plant	15	14	(1)	-
Lineside buildings	39	16	(23)	-
MDU buildings	58	54	(4)	-
Other	2	-	(2)	-
	518	440	(78)	(28)
Electrical power and fixed plant				
AC distribution	19	36	17	-
Overhead Line	174	133	(41)	-
DC distribution	66	52	(14)	-
Conductor rail	32	21	(11)	-
Signalling Power Supplies	71	95	24	-
Other	40	37	(3)	-
Fixed plant	50	41	(9)	-
	452	415	(37)	(14)
Drainage				
Drainage (Track)	107	107	-	-
Drainage (Earthworks)	25	27	2	-
Drainage (Resilience)	10	10	-	-
	142	144	2	(7)
Property				
Property	32	32	-	-
	32	32	-	-
Total Regionally-managed renewals expenditure	5,153	4,745	(408)	(341)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	16	-	(16)	-
	16	-	(16)	-
Telecoms				
Operational communications	16	32	16	-
Network	12	21	9	-
SISS	21	42	21	-
Projects and other	7	5	(2)	-
Non-route capital expenditure	151	129	(22)	-
	207	229	22	(7)
Wheeled plant and machinery				
High output	31	47	16	-
Incident response	-	-	-	-
Infrastructure monitoring	7	17	10	-
Intervention	20	36	16	-
Materials delivery	8	57	49	-
On track plant	3	7	4	-
Seasonal	7	17	10	-
Other	31	6	(25)	-
	107	187	80	-
Route Services				
Business Improvement	153	114	(39)	-
IT Renewals	72	86	14	-
Asset Information	9	14	5	-
Other	9	5	(4)	-
	243	219	(24)	-
STE Renewals				
Intelligent infrastructure	87	68	(19)	-
Faster Isolations	99	106	7	-
Centrally Managed Signalling Costs	9	18	9	-
Research and development	75	62	(13)	-
Integrated Management System (Incl. BCR)	-	21	21	-
Other National SCADA Programmes	41	49	8	-
Small plant	9	15	6	-
Other	84	34	(50)	-
	404	373	(31)	-
Property				
Property	29	52	23	-
	29	52	23	-
Other renewals				
ETCS	32	40	8	-
Digital Railway	5	(15)	(20)	-
Civils - Insurance Fund	12	49	37	11
Buildings - Insurance Fund	-	28	28	-
OPEX/CAPEX Adjustment	(210)	(128)	82	-
Phasing overlay	-	(151)	(151)	-
System Operator	18	23	5	-
Other renewals	(6)	8	14	30
	(149)	(146)	3	41
Total centrally-managed renewals expenditure	857	914	57	34
TOTAL RENEWALS EXPENDITURE	6,010	5,659	(351)	(307)

Statement 3.6: Analysis of renewals expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Although there are numerous causes for these variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and now control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above

Regionally-managed renewals

- (1) Regionally managed Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Although there are numerous causes for these variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio and increased expenditure in Earthworks post the Stonehaven derailment. Net financial underperformance has been reported across the portfolio this year and now control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

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

In £m cash prices unless stated

- (2) Track – investment this year is higher than the regulatory baseline and last year's outturn, which is primarily due to higher net like for like costs. Volumes delivered in year are slightly higher than that assumed in the regulatory baseline. However, we incurred significant financial underperformance in year, due to a multitude of factors. This included the additional costs projects had to bear due to Covid-19. A number of regions had to re-prioritise work at the beginning of the pandemic, extra welfare, increased labour, PPE purchases and vehicle costs were borne, to ensure adherence to social distancing rules. Lost volumes, particularly in High output, including loss of volumes due to Covid-19. Access disputes with train operators have led to changes in possessions needing to be implemented, contributing to significant increases project costs. Several delivery issues have also occurred in year, ranging from abortive costs due to hot weather, site complexity impacting interventions required and haulage and freight clashes leading to programmes needing to be prolonged. The control period to date expenditure is significantly higher than the regulatory baseline, due to the extra volume was delivered in year one of the control period, plus the increase in financial underperformance mentioned above.
- (3) Signalling – expenditure is lower than the regulatory baseline this year and for the control period to date, mainly due to slower progress on large projects. Delays have been caused by higher tender prices necessitating a change in design. In addition, the complexity of certain schemes, such as ETCS in Eastern and the move to a low cost digital ready signalling system in Wales 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 underspend elsewhere. Covid-19 had a significant impact on financial performance this year. Prolongation due to Covid-19, plus the associated claims have led to projects incurring extra cost. There has also been a need to re prioritise the workbank due to Covid-19, which has impacted the portfolio. Investment was considerably higher than the previous year reflecting the relative lifecycle stages of multi-year programmes, as certain programmes slipped into this year such as Birmingham New street.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges and tunnels due to some schemes being reprofiled within the control period. Asset management led decisions to carry out increased reactive maintenance activity which is classified an OPEX intervention and prioritising investment on other assets such as Track and Earthwork, has also led to this reduction in spend. Financial underperformance was experienced due to Covid-19 and extra work items being required to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather and associated flooding during the Christmas of 2020, a number of reactive schemes needed to be quickly delivered. Expenditure was significantly higher than the previous year which was expected in the regulatory baseline but is also caused by a portion of the FY20 portfolio slipping into year. Control period financial underperformance has been recognised due to the aforementioned reasons

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

In £m cash prices unless stated

- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. This led to two independent reviews being conducted and resulted in Network Rail utilising risk funding to increase the volume of earthworks interventions across the network. There was also acceleration of activity to utilise available resources this year and remediation costs required in the aftermath of damage caused by the weather in February 2020, which was the wettest on record in the UK. Financial underperformance was experienced due to the impact of Covid-19 and reactive jobs arising to respond to inclement weather. A number of schemes experienced prolongation costs as a result of Covid-19 plus extra measures were required to be implemented to ensure sites were Covid-19 secure. Due to inclement weather resulting in numerous landslips, particularly in the southern region, and associated flooding during the Christmas of 2020, a number of reactive schemes needed to be quickly mobilised and delivered. 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 relates to the management led decision to invest more into Earthwork interventions in the aftermath of the Stonehaven disaster. Control period to date spend on the earthworks asset is significantly higher than the regulatory baseline, due to the aforementioned focus on asset sustainability. Control period Financial underperformance has been recognised due to the aforementioned reasons
- (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. Financial underperformance was experienced this year as a result of higher costs caused by additional works being requested, Covid-19 and project complexity, which led to higher design and scope creep costs. Expenditure was higher than the previous year, which was anticipated by the higher regulatory allowance this year to reflect the asset management requirements for CP6 and acceleration of schemes, mentioned above. Financial underperformance has been recognised control period to date due to higher costs caused by increased project complexity, including discovery of asbestos in year 1, which led to higher design and delivery costs and impact of Covid-19 mentioned above.
- (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 AFC increases due to design alterations needing to be implemented to deliver the scope of work Covid-19 and retendering of jobs due to underperformance from original contractor, which led to prolongation costs. These higher like-for-like costs resulted in financial underperformance this year. Expenditure was higher than the previous year, which was assumed in the regulatory baseline for the year. Financial underperformance has been recognised control period to date due to the aforementioned reasons in addition to the extra costs incurred last year due to access related challenges leading project prolongation and Supply chain prices being higher than expected.
- (8) Drainage – expenditure is higher than the regulatory baseline and last year's outturn. Financial underperformance was experienced due to Covid-19 and extra work items being required to respond to inclement weather. Several schemes experienced additional costs as a result of Covid-19 and there were also additional costs as surveys ascertained complexity of interventions varied. Expenditure was significantly higher than the previous year which was expected in the regulatory baseline. Underperformance has been recognised control period to date, due to the aforementioned reasons.

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

In £m cash prices unless stated

- (9) Property – expenditure is significantly higher than last year's actual but slightly below the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn.

Centrally-managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities.

- (2) Track – no costs were incurred 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. Last year 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 lower than the regulatory baseline. Slippage on operation communications and SISS projects have been slightly offset by Non-route capital expenditure acceleration. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. There has been some financial underperformance experienced this year due to delays in the programme testing and delivery because of complexity of design works, plus hardware malfunctions

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

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 broadly in line with the regulatory baseline due but higher than last year's outturn. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is 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 but higher than last year's outturn. This is 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 for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory. Negative spend has been recognised in year, as the sunk costs realised in production of the sleeper factory have been expensed to the P&L, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is lower than the regulatory baseline and the previous year's actual. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred into future years.
 - 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 but lower than last year's outturn. Last year significant investment to major programmes included 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. Whilst this spend has continued into this year but has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period 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 cash prices unless stated

(6) STE renewals – overall STE expenditure is significantly higher 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.
- b. Faster isolations – costs are higher than the regulator baseline but higher than last year's outturn. Last year, there were fewer schemes being identified and progressed. This 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.
- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline but higher than last year's outturn. This reflects the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised.
- d. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
- e. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
- f. Other national SCADA programmes – investment is lower than the regulatory baseline and last year's outturn, due to further 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 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 higher than the previous year due to investment in purchases and refurbishment projects to utilise available resource
- h. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.

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

In £m 2020-21 prices unless states

- (7) Property – expenditure is lower than the regulatory baseline this year and control period to date, 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. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
 - a. ETCS – expenditure is marginally lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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 control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund.
 - 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.
 - 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.
 - e. System Operator – expenditure this year is lower than the regulatory baseline but higher than last year's outturn

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

In £m 2020-21 prices unless states

- f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

England & Wales

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	59	98	4	134	156	-
Great Western Electrification	36	29	1	213	239	(53)
Cardiff Central Operational Resilience	-	-	-	16	17	-
Brighton Mainline Upgrade Programme	23	34	-	45	51	-
West Anglia Main Line Capacity	-	-	-	5	9	-
Midland Main Line Programme	166	187	(1)	450	480	(2)
Wessex Enhancements (Waterloo and South London HV Grid)	(10)	20	-	11	39	(2)
Trans Pennine Route Upgrade	266	749	3	448	953	3
Hope Valley Capacity	2	26	-	2	30	-
Cambridge South Station Dvpt 2	4	6	1	7	11	1
Victoria station redevelopment	2	4	-	2	5	-
Gatwick Station	51	33	(10)	62	39	(10)
East West Rail Phase 2	207	197	1	299	310	1
Oxford Corridor Capacity Phase 2	3	21	-	8	37	-
GWEP Distribution Network Operators clearance work	-	-	-	5	6	-
East Coast Main Line Enhancements Programme	189	254	(9)	374	412	(4)
North West Train Lengthening	2	-	-	19	32	-
Reading Independent Feeder (Power Supply)	-	37	-	10	61	-
Bristol East Junction	35	41	(2)	42	53	(2)
Kings Lynn to Cambridge 8 Car	7	4	(1)	26	22	(1)
South West Rail Resilience Programme	27	7	-	45	50	-
St Albans Station Capacity	2	1	-	2	4	-
London Euston (in support of High Speed Rail Group scheme)	11	6	-	17	16	-
SFN-Freight Forecasts project	19	31	-	24	38	-
Access for All	12	40	-	31	86	-
Thameslink Resilience Programme	7	2	-	18	25	2
Midlands Hub - Continued Design and Early Development	1	2	-	1	1	-
Western Rail Access to Heathrow	6	27	-	14	37	-
Crossrail	36	70	(1)	113	152	(77)
Integrated Crewe Hub - HS2	-	-	-	6	8	-
Reading, Ascot to Waterloo Train Lengthening	3	4	1	15	21	1
Dr Days to Filton Abbey Wood Capacity	-	(3)	-	9	7	-
Portfolio Contingency (including T-12)	-	-	(3)	10	50	37
Depots & Stabling Fund	(1)	14	-	21	31	-
Northern Hub	8	3	(1)	49	42	(2)
Thames Valley EMU Capability	1	-	-	10	5	-
West Coast PSU	10	-	-	12	16	-
IEP Western Capability	6	1	-	15	14	-
West of England Plat Length	3	-	-	3	5	-
Feltham	7	7	-	7	12	-
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	14	6	(8)	14	10	(8)
Access to Assets	1	6	-	5	18	-
Northumberland line passenger service re-introduction	-	9	-	-	10	-
University Station	-	4	-	-	6	-
Energy Coast Rail Upgrade Project	3	3	1	5	7	1
GWML W10-W12 Gauge Enhancement	6	7	-	10	8	-
Okehampton Line Works	7	13	-	7	13	-
NWEP Phase 7 Lostock - Wigan	1	4	-	1	9	-
Crumlin River Bridge	4	5	1	4	5	1
W009 West of England DMU Capability	1	10	-	6	12	-
Anglia Traction PSU	5	-	-	5	4	-
Other	58	62	6	89	94	2
Total	1,300	2,081	(17)	2,753	3,778	(112)
Other Capital Expenditure	159	-	-	327	-	-
Other third party funded schemes						
HS2	247	-	-	436	-	-
Other third Party	160	-	-	396	-	-
Total	407	-	-	832	-	-
Total enhancements	1,866	2,081	(17)	3,912	3,778	(112)
Total enhancements less Other third party funded schemes	1,459	2,081	(17)	3,080	3,778	(112)

Statement 3.7: Analysis of enhancement expenditure, England & Wales

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the CP6 Business Plan, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with England and Wales's 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 other than the core Network Rail 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 the government. This organisation plays an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (5) Financial performance is only measured on programmes where the scope, outputs and budget have been agreed with the England and Wales's core funder DfT.
- (6) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) Enhancement expenditure in the year paid for by the core England & Wales funder (DfT) was £1,459m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£1,866m) less the PAYGO schemes funded by other third parties (£407m).
- (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 Great Western Electrification Programme, Crossrail, Gatwick Station and Birmingham New Street Gateway. 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 impact of Covid-19 and different portfolio of schemes being delivered this control period. 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 Department for Transport (DfT)

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

In £m cash prices unless stated

- (3) Department for Transport funded schemes – expenditure this year 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 – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Majority of the works relating to Key Output 2 which involved upgrades, primarily to signalling to accommodate 24 train paths per hour and major platform, track and associated infrastructure remodelling at London Bridge station is complete. Expenditure this year is lower than the baseline with some minor improvements works still being made at London Bridge station of adding new retail units and improving facilities. Cumulative financial performance is now neutral at an overall level.
 - b. Great Western Electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than the baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - c. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. Progress has been slower this year than baseline expectations due to funding restrictions and in relation to purchase and maintenance of key land and buildings essential for any future development opportunities.
 - d. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations. Continuation of L2C commissioning during Covid-19 pandemic, reprofiling activities into the future years.
 - e. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Negative expenditure in the year is due to release of Liability held by Network rail for Waterloo International Terminal construction lease, for which payment has been made directly by the DfT. Previously baselined works for South London HV Grid were deferred pending funding decision and is reprofiled in future years of the control period.
 - f. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure is lower than the original CP5 Hendy baseline this year. DfT have agreed a new baseline and funding profile to design and deliver notable schemes which included line speed, signalling, station and electrification work.

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

In £m cash prices unless stated

- g. Hope Valley capacity – This project is to increase passenger and freight capacity on the Hope Valley line between Sheffield and Manchester. Design works have progressed slower than anticipated, with works deferred into future years subject to further government investment.
- h. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge. Increased spend in year due to acceleration of works primarily driven by access opportunities arising due to Covid-19. Adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
- i. East West Rail Phase 2 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, 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. Delivery on the programme this year has been greater than the baseline.
- j. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. The design works are slower than anticipated this year and have been rephased into future years, working to submission in June 2021 of a Transport and Works Act Order (TWAO) to the DfT for land purchase.
- k. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and financial underperformance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.
- l. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Slower progress has been made on this project this year as work has been reprofiled into future years of the control period, awaiting finalisation of funding decisions.
- m. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Progress this year has been slower than anticipated, minimising disruption to passenger service.

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

In £m cash prices unless stated

- n. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Project has accelerated delivery this year, following procurement of contracts to enable offshore piling works.
- o. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
- p. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers. Cumulative outperformance is due to reduction in anticipated total programme costs following effective work bank planning and cost savings negotiated on possession management.
- q. Western Rail Access to Heathrow – Project provides new rail link from the Great Western Main Line to Heathrow Airport. Progress has been slower this year compared to the baseline. DfT decided to pause the submission of the Development Consent Order (DCO) until winter 2022, reprofiling works into future years.
- r. Welsh Valley Lines Electrification – This project is electrification of the Valley Lines in South Wales. This project is included in the baseline to be funded from the RNEP portfolio, being delivered by 3rd party.
- s. Crossrail – This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Underspend in year and adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. Covid-19 had caused a temporary pause in construction and slowdown impacting on Schedule delays into future years.
- t. Portfolio Contingency (including T-12) –Actual costs reported in this category this year are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables earlier in the year.
- u. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
- v. Okehampton Line Works – This project is in partnership with Great Western Railway (GWR) and Devon County Council to reopen the Dartmoor Line from Okehampton to Exeter. Slower progress than anticipated reflects latest delivery plan and staged approval of authority / funding from HMT. The project is part of the Department for Transport's 'Restoring your Railway' initiative and is expected to re-open the line end of 2021.

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

In £m cash prices unless stated

- w. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial outperformance in this category this year reflects Leeds Intermediate Interventions, Energy Coast and other schemes.
- (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.

England & Wales

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
	Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	208	146	1,425	196	127	1,543
	PL Replace Partial	km	261	666	392	181	495	366
	PL High Output	km	127	114	1,114	139	143	972
	PL Refurbishment	km	102	655	156	78	545	143
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	115	243	473	112	220	509
	Switches & Crossing - Other	point ends	76	933	81	70	696	101
	Off Track	km/No.	135	2,913	46	91	1,823	50
	Track Other		-	-	-	-	-	-
Total		1,024			867			
Signalling	Signalling Full	SEU	143	353	405	240	233	1,030
	Signalling Partial	SEU	42	222	189	247	171	1,444
	Signalling Refurb	SEU	148	288	514	9	31	290
	Level crossings	No.	121	287	422	43	43	1,000
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		454			539		
Civils	Underbridges	m2	209	59,925	3	179	68,620	3
	Overbridges (incl BG3)	m2	41	11,734	3	32	10,379	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	11	38,967	0	21	23,965	1
	Culverts	m2	11	4,706	2	21	4,179	5
	Footbridges	m2	10	1,686	6	9	2,406	4
	Coastal & Estuarial Defences	m2	9	16,425	1	4	13,475	0
	Retaining Walls	m2	10	9,381	1	9	10,290	1
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		301			275		
Earthworks	Earthworks - Embankments	No.	169	2,230	76	91	1,317	69
	Earthworks - Soil Cuttings	No.	98	7,444	13	61	1,788	34
	Earthworks - Rock Cuttings	No.	40	888	45	29	590	49
	Earthworks - Other	No.	6	242	25	-	113	-
	Drainage - Earthworks	m	13	72,385	0	20	36,919	1
	Drainage - Other	m	93	213,139	0	74	124,954	1
	TOTAL		419			275		
Buildings	Buildings (MS)	m2	3	34,076	0	22	38,725	1
	Platforms (MS)	m2	24	410	59	1	1,053	1
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	1	11,915	0	4	15,270	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	7	4,064	2	1	2,710	0
	Buildings (FS)	m2	14	23,829	1	3	2,183	1
	Platforms (FS)	m2	50	80,213	1	36	27,120	1
	Canopies (FS)	m2	42	48,135	1	29	28,737	1
	Train sheds (FS)	m2	-	-	-	1	6,690	0
	Footbridges (FS)	m2	43	6,769	6	13	3,474	4
	Lifts & Escalators (FS)	m2	3	15	200	-	-	-
	Other (FS)	m2	32	303,617	0	23	152,075	0
	Light Maintenance Depots	m2	20	236,656	0	2	41,949	0
	Depot Plant	m2	3	1,773	2	-	145	-
	Lineside Buildings	m2	34	83,641	0	16	60,198	0
	MDU Buildings	m2	65	173,802	0	20	74,870	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		341			171		

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	39	90	433	29	157	185
	mid-life refurbishment	Wire runs	-	-	-	7	55	127
	structure renewals	No.	42	908	46	53	764	69
	other OLE		1	2	500	-	7	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	33	107	308	25	110	227
	HV Switchgear Renewal AC	No.	2	5	400	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	19	21	905	11	15	733
	HV cables DC	km	16	33	485	3	7	429
	LV cables DC	km	4	28	143	11	47	234
	Transformer Rectifiers DC	No.	-	1	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	10	-	1	14	71
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	10	102	98	7	91	77
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	20	50	1	42	24
	Signalling Power Cables	km	75	288	260	62	166	373
	Signalling Supply Points	point end	8	11	727	22	30	733
	NSCD / Track Feeder Switch (#)		10	476	21	10	524	19
	Total		260			242		
Telecoms	Customer Information Systems	No.	2	146	14	15	669	22
	Public Address	No.	-	12	-	11	3,803	3
	CCTV	No.	2	417	5	3	575	5
	Other Surveillance	No.	-	10	-	1	100	10
	PABX Concentrator	No.	10	5,920	2	2	1,370	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	16	63	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	7	-	-	21	-
	Radio		-	-	-	-	-	-
	Power		6	465	13	5	402	12
	Other comms		-	-	-	-	-	-
	Network		2	30	67	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		23			39		

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - The High Output volumes delivered in the year are slightly lower than the volumes delivered in the prior year. In high output volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The decreased volumes tell the story of why the unit cost has increased. In Switches and Crossings Other there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small

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

In £m cash prices unless stated

- (3) Signalling – There has been a significant decrease in the unit cost of Signalling Full in the year. The reason for this is that in 2019-20 there were a couple of projects (Port Talbot in Wales & Western and Feltham in Southern) that massively drove up the unit cost. These projects were completed in the prior year, so they had no effect on the unit cost in the current year. There has also been a big decrease in the unit cost of Signalling Partial in the year. As above these has been skewed by some relatively more expensive projects in the prior year including Bristol in Wales & Western. However there has been an increase in the unit cost of Signalling Refurb in the year There have been some large projects in Wales & Western (Westbury) which have dragged up the unit cost. There has been a decrease in the unit cost of Level Crossings in the year. In the prior year there were particularly expensive projects in Wales & Western (Porthmadog and Carmarthenshire). These projects had a significant effect on the unit cost in 2019/20 and as these finished in that year the current year's rate is lower.
- (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 – There has been an increase in the unit cost of Embankments in the year. This is due to an increase in the proportion of more expensive full renewal in the year compared to the less expensive refurb and maintain work. There has been a decrease in the unit cost of both Soil and Rock Cuttings in the year. There has been a decrease in the proportion of full renewals in the current year with a higher proportion of less expensive refurb and maintain taking place instead.
- (6) Buildings – There has been a large increase in the unit cost for Managed Stations Platforms in the year. However, there was only one project in each year. This tiny sample size makes it difficult to do any meaningful analysis. The Kings Cross project in the year had a much greater unit cost than the one in Manchester last year.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of Wiring in the year. This is primarily down to expensive projects at Stratford in the Eastern Region and the Alpha project in North West & Central. There has been a decrease in the unit cost of Structural Renewals in the year. This is because there has been a higher proportion of refurb work in the current year compared to the prior year and this is less expensive than full renewals. There has been an increase in unit cost on Conductor Rail in the year for the opposite reason to Structural Renewals. There hasn't been any refurb work in the current year. There has been an increase in unit cost on HV Switchgear Renewal DC in the year. This is due to expensive substation renewals in the Southern region. There has been a significant increase in unit cost on Points Heaters in the year. However, there was only one project each year within this category with the one in North West & Central this year being more expensive than the one in Eastern in 2019-20. There has been a significant decrease in the unit cost of Signalling Power Cables. In the prior year there was a complex project at King's Cross in Eastern which dragged up the unit cost. There has been an increase in the unit cost of HV Cables DC due to the particularly expensive HV Feeder project in the Wessex Route in the current year.
- (8) Telecoms – There has been a decrease in the unit cost of Customer Information Systems in the year. However, there was only one project (in Eastern) which took place in the year. This project also recorded volumes in the prior year. Therefore, the sample size is far too small to do any meaningful analysis

England & Wales

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	64,962
Indexation to 2020-21 prices	65,157
RAB additions	
Renewals expenditure	3,437
Enhancements expenditure	-
Less amortisation	(3,437)
Property Sales	(39)
Closing RAB	65,118

Net debt

	£m
Opening net debt	48,092
Income	(8,572)
Expenditure	7,364
Financing Costs - Government borrowing	845
Financing Costs - index linked debt	499
Financing Costs - Other	181
Corporation tax	46
Working capital	(263)
Closing net debt	48,192

Statement 4: Regulatory financial position, England & Wales

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 England & Wales Regions and how it has moved in the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was £3.4bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the England & Wales Regions and how it has moved during the year.
- (8) 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 attributable to England & Wales Regions was slightly higher than the opening debt. Under the CP6 funding arrangements, Network Rail is now funded directly by government for its net cash expenditure. Whilst timing differences are expected to exist between the recognition of grants from an accounting perspective compared to when the cash is received, there should be a general relationship. One area this is most apparent is for Financing costs - index-linked debt. For these debt instruments, interest costs are not paid immediately, but are added to the value of the nominal debt meaning that the value of the debt instrument continues to rise until it matures but no government grants are received as there is no immediate cash requirement. These debt items have a maturity range between 2026 and 2052. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

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

In £m cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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 funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

Scotland's Railway

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	623	639	(16)	-	473
Franchised track access charges	374	398	(24)	(11)	368
Other Single Till Income	32	44	(12)	(12)	40
Total Income	1,029	1,081	(52)	(23)	881
Operating expenditure					
Network operations	60	51	(9)	(9)	52
Support costs	93	77	(16)	(5)	82
Traction electricity, industry costs and rates	68	80	12	-	69
Maintenance	179	164	(15)	(18)	164
Schedule 4	24	16	(8)	(9)	21
Schedule 8	(3)	6	9	9	10
	421	394	(27)	(32)	398
Capital expenditure					
Renewals	473	513	40	(32)	336
Enhancements	161	229	68	(6)	205
	634	742	108	(38)	541
Risk expenditure					
Risk (Centrally-held)	-	5	5	-	-
Risk (Route-controlled)	-	36	36	-	-
Risk (Contingent asset management funding)	-	-	-	-	-
	-	41	41	-	-
Other expenditure					
Financing costs	171	223	52	-	211
Corporation tax	6	3	(3)	-	-
	177	226	49	-	211
Total expenditure	1,232	1,403	171	(70)	1,150
Total Financial Out/(under) performance				(93)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	1,094	1,138	(44)	-
Franchised track access charges	741	773	(32)	(16)
Other Single Till Income	72	88	(16)	(15)
Total Income	1,907	1,999	(92)	(31)
Operating expenditure				
Network operations	112	105	(7)	(6)
Support costs	175	164	(11)	(3)
Traction electricity, industry costs and rates	138	154	16	-
Maintenance	343	331	(12)	(19)
Schedule 4	45	29	(16)	(17)
Schedule 8	7	22	15	14
	820	805	(15)	(31)
Capital expenditure				
Renewals	808	901	93	(34)
Enhancements	364	437	73	3
	1,172	1,338	166	(31)
Risk expenditure				
Risk (Centrally-held)	-	5	5	-
Risk (Route-controlled)	-	36	36	-
Risk (Contingent asset management funding)	-	-	-	-
	-	41	41	-
Other expenditure				
Financing costs	381	447	66	-
Corporation tax	6	3	(3)	-
	387	450	63	-
Total expenditure	2,379	2,634	255	(62)
Total Financial Out/(under) performance				(93)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Scotland Railway's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Scotland's Railway's net expenditure (Total income less Total expenditure) was around £119m lower than the regulatory baseline and £163m lower than the control period to date regulatory baseline. This was mostly due to reprofiling enhancements expenditure into later years of the control period.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £93m this year and for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, other single till income and maintenance expenditure being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income - Grant income in the year was lower than the regulatory baseline. This was mostly due to lower renewals costs. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. 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 variable usage charge and traction electricity income, as fewer trains ran in year as a result of the Covid-19 pandemic. 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 discussed in more detail in Statement 2
- (5) Income – Other single till income in the year is lower than the baseline mostly due to impact of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide extra resilience. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from Network Rail's response to the Covid-19 pandemic. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date. Network Operations costs are set out in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Primary reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-out. These further costs are reflected in the financial underperformance recognised for the current year and the control period to date. The Control Period to date spend is higher than the regulatory assumption as the additional spend this year was partially offset by savings in the previous year, slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year due to lower Traction electricity costs. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - maintenance costs are higher than the regulatory baseline this year and for the Control Period to date. The primary cause for this increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. These further costs are reflected in the financial underperformance both for this year, and the control period to date. Maintenance costs are discussed in more detail in Statement 3.2.
- (10) Operating expenditure - 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 summer heat and heavy flooding, resulted in higher costs. Costs are also higher for the control period to date, as there is 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. As a result, financial underperformance is recognised for both the current year and the control period to date. Costs are higher than the previous year. Schedule 4 costs are discussed in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the favourable control period to date position too, with both the current year and control period to date reflecting similar levels of financial overperformance. Schedule 8 costs are discussed in more detail in Statement 3.5.
- (12) Capital expenditure – Overall, Renewals expenditure is lower than the regulatory baseline, primarily due to Regionally-managed Signalling programme being profiled into later in the control period. Overall expenditure is higher than the previous year, which is in line with regulatory expectations. 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. 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. Overall, Enhancement expenditure is lower than the previous year due to impact of Covid-19 and different portfolio of schemes being delivered this control period. 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) 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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so risks are more likely to be realised, the further along we move into the control period. 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 higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Scotland's Railway

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	269	271	(2)	-	256
Variable usage charge	17	27	(10)	(10)	24
Electrification asset usage charge	2	2	-	-	2
Capacity charge	-	-	-	-	-
Open access income	-	-	-	-	-
Managed stations long term charge	7	8	(1)	(1)	7
Franchised stations long term charge	21	21	-	-	21
Schedule 4 access charge supplement	12	12	-	-	11
	328	341	(13)	(11)	321
Other single till income					
Freight income					
Freight variable usage charge	2	3	(1)	(1)	3
Freight other income	-	-	-	-	-
	2	3	(1)	(1)	3
Stations income					
Managed stations qualifying expenditure	7	9	(2)	(2)	7
Franchised stations lease income	2	2	-	-	2
	9	11	(2)	(2)	9
Facility and financing charges					
Facility charges	1	1	-	-	1
	1	1	-	-	1
Property income					
Property rental	5	16	(11)	(11)	-
Property sales	1	-	1	1	-
	6	16	(10)	(10)	-
Depots Income	10	7	3	3	9
Other income	1	-	1	1	1
Total other single till income	29	38	(9)	(9)	23
Total Regionally-managed income	357	379	(22)	(20)	344
Centrally-managed income					
Network grant	480	483	(3)	-	325
Internal financing grant	65	81	(16)	-	70
External financing grant	64	64	-	-	70
BTP grant	8	8	-	-	8
Corporation tax grant	6	3	3	-	-
Infrastructure cost charges	12	12	-	-	12
Schedule 4 access charge supplement	3	3	-	-	2
Traction electricity charges	31	42	(11)	-	33
Freight traction electricity charges	-	1	(1)	-	1
	669	697	(28)	-	521
Other single till income					
Property income					
Property rental	1	5	(4)	(4)	16
Property sales	2	-	2	1	-
	3	5	(2)	(3)	16
Total other single till income	3	5	(2)	(3)	16
Total centrally-managed income	672	702	(30)	(3)	537
Total income	1,029	1,081	(52)	(23)	881

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	524	525	(1)	-
Variable usage charge	41	54	(13)	(13)
Electrification asset usage charge	4	4	-	-
Capacity charge	-	-	-	-
Open access income	-	1	(1)	(1)
Managed stations long term charge	14	15	(1)	(2)
Franchised stations long term charge	42	42	-	-
Schedule 4 access charge supplement	23	23	-	-
	648	664	(16)	(16)
Other single till income				
Freight income				
Freight variable usage charge	5	5	-	-
Freight other income	-	-	-	-
	5	5	-	-
Stations income				
Managed stations qualifying expenditure	14	18	(4)	(4)
Franchised stations lease income	4	3	1	-
	18	21	(3)	(4)
Facility and financing charges				
Facility charges	2	2	-	1
	2	2	-	1
Property income				
Property rental	5	16	(11)	(11)
Property sales	1	-	1	1
	6	16	(10)	(10)
Depots Income	19	15	4	4
Other income	2	1	1	2
Total other single till income	52	60	(8)	(7)
Total Regionally-managed income	700	724	(24)	(23)
Centrally-managed income				
Network grant	803	829	(26)	-
Internal financing grant	135	154	(19)	-
External financing grant	134	136	(2)	-
BTP grant	16	16	-	-
Corporation tax grant	6	3	3	-
Infrastructure cost charges	24	24	-	-
Schedule 4 access charge supplement	5	5	-	-
Traction electricity charges	64	80	(16)	-
Freight traction electricity charges	1	1	-	-
	1,188	1,248	(60)	-
Other single till income				
Property income				
Property rental	17	24	(7)	(8)
Property sales	2	3	(1)	-
	19	27	(8)	(8)
Total other single till income	19	27	(8)	(8)
Total centrally-managed income	1,207	1,275	(68)	(8)
Total income	1,907	1,999	(92)	(31)

Statement 2: Analysis of income, Scotland's Railway

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower Grants received from funders (Transport Scotland and DfT), plus the lower Variable usage, Traction electricity and Property income received, as a direct consequence of Covid-19. Current year and Control Period to date underperformance is largely due to adverse variances in Property income and variable usage charges. 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 lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This also explains the lower income in the control period to date, and the financial underperformance both this year and for the control period to date. Despite Covid-19, income is higher than the previous year. This is because responsibility for property has been devolved from Centrally-managed to Regionally-managed. This extra income largely offsets the reductions from running fewer train services this 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 lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services considered superfluous by the industry. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.
- (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.

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

In £m cash prices unless stated

- (5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. Income was broadly in line with the previous year, which was also 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.
- (6) Freight Income – income is slightly lower than the regulatory baseline this year due to the disruption caused by Covid-19. This was particularly apparent at the start of the pandemic where freight volumes experienced their lowest quarter since comparable records began in 1998-99. Income is lower than the previous year due to the aforementioned impact of the pandemic.
- (7) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (8) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2019/20.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Financing 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.

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

In £m cash prices unless stated

- (3) Network grant – income was broadly in line with the regulatory baseline. The control period grant income is lower than the regulatory baseline. This is as 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, were required at the start of the control period compared to the regulatory baseline.
- (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. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times.
- (5) External financing grants – grants received in the year are in line with the regulatory baseline however are less than the regulatory baseline for the control period to date, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.
- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 slightly lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).

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

In £m cash prices unless stated

- (10) Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand. Income is lower than the previous year as responsibility for most of the property estate has devolved, meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is adverse as a result of aforementioned decline in customer demand
- (11) Property sales – minimal property sales income has been recognised this year. This is higher 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/accelerating disposals, depending on when optimal value can be earned.

Scotland's Railway

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	58	49	(9)	(9)	50
Maintenance	173	157	(16)	(19)	156
Support costs	35	18	(17)	(17)	32
Traction electricity, industry costs and rates	-	-	-	-	-
Schedule 4	23	14	(9)	(10)	21
Schedule 8	5	6	1	1	10
	294	244	(50)	(54)	269
Capital expenditure					
Renewals	422	463	41	(34)	290
Enhancements	161	229	68	(6)	192
	583	692	109	(40)	482
Total Regionally-managed expenditure	877	936	59	(94)	751
Centrally-managed expenditure					
Operating expenditure					
Network operations	2	2	-	-	2
Maintenance	6	7	1	1	8
Support costs	58	59	1	12	50
Traction electricity, industry costs and rates	68	80	12	-	69
Schedule 4	1	2	1	1	-
Schedule 8	(8)	-	8	8	-
	127	150	23	22	129
Capital expenditure					
Renewals	51	50	(1)	2	46
Enhancements	-	-	-	-	13
	51	50	(1)	2	59
Risk Expenditure	-	41	41	-	-
Other					
Financing costs	171	223	52	-	211
Taxation	6	3	(3)	-	-
	177	226	49	-	211
Total centrally-managed expenditure	355	467	112	24	399
Total expenditure	1,232	1,403	171	(70)	1,150

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	108	101	(7)	(7)
Maintenance	329	316	(13)	(18)
Support costs	67	45	(22)	(22)
Traction electricity, industry costs and rates	-	-	-	-
Schedule 4	44	25	(19)	(20)
Schedule 8	15	21	6	6
	563	508	(55)	(61)
Capital expenditure				
Renewals	711	789	78	(39)
Enhancements	351	437	86	3
	1,062	1,226	164	(36)
Total Regionally-managed expenditure	1,625	1,734	109	(97)
Centrally-managed expenditure				
Operating expenditure				
Network operations	4	4	-	1
Maintenance	14	15	1	(1)
Support costs	108	119	11	19
Traction electricity, industry costs and rates	138	154	16	-
Schedule 4	1	4	3	3
Schedule 8	(8)	1	9	8
	257	297	40	30
Capital expenditure				
Renewals	97	112	15	5
Enhancements	13	-	(13)	-
	110	112	2	5
Risk Expenditure	-	41	41	-
Other				
Financing costs	381	447	66	-
Taxation	6	3	(3)	-
	387	450	63	-
Total centrally-managed expenditure	754	900	146	35
Total expenditure	2,379	2,634	255	(62)

Statement 3: Analysis of expenditure, Scotland's Railway

In £m cash 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, lower than expected financing costs and risk expenditure. Costs are higher than last year, as capital delivery expenditure has increased compared to the previous year, although behind the regulatory expectation. Control period to date spend is lower than the regulatory baseline as a result of the aforementioned capital delivery deferrals and lower than expected finance costs and risk expenditure. Financial underperformance has been recognised in year and for the control period, primarily due to higher like for like renewals costs and higher than anticipated operating expenditure requirements.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline mainly due to reprofiling of capital projects to later in the control period. Costs are higher than the previous year mainly due to increased renewals investment, however the deferral of the capital delivery portfolio has led to an underspend against the control period to date baseline. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. Financial underperformance has been recognised for the control period to date, primarily due to the reduction in property and variable usage income, as a result of the Covid-19 pandemic

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline due to lower financing and risk expenditure. Costs are lower than the previous year due to lower financing costs. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Scotland's Railway

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	32	29	(3)	(3)	29
Operations Management	4	2	(2)	(2)	3
Controllers	5	5	-	-	4
Electrical control room operators	2	1	(1)	(1)	2
	43	37	(6)	(6)	38
Non signaller expenditure					
Mobile operations managers	3	3	-	-	3
Managed stations	8	6	(2)	(2)	6
Performance	2	1	(1)	(1)	2
Other	2	2	-	-	1
Total Regionally-managed Operations expenditure	58	49	(9)	(9)	50
Centrally-managed Operations expenditure					
Network Services	2	2	-	-	2
Total centrally-managed Operations expenditure	2	2	-	-	2
Total operations expenditure	60	51	(9)	(9)	52

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	61	61	-	-
Operations Management	7	5	(2)	(2)
Controllers	9	9	-	-
Electrical control room operators	4	2	(2)	(2)
	81	77	(4)	(4)
Non signaller expenditure				
Mobile operations managers	6	6	-	-
Managed stations	14	12	(2)	(2)
Performance	4	3	(1)	(1)
Other	3	3	-	-
Total Regionally-managed Operations expenditure	108	101	(7)	(7)
Centrally-managed Operations expenditure				
Network Services	4	4	-	1
Total centrally-managed Operations expenditure	4	4	-	1
Total operations expenditure	112	105	(7)	(6)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to keep moving, extra staff costs were incurred to provide extra resilience. Control Period to date is higher than the regulator's assumption, largely due to the additional costs incurred this year from Network Rail's response to the Covid-19 pandemic. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date.

Regionally-managed operations expenditure

- 1) Total Regionally-managed costs were higher than the regulatory expectation this year and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff and extra costs for additional cleaning requirements at managed stations. Control Period to date is higher than the regulator's assumption, primarily due to the additional costs incurred from the aforementioned reasons. These additional costs have also led to the financial underperformance both for the current year, and for the control period to date.
- 2) Signaller and level crossing keepers - costs are higher than the regulatory expectation this year and previous year's actuals, but broadly in line with target for the Control Period to date. Savings made last year have been offset by increases in staff costs to provide extra resilience and ensure the continuation of the railway's function during the Covid-19 pandemic.
- (1) Operations management - costs are higher than the regulatory expectation this year and for the Control Period to date. This is due to an increase in staff costs to provide further resilience and ensure the continuation of the railway's function during the Covid-19 pandemic.

Centrally-managed operations expenditure

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

Scotland's Railway

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	85	80	(5)	(5)	77
Signalling & Telecoms	25	20	(5)	(5)	23
Civils	22	26	4	1	27
Buildings	8	6	(2)	(2)	6
Electrical power and fixed plant	12	10	(2)	(2)	11
Other network operations	21	15	(6)	(6)	12
	173	157	(16)	(19)	156
Centrally-managed maintenance expenditure					
Telecoms	2	3	1	1	2
Route Services - Asset Information	4	3	(1)	(1)	4
STE Maintenance	-	-	-	-	1
Property	-	-	-	-	-
Route Services - Other	(1)	-	1	1	2
Other	1	1	-	-	(1)
	6	7	1	1	8
Total maintenance expenditure	179	164	(15)	(18)	164

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	162	162	-	-
Signalling & Telecoms	48	40	(8)	(8)
Civils	49	54	5	(1)
Buildings	14	11	(3)	(2)
Electrical power and fixed plant	23	19	(4)	(4)
Other network operations	33	30	(3)	(3)
	329	316	(13)	(18)
Centrally-managed maintenance expenditure				
Telecoms	4	6	2	2
Route Services - Asset Information	8	6	(2)	(2)
STE Maintenance	1	1	-	-
Property	-	-	-	-
Route Services - Other	1	1	-	(2)
Other	-	1	1	1
	14	15	1	(1)
Total maintenance expenditure	343	331	(12)	(19)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and for the Control Period to date. The primary cause for this increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. These further costs are reflected in the financial underperformance both for this year, and the control period to date.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and the previous year's outturn. The primary cause for the increase in costs, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. Control Period to date spend is higher than the regulatory assumption, due to the aforementioned reasons. These further costs are also reflected in the financial underperformance both for this year, and the control period to date.
- (2) Track – track maintenance costs are traditionally the largest component of Network Rail's maintenance costs. This year, costs are higher than the regulatory baseline and the previous year's expenditure; Covid-19 resilience and compliance investment has largely contributed to this extra spend. This has included additional staff costs, procurement of Covid-19 secure PPE and the fitting of vehicles with shields to ensure adherence to social distancing rules. Control Period to date spend is broadly in line with the regulatory assumption, despite the aforementioned reasons.

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

In £m cash prices unless stated

- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline and the previous year's expenditure; Covid-19 resilience and compliance investment has largely contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been additional resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Control Period to date is higher than the regulatory assumption due to the aforementioned reasons.
- (4) Civils – costs were 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 also lower than the previous year. Control Period to date is lower than the regulatory assumption due to the aforementioned reason.
- (5) Buildings – costs were slightly higher than the regulatory baseline this year. Most of these costs relate to reactive maintenance expenditure. 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. Control Period to date is also slightly higher than the regulatory assumption.
- (6) Other network operations – costs are higher than the regulatory baseline and the previous year's actual. There are numerous contributory factors, including Covid-19 resilience and compliance investment, causing this further expenditure. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There are also various one-off expenses and other asset resilience initiatives to protect train performance. Control Period to date is higher than the regulatory assumption due to the aforementioned reasons.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are slightly lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.

Scotland's Railway

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	4	2	(2)	(2)	3
Finance	2	2	-	-	1
Accommodation	8	9	1	1	17
Utilities	7	4	(3)	(3)	7
Other	14	1	(13)	(13)	4
	35	18	(17)	(17)	32
Centrally-managed Support costs					
Finance & Legal	4	5	1	1	3
Communications	2	2	-	-	1
Human Resources	3	2	(1)	(1)	2
System Operator	4	6	2	2	4
Property	1	-	(1)	(1)	1
Telecoms	7	8	1	1	5
Network Services	2	3	1	1	2
Safety Technical and Engineering	5	6	1	1	4
RS - IT and Business Services	12	12	-	-	11
RS - Asset Information	1	4	3	3	2
RS - Directorate	4	2	(2)	(2)	2
Other corporate functions	1	1	-	-	3
Insurance	3	4	1	1	3
OPEX/CAPEX Adjustment	18	7	(11)	-	8
Group costs	(9)	(3)	6	6	(1)
	58	59	1	12	50
Total support costs	93	77	(16)	(5)	82

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	7	5	(2)	(2)
Finance	3	4	1	1
Accommodation	25	25	-	-
Utilities	14	8	(6)	(6)
Other	18	3	(15)	(15)
	67	45	(22)	(22)
Centrally-managed Support costs				
Finance & Legal	7	9	2	2
Communications	3	3	-	-
Human Resources	5	4	(1)	(1)
System Operator	8	12	4	4
Property	2	(1)	(3)	(3)
Telecoms	12	15	3	3
Network Services	4	6	2	2
Safety Technical and Engineering	9	11	2	2
RS - IT and Business Services	23	23	-	-
RS - Asset Information	3	6	3	3
RS - Directorate	6	4	(2)	(2)
Other corporate functions	4	6	2	(1)
Insurance	6	7	1	2
OPEX/CAPEX Adjustment	26	14	(12)	-
Group costs	(10)	-	10	8
	108	119	11	19
Total support costs	175	164	(11)	(3)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Primary reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-out. These further costs are reflected in the financial underperformance recognised for the current year and the control period to date. The Control Period to date spend is higher than the regulatory assumption as the additional spend this year was partially offset by savings in the previous year, slower implementation of PPF re-organisation programme, reductions in performance-related pay for staff, headcount control and other efficiencies.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. This has largely contributed to the adverse variance for the control period to date. These further costs are also reflected in the financial underperformance recognised for the current year and the control period to date.
- (2) Human resources – costs in the current year are higher than the baseline expectation and 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. This narrative is reflected in the higher than expected Control Period to date cost.
- (3) Accommodation – costs are similar to the regulatory baseline this year. Costs are noticeably lower than the previous year which includes recognition of an onerous provision for corporate offices in Glasgow.
- (4) Other – costs were significantly higher than the regulatory baseline this year and previous year's outturn. This is primarily due to implementation of the PPF programme and Covid-19 related expenditure

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

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are higher than the regulatory baseline. Costs are also higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are in line with the previous year. This is mainly due to accountabilities being devolved to the Regional teams, offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Telecoms – costs are lower than the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by improving signal interference. Financial performance has been recognised for the financial year, and the Control Period to date due to efficiencies made in headcount, as a result of the aforementioned efficiencies arising from headcount control. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio programme, however this delay has been treated as neutral in regards to financial performance

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

In £m cash prices unless stated

- (7) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (8) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year and the control period to date. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (9) Route Services – Asset Information – costs are lower than the regulatory baseline this year and the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (10) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (11) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.
- (12) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.

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

In £m cash prices unless stated

- (13) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (14) Group – there are noticeable savings this year compared to the regulatory expectation. Notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

Scotland's Railway

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	-	-	-	-	-
	-	-	-	-	-
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	32	43	11	-	33
Business rates	24	25	1	-	24
British transport police costs	8	8	-	-	8
ORR licence fee and railway safety levy	2	3	1	-	3
RDG membership costs	1	-	(1)	-	-
RSSB costs	1	1	-	-	1
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	68	80	12	-	69
Total traction electricity, industry costs and rates	68	80	12	-	69

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
British transport police costs	-	-	-	-
	-	-	-	-
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	65	81	16	-
Business rates	48	49	1	-
British transport police costs	16	16	-	-
ORR licence fee and railway safety levy	5	5	-	-
RDG membership costs	1	-	(1)	-
RSSB costs	3	3	-	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	138	154	16	-
Total traction electricity, industry costs and rates	138	154	16	-

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are lower than the previous year due to lower Traction electricity costs.

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were lower than expected which has led to lower expenses in the control period to date. 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.
- (3) ORR licence fee and railway safety – costs this year and the control period to date 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.
- (4) 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.
- (5) 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.

Scotland's Railway

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	23	14	(9)	(10)	21
Access charge supplement Income	(12)	(9)	3	-	(11)
Net (income)/cost	11	5	(6)	(10)	10
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	3	6	3	3	10
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	5	6	1	1	10
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	2	1	1	-
Access charge supplement Income	(3)	(2)	1	-	(2)
Net (income)/cost	(2)	-	2	1	(2)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(8)	-	8	8	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(8)	-	8	8	-
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	24	16	(8)	(9)	21
Access charge supplement Income	(15)	(11)	4	-	(13)
Net (income)/cost	9	5	(4)	(9)	8
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	(5)	6	11	11	10
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(3)	6	9	9	10
Cumulative					
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	44	25	(19)	(20)	-
Access charge supplement Income	(23)	(17)	6	-	-
Net (income)/cost	21	8	(13)	(20)	
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	13	21	8	8	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	15	21	6	6	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	4	3	3	-
Access charge supplement Income	(5)	(4)	1	-	-
Net (income)/cost	(4)	-	4	3	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(8)	1	9	8	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(8)	1	9	8	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	45	29	(16)	(17)	-
Access charge supplement Income	(28)	(21)	7	-	-
Net (income)/cost	17	8	(9)	(17)	
Schedule 8					
Performance element income	2	-	(2)	(2)	-
Performance element costs	5	22	17	16	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	7	22	15	14	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) 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 summer heat and heavy flooding, resulted in higher costs. Costs are also higher for the control period to date, as there is 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. As a result, financial underperformance is recognised for both the current year and the control period to date. Costs are broadly in line with the previous year.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the favourable control period to date position too, with both the current year and control period to date reflecting similar levels of financial overperformance.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). 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 heavy flooding experienced in the region. Costs also exceed the regulatory baseline for the control period to date. The inclement weather experienced in year plus last February being the wettest on record, as 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 broadly in line with last year's actuals.
- (2) Schedule 8 costs are broadly in line with the regulatory baseline but are favourable for the control period to date due to train performance being better than expected. In addition, the level of delay minutes attributable to train operators was higher than expected, meaning that Network Rail receive income under the performance regime

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 – Schedule 4 Access charge supplement income is in line with the regulatory baseline for both this year and the control period to date. 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. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

Scotland's Railway

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	49	47	(2)	-	47
PL Replace Partial	41	24	(17)	-	22
PL High Output	21	51	30	-	4
PL Refurbishment	5	2	(3)	-	4
PL Track Slab Track	6	-	(6)	-	5
Switches & Crossing - Replace	21	28	7	-	23
Switches & Crossing - Other	7	7	-	-	5
Off Track	9	9	-	-	9
Track Other	21	16	(5)	-	6
	180	184	4	(20)	125
Signalling					
Signalling Full	5	13	8	-	1
Signalling Partial	29	46	17	-	22
Signalling Refurb	10	34	24	-	5
Level crossings	7	15	8	-	3
Minor works	11	15	4	-	9
Other	-	-	-	-	-
	62	123	61	(6)	40
Civils					
Underbridges	41	30	(11)	-	31
Overbridges	8	14	6	-	7
Major structures	11	12	1	-	7
Tunnels	-	3	3	-	1
Minor works	11	12	1	-	8
Other	13	5	(8)	-	7
	84	76	(8)	(5)	61
Earthworks					
Earthworks - Embankments	6	5	(1)	-	10
Earthworks - Soil Cuttings	19	17	(2)	-	12
Earthworks - Rock Cuttings	6	6	-	-	8
Earthworks - Other	1	2	1	-	-
	32	30	(2)	3	30
Buildings					
Managed stations	2	2	-	-	-
Franchised stations	23	15	(8)	-	13
Light maint depots	2	2	-	-	1
Depot plant	-	-	-	-	-
Lineside buildings	3	1	(2)	-	2
MDU buildings	1	-	(1)	-	1
Other	-	-	-	-	-
	31	20	(11)	(1)	17
Electrical power and fixed plant					
AC distribution	1	1	-	-	2
Overhead Line	3	2	(1)	-	3
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	5	6	1	-	1
Other	2	1	(1)	-	-
Fixed plant	2	3	1	-	3
	13	13	-	(1)	9
Drainage					
Drainage (Track)	6	10	4	-	5
Drainage (Earthworks)	13	3	(10)	-	3
Drainage (Resilience)	-	1	1	-	-
	19	14	(5)	(4)	8
Property					
Property	1	3	2	-	-
	1	3	2	-	-
Total Regionally-managed renewals expenditure	422	463	41	(34)	290

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	2
	-	-	-	-	2
Telecoms					-
Operational communications	1	4	3	-	1
Network	1	4	3	-	1
SISS	1	6	5	-	1
Projects and other	1	-	(1)	-	-
Non-route capital expenditure	8	7	(1)	-	9
	12	21	9	(1)	12
Wheeled plant and machinery					
High output	3	3	-	-	3
Incident response	-	-	-	-	-
Infrastructure monitoring	-	1	1	-	-
Intervention	1	3	2	-	1
Materials delivery	-	3	3	-	1
On track plant	3	3	-	-	-
Seasonal	1	2	1	-	-
Other	1	1	-	-	1
	9	16	7	-	6
Route Services					
Business Improvement	7	3	(4)	-	10
IT Renewals	4	7	3	-	4
Asset Information	1	2	1	-	-
Other	1	-	(1)	-	-
	13	12	(1)	-	14
STE Renewals					
Intelligent infrastructure	7	5	(2)	-	3
Faster Isolations	1	6	5	-	3
Centrally Managed Signalling Costs	-	1	1	-	1
Research and development	6	4	(2)	-	3
Integrated Management System (Incl. BCR)	-	1	1	-	-
Other National SCADA Programmes	3	3	-	-	3
Small plant	1	1	-	-	-
Other	5	1	(4)	-	2
	23	22	(1)	-	15
Property					
Property	-	-	-	-	3
	-	-	-	-	3
Other renewals					
ETCS	2	3	1	-	2
Digital Railway	-	(2)	(2)	-	-
Civils - Insurance Fund	2	2	-	-	-
Buildings - Insurance Fund	-	2	2	-	-
OPEX/CAPEX Adjustment	(17)	(7)	10	-	(8)
Phasing overlay	-	(22)	(22)	-	-
System Operator	1	2	1	-	1
Other renewals	6	1	(5)	3	(1)
	(6)	(21)	(15)	3	(6)
Total centrally-managed renewals expenditure	51	50	(1)	2	46
TOTAL RENEWALS EXPENDITURE	473	513	40	(32)	336

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	96	86	(10)	-
PL Replace Partial	63	42	(21)	-
PL High Output	25	50	25	-
PL Refurbishment	9	5	(4)	-
PL Track Slab Track	11	6	(5)	-
Switches & Crossing - Replace	44	45	1	-
Switches & Crossing - Other	12	13	1	-
Off Track	18	19	1	-
Track Other	27	32	5	-
	305	298	(7)	(20)
Signalling				
Signalling Full	6	21	15	-
Signalling Partial	51	79	28	-
Signalling Refurb	15	50	35	-
Level crossings	10	21	11	-
Minor works	20	30	10	-
Other	-	-	-	-
	102	201	99	(9)
Civils				
Underbridges	71	62	(9)	-
Overbridges	15	19	4	-
Major structures	18	20	2	-
Tunnels	1	3	2	-
Minor works	19	23	4	-
Other	20	11	(9)	-
	144	138	(6)	(8)
Earthworks				
Earthworks - Embankments	16	11	(5)	-
Earthworks - Soil Cuttings	31	29	(2)	-
Earthworks - Rock Cuttings	14	12	(2)	-
Earthworks - Other	1	4	3	-
	62	56	(6)	8
Buildings				
Managed stations	2	3	1	-
Franchised stations	36	33	(3)	-
Light maint depots	3	4	1	-
Depot plant	-	-	-	-
Lineside buildings	5	1	(4)	-
MDU buildings	2	-	(2)	-
Other	-	-	-	-
	48	41	(7)	(3)
Electrical power and fixed plant				
AC distribution	3	1	(2)	-
Overhead Line	6	4	(2)	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	6	9	3	-
Other	2	3	1	-
Fixed plant	5	5	-	-
	22	22	-	(2)
Drainage				
Drainage (Track)	11	22	11	-
Drainage (Earthworks)	16	4	(12)	-
Drainage (Resilience)	-	2	2	-
	27	28	1	(5)
Property				
Property	1	5	4	-
	1	5	4	-
Total Regionally-managed renewals expenditure	711	789	78	(39)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	2	-	(2)	-
	2	-	(2)	-
Telecoms	-	-	-	-
Operational communications	2	7	5	-
Network	2	6	4	-
SISS	2	7	5	-
Projects and other	1	-	(1)	-
Non-route capital expenditure	17	16	(1)	-
	24	36	12	(1)
Wheeled plant and machinery				
High output	6	7	1	-
Incident response	-	-	-	-
Infrastructure monitoring	-	2	2	-
Intervention	2	4	2	-
Materials delivery	1	7	6	-
On track plant	3	3	-	-
Seasonal	1	3	2	-
Other	2	-	(2)	-
	15	26	11	-
Route Services				
Business Improvement	17	14	(3)	-
IT Renewals	8	9	1	-
Asset Information	1	2	1	-
Other	1	1	-	-
	27	26	(1)	-
STE Renewals				
Intelligent infrastructure	10	8	(2)	-
Faster Isolations	4	10	6	-
Centrally Managed Signalling Costs	1	1	-	-
Research and development	9	8	(1)	-
Integrated Management System (Incl. BCR)	-	3	3	-
Other National SCADA Programmes	6	6	-	-
Small plant	1	2	1	-
Other	7	4	(3)	-
	38	42	4	-
Property				
Property	3	2	(1)	-
	3	2	(1)	-
Other renewals				
ETCS	4	5	1	-
Digital Railway	-	(2)	(2)	-
Civils - Insurance Fund	2	5	3	1
Buildings - Insurance Fund	-	4	4	-
OPEX/CAPEX Adjustment	(25)	(14)	11	-
Phasing overlay	-	(22)	(22)	-
System Operator	2	3	1	-
Other renewals	5	1	(4)	5
	(12)	(20)	(8)	6
Total centrally-managed renewals expenditure	97	112	15	5
TOTAL RENEWALS EXPENDITURE	808	901	93	(34)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is lower than the regulatory baseline, primarily due to Regionally-managed Signalling programme being profiled into later in the control period. Overall expenditure is higher than the previous year, which is in line with regulatory expectations.

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. The key programme that has been replanned into future years is the Edinburgh systems control programme. Financial underperformance has been reported this year, with a significant portion of this relating to the impact of Covid-19, especially on the Track portfolio. Extra costs borne as a result of Covid-19 include re prioritising work at the beginning of the pandemic, additional welfare and labour costs, PPE purchases. Extra Vehicle costs were also incurred to ensure adherence to social distancing rules. Lost volumes, particularly in High output where operators were stranded in eastern Europe due to Covid-19 travelling restrictions, also contributed to the financial underperformance in year. Control period to date regionally managed renewals spend is lower than the regulatory baselined due to aforementioned reprofiling of Signalling spend. Financial underperformance has been recognised in the control period to date, due to the extra costs identified.
- (2) Track – expenditure was lower than the regulatory baseline this year, primarily due to lost volumes in high output, which also contributed to the financial underperformance recognised in year. To adhere to Covid-19 restrictions, midweek works were removed, which led to deferral costs. A number of high output machine operators were stranded in eastern Europe, as Covid-19 travel restrictions meant non-essential travel was prohibited, leading to lost volumes. The high output TRS machine also had gauging issues later in the year, which led to volume being unable to be delivered. Financial underperformance has been recognised so far this control period, due to the aforementioned reasons. Control period to date investment is higher than the regulatory baseline, which is due to the acceleration of schemes in FY20, to utilise funding resources.

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

In £m cash prices unless stated

- (3) Signalling – expenditure was markedly lower than the regulatory baseline expected this year and for the control period to date. 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. 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 change in scope on level crossing conversion schemes and delays in gaining access due to Covid-19 restrictions at the beginning of the year. These aforementioned reasons supplemented with additional commercial claims on large projects, design issues and unforeseen extra landlord compensation to gain access to sites in FY20, have led to financial underperformance for the control period. Expenditure is higher than the previous year, which is in line with regulatory expectations.
- (4) Civils – overall costs were higher than the baseline this year. Financial underperformance has been reported this year and for the control period to date. 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 and financial performance this year is broadly in line with the regulatory baseline. The Stonehaven works carried out to repair the network after the derailment last summer are funded via the group insurance renewals fund and therefore the spend is not captured within the regional figures. Control period to date spend is slightly higher than the regulatory baseline, which is driven by acceleration of activity partly offset by financial outperformance savings. Additional volumes were delivered in Embankments, Soil Cuttings and Rock Cuttings to utilise available resources. Financial outperformance in the control period 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.
- (6) Buildings – expenditure this year is higher than the regulatory baseline and last year's outturn. The primary reason for this, is additional investment in the franchised stations portfolio, part of which was slipped from FY20. Financial underperformance was recognised in year and control period to date. Higher contract tender prices led to some postponement of works whilst alternative delivery options were assessed to optimise overall funding. Delivery was also impacted by Covid-19 and the impact social distancing had on contractor availability and internal ability to complete works. Delays in designs and planning have also led to additional costs on some projects. Costs were higher than the previous year which was largely expected in the higher regulatory baseline this year.
- (7) Electrical power and fixed plant – investment is in line with the regulatory baseline this year and the control period to date. There has been some marginal financial underperformance in year and for the control period to date, which is mainly due to higher tender prices and increased complexity in design. Costs are higher than last year's outturn, which is in line with the regulatory expectation

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

In £m cash prices unless stated

- (8) Drainage – expenditure this year is higher than the regulatory baseline and last year's actual. This is primarily due to additional activity in earthworks affecting drainage schemes. The Carmount Tragedy led to additional emergency renewal activity being required, and although a large portion was funded by group insurance, the excess is borne by the region. The region also undertook a new programme of works that identified and prioritised new sites to reduce the chance of experiencing landslips, rock falls and mining collapses. This change in workbank led to financial underperformance in year

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in Telecoms 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 higher than the previous year, primarily due to Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn.

Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities.

- (2) Track – no costs were incurred 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. Last year 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 lower than the regulatory baseline. Slippage on operation communications and SISS projects have been slightly offset by Non-route capital expenditure acceleration. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. There has been some financial underperformance experienced this year due to delays in the programme testing and delivery because of complexity of design works, plus hardware malfunctions

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

In £m cash prices unless stated

- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The control period to date spend is 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.
 - b. Intervention – costs were lower than the regulatory baseline and in line with last year's outturn. This is mainly due to delays in replacing track plain line stone blower machines. This work has been reprofiled into future years.
 - c. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory.
- (5) Route Services – Expenditure is higher than the regulatory baselines but lower than last year's outturn. Last year significant investment to major programmes included 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. Whilst this spend has continued into this year but has slowed down in line with what was assumed in the regulatory baseline.
- No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is higher 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.
 - b. Faster isolations – costs are lower than the regulatory baseline and lower than last year's outturn. This is due to fewer schemes being identified and progressed caused by delays in design and tendering processes. Due to the lack of definable outputs, this fund is outside the scope of financial performance.

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

In £m cash prices unless stated

- c. Centrally-managed signalling costs – costs are lower than the regulatory baseline and last year's outturn. This reflects the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised.
 - d. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
 - e. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - f. Small Plant – investment is 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 higher than the previous year due to investment in purchases and refurbishment projects to utilise available resource.
 - g. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.
- (7) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure is marginally lower than the regulatory baseline but in line with last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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 control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund.

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

In £m cash 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.
- 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.
- e. System Operator – expenditure this year is lower than the regulatory baseline but in line with last year's outturn.
- f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Scotland's Railway

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
Transport Scotland funded						
Edinburgh to Glasgow Improvement Programme	17	11	(7)	54	58	(2)
Aberdeen to Inverness	1	1	-	70	72	4
Kintore Station	2	1	(1)	14	14	(1)
Rolling Programme of Electrification	4	18	-	14	28	(5)
East Kilbride Barrhead	16	14	-	23	21	-
New Down Platform Dunbar	-	-	4	7	9	4
Highland ML JTI Ph 2	-	-	-	6	7	2
Dunblane to Perth	2	7	-	3	17	-
Cadder HST Depot	20	20	-	20	20	-
Hairmyres Land Purchase	14	11	-	14	12	-
Feeder St/Power Mod Ele	27	11	-	27	11	-
Edinburgh Waverley Western Approaches	3	13	1	4	14	1
Reston Station	3	11	-	3	12	-
North Hanover Street Development	2	9	-	4	12	-
West of Fife Enhancements	3	8	-	4	9	-
A9 Interface- Lynebeg Bridge	2	7	-	2	7	-
Far North Line Route Enhanceme	5	6	-	7	10	-
East Linton Station	5	6	-	6	7	-
Other	35	75	(3)	69	97	-
Total	161	229	(6)	351	437	3
Other Capital Expenditure	-	-	-	13	-	-
Other third party funded schemes						
Other third Party	2	-	-	-	-	-
Total	2	-	-	-	-	-
Total enhancements	163	229	(6)	364	437	3
Total enhancements less Other third party funded schemes	161	229	(6)	364	437	3

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

In £m cash prices unless stated

Notes:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed in the regulatory baseline, adjusted for any agreed changes in scope, outputs and price agreed through the change control process with Scotland's Railway's core funder (TS). 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 £161m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£163m) less the PAYGO schemes 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. 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. Overall, Enhancement expenditure is lower than the previous year due to impact of Covid-19 and different portfolio of schemes being delivered this control period. 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 cash prices unless stated

- (1) 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 underperformance. Some notable variances at programme level this year include:
 - a. Edinburgh to Glasgow Improvement Programme (EGIP) – The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Expenditure this year has accelerated, with cumulative outturn now close to the baseline expectations. Financial underperformance is a result of Covid-19 impact and additional platform and staircase works on Glasgow Queen Street station project.
 - b. Aberdeen to Inverness – This project to upgrade the railway structure provided capacity for the construction of two new stations. Kintore opened October 2020 and Inverness Airport is due to open late 2022. Infrastructure works consist of redoubling of the track between Aberdeen and Inverurie, signalling enhancements and platform extensions along the route. Expenditure was broadly in line with the regulatory expectation this year. Financial outperformance has been recognised for the control period to date as the programme anticipated final cost is less than baselined, this has been achieved through tighter cost control and contingency management.
 - c. Rolling Programme of Electrification – This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Progress this year is slower than anticipated and the cumulative financial underperformance relates to final compensation settlements on completed programme.
 - d. New Down Platform Dunbar – This project has a new platform constructed on the Down Line (northbound) at Dunbar to provide increased capacity and improve operational flexibility on the East Coast Main Line. The project was sustainably complete in 2019-20 and the financial outperformance in the current year has been recognised once everything had been finalised.
 - e. Feeder Station/Power Modelling Electrification – Projects part of Rolling Programme of Decarbonisation (RPD) infrastructure and rolling stock enhancement to meet the Scottish Government's requirement to decarbonise railway traction by 2035. Expenditure this year has accelerated development work on full traction power modelling for new and enhanced feeder stations.
 - f. Other – this heading captures investment activity on numerous smaller programmes that have incurred small amount of FPM
- (2) Other capital expenditure – This category includes an allocation of capital portfolio-level commercial claims provisions held at a Network Rail level. Costs are recognised in individual programmes once they become apparent.
- (3) Third party funded schemes – there was minimum activity in this category this year.

Scotland's Railway

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21		Unit Costs	FY20		Unit Costs
	Unit	AFC	AFV		AFC	AFV	
Track	PL Replace Full	km	72	62	1,161	71	2,630
	PL Replace Partial	km	90	288	313	40	303
	PL High Output	km	22	10	2,200	-	-
	PL Refurbishment	km	18	208	87	9	78
	PL Track Slab Track	km	-	-	-	-	-
	Switches & Crossing - Replace	point ends	12	25	480	14	326
	Switches & Crossing - Other	point ends	31	269	115	10	114
	Off Track	km/No.	32	1,231	26	31	25
	Track Other		-	-	-	-	-
	Total		277	-	-	175	-
Signalling	Signalling Full	SEU	2	4	500	-	-
	Signalling Partial	SEU	-	-	-	26	271
	Signalling Refurb	SEU	5	10	500	2	286
	Level crossings	No.	1	1	1,000	3	3,000
	Minor works		-	-	-	-	-
	Other		-	-	-	-	-
	Total		8	-	-	31	-
Civils	Underbridges	m2	75	28,162	3	89	2
	Overbridges (incl BG3)	m2	11	509	22	6	10
	Major Structures		-	-	-	-	-
	Tunnels	m2	-	-	-	3	2
	Culverts	m2	7	1,104	6	4	7
	Footbridges	m2	2	605	3	2	3
	Coastal & Estuarial Defences	m2	-	-	-	-	-
	Retaining Walls	m2	10	4,827	2	9	2
	Structures Other	m2	-	-	-	-	-
	Other		-	-	-	-	-
	Total		105	-	-	113	-
Earthworks	Earthworks - Embankments	No.	13	535	24	9	33
	Earthworks - Soil Cuttings	No.	48	1,354	35	26	39
	Earthworks - Rock Cuttings	No.	15	295	51	13	59
	Earthworks - Other	No.	1	1	1,000	-	-
	Drainage - Earthworks	m	12	88,661	0	3	0
	Drainage - Other	m	21	42,047	0	8	1
	TOTAL		110	-	-	59	-
Buildings	Buildings (MS)	m2	1	31,500	0	-	-
	Platforms (MS)	m2	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-
	Other (MS)	m2	-	-	-	20,000	-
	Buildings (FS)	m2	-	591	-	1	0
	Platforms (FS)	m2	13	9,384	1	1	0
	Canopies (FS)	m2	-	-	-	2	1
	Train sheds (FS)	m2	-	-	-	3	1
	Footbridges (FS)	m2	1	430	2	1	3
	Lifts & Escalators (FS)	m2	-	-	-	-	-
	Other (FS)	m2	-	-	-	-	-
	Light Maintenance Depots	m2	-	-	-	1	0
	Depot Plant	m2	-	-	-	-	-
	Lineside Buildings	m2	-	293	-	-	-
	MDU Buildings	m2	1	800	1	-	-
	NDS Depot	m2	-	-	-	-	-
	Other	m2	-	-	-	-	-
	Total		16	-	-	9	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	4	67	60	4	67	60
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	1	6	167
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	2	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	4	62	65	5	104	48
	Signalling Supply Points	point end	1	3	333	2	3	667
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		9	-	-	12	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	52	-
	Public Address	No.	-	-	-	6	904	7
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		-	-	-	6	-	-

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - In Plain Line Replace Full, there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There has been an increase in the unit cost of Switches & Crossings – Replace in the year. Significant projects in the year took place at Cadder East, Grantshouse Junction and Weymss Bay which helped to drive up the unit cost.
- (3) Signalling – There has been an increase in the unit cost of Signalling Refurb in the year. There has been a large project (Aberdeen to Stonehaven) which has dragged up the unit cost. There has been a decrease in the unit cost of Level Crossings in the year. In the prior year there were particularly expensive projects in Murie. This project had a significant effect on the unit cost in 2019/20 and as this finished in that year the current year's rate is lower.
- (4) Civils – There has been a significant increase in the unit cost for Overbridges. This is because there was a much higher proportion of expensive replace and repair work in 2020-21 compared to the prior year.

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

In £m cash prices unless stated

- (5) Earthworks & Drainage – There has been a decrease in the unit cost of both Embankments and Rock Cuttings in the year. There has been a decrease in the proportion of full renewals in the current year with a higher proportion of less expensive refurb and maintain taking place instead.
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of Signalling Power cables in the year. In the prior year there was a major project at Lockerbie which had a low unit cost and dragged down the overall unit cost in this category. However, there has been a decrease in the unit cost of Signalling Supply Points in the year. There was only one project in each of the two years. The sample size is too small to make any meaningful analysis between the years.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Scotland's Railway

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	7,551
Indexation to 2020-21 prices	7,574
RAB additions	
Renewals expenditure	473
Enhancements expenditure	-
Less amortisation	(473)
Property Sales	(3)
Closing RAB	7,571

Net debt

	£m
Opening net debt	5,384
Income	(1,029)
Expenditure	894
Financing Costs - Government borrowing	95
Financing Costs - index linked debt	56
Financing Costs - Other	20
Corporation tax	6
Working capital	(26)
Closing net debt	5,400

Statement 4: Regulatory financial position, Scotland's Railway

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was £0.5bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either Transport Scotland or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Scotland's Railway and how it has moved during the year.
- (8) 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 is broadly the same the same as the previous year. This was mainly due to working capital benefits being 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.
- (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 cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

Eastern

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	2,210	1,953	257	-	1,645
Franchised track access charges	527	620	(93)	(47)	646
Other Single Till Income	138	168	(30)	(31)	154
Total Income	2,875	2,741	134	(78)	2,445
Operating expenditure					
Network operations	227	198	(29)	(29)	201
Support costs	258	241	(17)	19	182
Traction electricity, industry costs and rates	260	294	34	(1)	246
Maintenance	566	511	(55)	(50)	514
Schedule 4	108	131	23	(16)	109
Schedule 8	(71)	29	100	100	28
	1,348	1,404	56	23	1,280
Capital expenditure					
Renewals	1,115	1,065	(50)	(118)	854
Enhancements	764	1,194	430	6	802
	1,879	2,259	380	(112)	1,656
Risk expenditure					
Risk (Centrally-held)	-	41	41	-	-
Risk (Route-controlled)	-	14	14	-	-
Risk (Contingent asset management funding)	-	42	42	-	-
	-	97	97	-	-
Other expenditure					
Financing costs	454	591	137	-	564
Corporation tax	15	7	(8)	-	-
	469	598	129	-	564
Total expenditure	3,696	4,358	662	(89)	3,500
Total Financial Out/(under) performance				(167)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	3,849	3,805	44	-
Franchised track access charges	1,172	1,291	(119)	(48)
Other Single Till Income	292	334	(42)	(45)
Total Income	5,313	5,430	(117)	(93)
Operating expenditure				
Network operations	427	408	(19)	(19)
Support costs	439	477	38	41
Traction electricity, industry costs and rates	504	554	50	-
Maintenance	1,078	1,016	(62)	(64)
Schedule 4	217	228	11	(8)
Schedule 8	(43)	67	110	111
	2,622	2,750	128	61
Capital expenditure				
Renewals	1,966	1,915	(51)	(126)
Enhancements	1,564	1,957	393	(36)
Other	-	-	-	-
	3,530	3,872	342	(162)
Risk expenditure				
Risk (Centrally-held)	-	38	38	-
Risk (Route-controlled)	-	14	14	-
Risk (Contingent asset management funding)	-	63	63	-
	-	115	115	-
Other expenditure				
Financing costs	1,015	1,184	169	-
Corporation tax	15	10	(5)	-
	1,030	1,194	164	-
Total expenditure	7,182	7,931	749	(101)
Total Financial Out/(under) performance				(194)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan (the regulatory baseline) and the prior year. Greater detail and insights are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £796m lower than the regulatory baseline and £632m lower than the control period to date regulatory baseline. This was mostly due to reprofiling enhancements expenditure into later years of the control period.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £167m this year and £194m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs, other single till income and maintenance expenditure being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was higher than the regulatory baseline. This was mostly due to increased expenditure on renewals. 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 variable usage charge and traction electricity income, as fewer trains ran in year as a result of the Covid-19 pandemic. 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 lower than the previous year mostly due to the reduction in variable usage charged mentioned above. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to impact of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Network operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to keep moving, extra staff costs were incurred to provide additional resilience Network Operations costs are discussed in more detail in Statement 3.1. These extra costs, resulted in financial underperformance this year
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, which have been partly offset by the savings made as a result of the reduced PRP expense incurred. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date 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 business rates expenses. 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. 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 extra costs incurred to respond to the Covid-19 pandemic, investment in additional schemes to help asset resilience and train performance. These extra 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.
- (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 lower activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Schedule 4 costs are set out in more detail in Statement 3.5.

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

In £m cash prices unless stated

- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. This has also resulted in the financial outperformance recognised for the current year and control period to date. Schedule 8 costs are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Regions were asked to identify opportunities to accelerate projects from future years in order to optimise resources and funding caused by savings elsewhere, notably DfT funded enhancements schemes. Significant causes for this increase include financial underperformance within the Track portfolio, acceleration of jobs from future years mentioned above, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to a multitude of factors including the impact of Covid-19 on project delivery, higher like for like costs within the track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above. 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 due to Covid-19. Small financial outperformance has been recognised this year to efficiencies realised in the Crossrail and trans Pennine route upgrade programmes. Due to 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 Department for Transport. 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) 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.
- (15) Other expenditure – Corporation tax costs are higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Eastern

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	190	190	-	-	231
Variable usage charge	57	94	(37)	(37)	82
Electrification asset usage charge	7	10	(3)	(3)	9
Capacity charge	-	-	-	-	-
Open access income	10	18	(8)	(8)	19
Managed stations long term charge	14	13	1	1	14
Franchised stations long term charge	34	34	-	-	32
Schedule 4 access charge supplement	66	66	-	-	102
	378	425	(47)	(47)	489
Other single till income					
Freight income					
Freight variable usage charge	20	22	(2)	(2)	22
Freight other income	1	1	-	-	1
	21	23	(2)	(2)	23
Stations income					
Managed stations qualifying expenditure	13	14	(1)	(1)	13
Franchised stations lease income	12	13	(1)	(1)	11
	25	27	(2)	(2)	24
Facility and financing charges					
Facility charges	14	15	(1)	(1)	13
	14	15	(1)	(1)	13
Property income					
Property rental	16	58	(42)	(42)	-
Property sales	3	3	-	-	-
	19	61	(42)	(42)	-
Depots Income	26	24	2	2	27
Other income	1	2	(1)	(1)	-
Total other single till income	106	152	(46)	(46)	87
Total Regionally-managed income	484	577	(93)	(93)	576
Centrally-managed income					
Network grant	1,824	1,532	292	-	1,244
Internal financing grant	171	214	(43)	-	186
External financing grant	170	171	(1)	-	186
BTP grant	30	29	1	-	29
Corporation tax grant	15	7	8	-	-
Infrastructure cost charges	8	8	-	-	8
Schedule 4 access charge supplement	15	16	(1)	-	22
Traction electricity charges	126	171	(45)	-	127
Freight traction electricity charges	3	2	1	-	2
	2,362	2,150	212	-	1,804
Other single till income					
Property income					
Property rental	6	6	-	-	64
Property sales	23	8	15	15	1
	29	14	15	15	65
Total other single till income	29	14	15	15	65
Total centrally-managed income	2,391	2,164	227	15	1,869
Total income	2,875	2,741	134	(78)	2,445

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	421	430	(9)	-
Variable usage charge	138	177	(39)	(39)
Electrification asset usage charge	16	18	(2)	(2)
Capacity charge	-	-	-	-
Open access income	29	36	(7)	(7)
Managed stations long term charge	28	27	1	2
Franchised stations long term charge	66	67	(1)	(1)
Schedule 4 access charge supplement	168	169	(1)	(1)
	866	924	(58)	(48)
Other single till income				
Freight income				
Freight variable usage charge	42	43	(1)	(1)
Freight other income	2	1	1	-
	44	44	-	(1)
Stations income				
Managed stations qualifying expenditure	26	28	(2)	(2)
Franchised stations lease income	23	27	(4)	(2)
	49	55	(6)	(4)
Facility and financing charges				
Facility charges	27	28	(1)	(2)
	27	28	(1)	(2)
Property income				
Property rental	16	58	(42)	(42)
Property sales	3	4	(1)	-
	19	62	(43)	(42)
Depots Income	53	49	4	5
Other income	1	2	(1)	(4)
Total other single till income	193	240	(47)	(48)
Total Regionally-managed income	1,059	1,164	(105)	(96)
Centrally-managed income				
Network grant	3,064	2,971	93	-
Internal financing grant	356	408	(52)	-
External financing grant	355	359	(4)	-
BTP grant	59	57	2	-
Corporation tax grant	15	10	5	-
Infrastructure cost charges	16	17	(1)	-
Schedule 4 access charge supplement	37	38	(1)	-
Traction electricity charges	253	312	(59)	-
Freight traction electricity charges	5	4	1	-
	4,160	4,176	(16)	-
Other single till income				
Property income				
Property rental	70	68	2	2
Property sales	24	22	2	1
	94	90	4	3
Total other single till income	94	90	4	3
Total centrally-managed income	4,254	4,266	(12)	3
Total income	5,313	5,430	(117)	(93)

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is higher than the current year regulatory baseline mainly due to higher Network Grants, partially offset by lower Traction electricity income, financing grants, variable usage charge and reduction in property income. Income is higher than the previous year mostly due to additional grant income received, reflecting the new financial framework for CP6 but has been partially offset by lower property income due to Covid-19. Income for the control period to date, however, is lower than the regulatory baseline, due to lower property income and a lower variable usage charge. This is subsequently reflected in the financial underperformance for both the year, and the control period to date.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This also explains the lower income in the control period to date. Income is lower than the previous year, due to the impact of Covid-19 highlighted above but also, movement of Crossrail Supplementary Access Charge from Eastern to Western and Wales. There has also been a reduced Schedule 4 access charge supplement, which is in line with the regulatory baseline. As to be expected, the decrease in property income and in train services has resulted in financial underperformance for both this year, and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. The charge is lower than the prior year, due to the Crossrail Supplementary Access Charge being transferred to Western and Wales region.
- (3) Variable usage charge - income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services considered superfluous by the industry. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.
- (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.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (5) Open access income – income is lower than the regulatory baseline and prior year due to the Open access income received by London Underground moving over from the Eastern region to the Southern region. This regulatory baseline has been adjusted to include this movement, which was agreed with the regulator.
- (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.
- (7) Freight Income – income is slightly lower than the regulatory baseline this year due to the disruption caused by Covid-19. This was particularly apparent at the start of the pandemic where freight volumes experienced their lowest quarter since comparable records began in 1998-99. Income is lower than the previous year due to the aforementioned impact of the pandemic. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (8) Property rental – this year's income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (9) Property sales – the current year is in line with the regulatory baseline and is higher than the previous year as some of the responsibilities for property sales has been devolved from the centre. This means a reduction in Centrally-managed property sales income and an increase in Regionally-managed. However, the impact of the pandemic means that property sales have reduced year-on-year across Network Rail as a whole.
- (10) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to additional services offered to operators. Additional services provided this year have increased income compared to 2019/20.

Centrally-managed income

- (1) Aggregate Centrally-managed income is higher than the CP6 baseline mainly due to higher Network Grants, partially offset by lower Traction electricity income and lower financing grants. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6 where grants are received in the current year to meet expenditure requirement.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (2) Grant income – under the financial framework Network Rail operates under in control period 6, the level of grants receivable from DfT are dependent upon the investment undertaken 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 greater than the regulatory baseline as accelerated activity and higher like for like renewal costs have led to higher renewals expenditure than assumed in the regulatory baselines as noted in statement 3. In the control period to date, the Network grant recognised is higher than the baseline due to the additional activity experienced so far. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in statement 3, the Network grant is substantially higher than last year.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times-
- (5) External financing grants – grants received in the year and the control period to date is slightly lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.
- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. This is largely due to the aforementioned higher Network grant. As some of this funds renewals activity but there is no change in the corresponding renewals costs recognised in the Income Statement, this helps generate a profit on which tax has to be paid. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.

Statement 2: Analysis of income, Eastern – continued

In £m cash prices unless stated

- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Property rental – income was broadly in line with the baseline this year but is lower than the previous year, as responsibility for most of the property estate has devolved meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is favourable to the regulatory baseline despite to additional income generated in 2019/20, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston.
- (11) Property sales – the current year is higher than the regulatory baseline and last year's actuals. This is primarily driven by the £22m sale of the Cricklewood site in eastern, which was a sale of 50 acres of freight land to provide for residential property.

Eastern

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	220	191	(29)	(29)	194
Maintenance	547	488	(59)	(56)	494
Support costs	76	41	(35)	(35)	48
Traction electricity, industry costs and rates	2	-	(2)	(2)	1
Schedule 4	103	113	10	(29)	110
Schedule 8	(67)	25	92	92	25
	881	858	(23)	(59)	872
Capital expenditure					
Renewals	968	939	(29)	(123)	733
Enhancements	688	1,194	506	6	734
	1,656	2,133	477	(117)	1,467
Total Regionally-managed expenditure	2,537	2,991	454	(176)	2,339
Centrally-managed expenditure					
Operating expenditure					
Network operations	7	7	-	-	7
Maintenance	19	23	4	6	20
Support costs	182	200	18	54	134
Traction electricity, industry costs and rates	258	294	36	1	245
Schedule 4	5	18	13	13	(1)
Schedule 8	(4)	4	8	8	3
	467	546	79	82	408
Capital expenditure					
Renewals	147	126	(21)	5	121
Enhancements	76	-	(76)	-	68
	223	126	(97)	5	189
Risk Expenditure	-	97	97	-	-
Other					
Financing costs	454	591	137	-	564
Taxation	15	7	(8)	-	-
	469	598	129	-	564
Total centrally-managed expenditure	1,159	1,367	208	87	1,161
Total expenditure	3,696	4,358	662	(89)	3,500

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	413	393	(20)	(20)
Maintenance	1,039	972	(67)	(64)
Support costs	123	79	(44)	(44)
Traction electricity, industry costs and rates	3	-	(3)	(3)
Schedule 4	213	193	(20)	(39)
Schedule 8	(42)	60	102	102
	1,749	1,697	(52)	(68)
Capital expenditure				
Renewals	1,699	1,640	(59)	(139)
Enhancements	1,421	1,957	536	(36)
	3,120	3,597	477	(175)
Total Regionally-managed expenditure	4,869	5,294	425	(243)
Centrally-managed expenditure				
Operating expenditure				
Network operations	14	15	1	1
Maintenance	39	44	5	-
Support costs	316	398	82	85
Traction electricity, industry costs and rates	501	554	53	3
Schedule 4	4	35	31	31
Schedule 8	(1)	7	8	9
	873	1,053	180	129
Capital expenditure				
Renewals	267	275	8	13
Enhancements	143	-	(143)	-
Other	-	-	-	-
	410	275	(135)	13
Risk Expenditure	-	115	115	-
Other				
Financing costs	1,015	1,184	169	-
Taxation	15	10	(5)	-
	1,030	1,194	164	-
Total centrally-managed expenditure	2,313	2,637	324	142
Total expenditure	7,182	7,931	749	(101)

Statement 3: Analysis of expenditure, Eastern – continued

In £m cash 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, lower finance expenses incurred and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes. Costs are higher than the previous year mainly due to increased renewals investment. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, due to the impact of Covid-19 on project delivery and higher like for like costs within the track portfolio.

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 and higher like for like costs in Renewals, higher operating expenditure as a result of extra investment in performance improvement plans, Putting passenger first programme costs and the impact of Covid-19 across all expenditure line items. Costs are higher than the previous year mainly due to the aforementioned reasons. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. The financial underperformance recognised this year and for the Control Period to date relates to overspend in the Renewals category, due to the impact of Covid-19 across spend categories and delivery issues within the track portfolio.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to reduced financing costs and risk expenditure. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Eastern

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	96	91	(5)	(5)	93
Operations Management	26	21	(5)	(5)	20
Controllers	16	10	(6)	(6)	10
Electrical control room operators	5	5	-	-	4
	143	127	(16)	(16)	127
Non signaller expenditure					
Mobile operations managers	17	14	(3)	(3)	14
Managed stations	16	13	(3)	(3)	11
Performance	6	8	2	2	5
Other	38	29	(9)	(9)	37
Total Regionally-managed Operations expenditure	220	191	(29)	(29)	194
Centrally-managed Operations expenditure					
Network Services	7	7	-	-	7
Total centrally-managed Operations expenditure	7	7	-	-	7
Total operations expenditure	227	198	(29)	(29)	201

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	188	187	(1)	(1)
Operations Management	46	42	(4)	(4)
Controllers	26	21	(5)	(5)
Electrical control room operators	9	12	3	3
	269	262	(7)	(7)
Non signaller expenditure				
Mobile operations managers	31	30	(1)	(1)
Managed stations	27	25	(2)	(2)
Performance	11	15	4	4
Other	75	61	(14)	(14)
Total Regionally-managed Operations expenditure	413	393	(20)	(20)
Centrally-managed Operations expenditure				
Network Services	14	15	1	1
Total centrally-managed Operations expenditure	14	15	1	1
Total operations expenditure	427	408	(19)	(19)

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. These costs were augmented by investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line. Control Period to date spend is higher than the regulatory assumption, primarily driven by the additional aforementioned costs incurred this year, which has led to the financial underperformance recognised.

Regionally-managed operations expenditure

- (2) Total Regionally-managed costs were higher than the regulatory expectation this year and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. These costs were augmented by investment in performance improvement initiatives. Control Period to date is higher than the regulatory assumption, primarily driven by the additional aforementioned costs incurred this year. These additional costs have led to financial underperformance this year and for the control period to date.
- (3) Signaller and level crossing keepers - costs are higher than the regulatory expectation for both the current year, and the control period to date. Savings made last year due to reduced recruitment have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic.
- (4) Operations management - costs are higher than the regulatory expectation for both the current year, and the control period to date. Savings made last year due to reduced recruitment, have been offset by increased in staff costs to ensure the railway kept moving during the Covid-19 pandemic.
- (5) Mobile operation managers – costs are higher than the regulatory target for this year, and the control period to date. Premium hour costs have increased this year to provide extra resilience during the Covid-19 pandemic.

Statement 3.1: Analysis of operations expenditure, Eastern – continued

In £m cash prices unless stated

- (6) Managed stations – costs are higher than both the regulatory target this year and last year's actuals. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra agency staff have also been recruited to help manage passenger commuting and help station staff enforce social distancing. Despite the effects of the above reasons, the Control Period to date is largely in line with the regulatory assumption.
- (7) Other – costs are significantly higher than the regulatory target both for the current year, and the control period to date. This is primarily due to investment in performance improvement initiatives to benefit passengers by targeting those areas of the network prone to failure or at strategically important points on the line.

Centrally-managed operations expenditure

- (8) Network Services – costs are in line with the regulatory baseline and the previous years actual.

Eastern

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	244	214	(30)	(30)	215
Signalling & Telecoms	89	76	(13)	(13)	84
Civils	68	65	(3)	(2)	61
Buildings	23	22	(1)	1	23
Electrical power and fixed plant	39	37	(2)	(2)	36
Other network operations	84	74	(10)	(10)	75
	547	488	(59)	(56)	494
Centrally-managed maintenance expenditure					
Telecoms	6	9	3	3	5
Route Services - Asset Information	10	9	(1)	(1)	10
STE Maintenance	1	1	-	-	2
Property	-	1	1	1	1
Route Services - Other	(1)	-	1	1	6
Other	3	3	-	2	(4)
	19	23	4	6	20
Total maintenance expenditure	566	511	(55)	(50)	514

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	458	428	(30)	(30)
Signalling & Telecoms	173	153	(20)	(20)
Civils	128	130	2	1
Buildings	46	44	(2)	2
Electrical power and fixed plant	75	73	(2)	(2)
Other network operations	159	144	(15)	(15)
	1,039	972	(67)	(64)
Centrally-managed maintenance expenditure				
Telecoms	11	17	6	6
Route Services - Asset Information	20	17	(3)	(3)
STE Maintenance	3	4	1	1
Property	1	2	1	1
Route Services - Other	5	1	(4)	(9)
Other	(1)	3	4	4
	39	44	5	-
Total maintenance expenditure	1,078	1,016	(62)	(64)

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and last year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed maintenance costs

- (2) Overall, maintenance costs are higher than the regulatory baseline this year and last year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. These additional costs have led to financial underperformance this year and for the control period to date. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

- (3) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than both the regulatory baseline and the previous year's expenditure; Covid-19 resilience and compliance investment has largely contributed to this extra spend. This has included additional staff costs, procurement of Covid-19 secure PPE and the fitting of vehicles with shields to ensure adherence to social distancing rules. Implementation of the PPF structure has also led to increased track related costs, with an example being the new DU created in Middlesbrough, which saw 75 new jobs created and further investment in track quality has also led to an increase in track related costs. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.
- (4) Signalling & telecoms – This year, costs are higher than the regulatory baseline and the previous year's expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend, along with implementation of the PPF programme. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There were also further resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the fiscal effects of adverse weather the year before.
- (5) Civils – costs were slightly higher than the regulatory baseline. Reactive maintenance expenses were marginally higher than regulatory expectation. 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. Control Period to date spend is lower than the regulatory baseline due to efficiencies achieved in managing inspections the year before.
- (6) 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 and the Control Period to date in this category is slightly over what the regulator assumed, due to higher reactive maintenance expenditure. However, reactive maintenance variances in this category are treated as neutral when calculating Network Rail's financial performance. This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are broadly in line with the previous year.

Statement 3.2: Analysis of maintenance expenditure, Eastern – continued

In £m cash prices unless stated

- (7) Other network operations – costs are higher than the regulatory baseline and the previous year's actual. There are numerous contributory factors including Covid-19 resilience and compliance investment contributing to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Control Period to date spend is higher than the regulatory assumption, primarily due to the additional aforementioned costs.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are broadly consistent with the previous year.
- (3) Route Services – Other – Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are below the regulatory baseline as the extra costs this year were offset by savings last year.

Eastern

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	2	3	1	1	4
Finance	6	3	(3)	(3)	5
Accommodation	21	13	(8)	(8)	16
Utilities	19	19	-	-	18
Other	28	3	(25)	(25)	5
	76	41	(35)	(35)	48
Centrally-managed Support costs					
Finance & Legal	12	15	3	3	10
Communications	6	7	1	1	3
Human Resources	8	8	-	-	6
System Operator	10	13	3	3	11
Property	-	1	1	1	(4)
Telecoms	23	24	1	1	16
Network Services	6	13	7	7	6
Safety Technical and Engineering	12	13	1	1	11
RS - IT and Business Services	36	37	1	1	32
RS - Asset Information	5	10	5	5	5
RS - Directorate	11	7	(4)	(4)	5
Other corporate functions	3	1	(2)	(2)	8
Insurance	8	14	6	6	7
OPEX/CAPEX Adjustment	63	27	(36)	-	26
Group costs	(21)	10	31	31	(8)
	182	200	18	54	134
Total support costs	258	241	(17)	19	182

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	6	6	-	(1)
Finance	11	5	(6)	(5)
Accommodation	36	27	(9)	(10)
Utilities	37	38	1	1
Other	33	3	(30)	(29)
	123	79	(44)	(44)
Centrally-managed Support costs				
Finance & Legal	22	27	5	5
Communications	9	9	-	-
Human Resources	14	14	-	-
System Operator	21	29	8	8
Property	(4)	1	5	5
Telecoms	39	44	5	2
Network Services	12	21	9	9
Safety Technical and Engineering	23	25	2	2
RS - IT and Business Services	68	71	3	3
RS - Asset Information	10	15	5	5
RS - Directorate	16	13	(3)	(3)
Other corporate functions	11	19	8	(2)
Insurance	15	26	11	11
OPEX/CAPEX Adjustment	89	50	(39)	-
Group costs	(29)	34	63	40
	316	398	82	85
Total support costs	439	477	38	41

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs, which is the primary reason for the financial outperformance recognised this year. The additional spend incurred as a result of the Opex/Capex adjustment, is considered neutral when assessing Network Rail's financial performance. The Control Period to date is lower than the regulatory expectation, as the previous year's savings from PPF re-organisation costs being delayed were partially offset by the additional spend this year.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. The Control Period to date is higher than the regulatory expectation, predominantly due to the additional expenditure incurred this year. These additional costs have led to financial underperformance being recognised for the year and control period to date.
- (2) Finance – costs in the current year are higher than the baseline expectation and 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 recruiting more local Finance staff, in order to support this initiative. The Control Period to date is also higher than the regulatory expectation, primarily due to the aforementioned reasons.
- (3) Accommodation – costs are significantly higher than the baseline expectation and the previous year, primarily due to implementation of the PPF programme through the creation of new cost centres, and expenditure to ensure Covid-19 compliance at NR sites. This is reflected in the Control Period to date, which is similarly higher than the regulators assumption.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (4) Other – costs were significantly higher than the regulatory baseline this year and previous outturn. This is primarily due to implementation of the PPF programme, and Covid-19 related expenditure, such as PPE purchases and extra staff costs, as less annual leave having been taken throughout the year, has led to an increase in staff costs this year. This, along with the impact of commercial claims settled for higher than planned in the previous year, has led to a higher Control Period to date than the regulator's assumption.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (6) Telecoms – costs are lower than the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Financial performance has been recognised for the financial year, and the Control Period to date due to efficiencies made in headcount, as a result of the aforementioned efficiencies arising from headcount control. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regards to financial performance.
- (7) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (8) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (9) Route Services – IT and Business Services – costs are slightly lower than the regulatory baseline this year and in the control period to date. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (11) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.

Statement 3.3: Analysis of support costs, Eastern – continued

In £m cash prices unless stated

- (12) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.
- (13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are slightly higher than the previous year due to variability in the benefits arising from actuarial reassessments.
- (14) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (15) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this was decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

Eastern

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	2	-	(2)	(2)	1
	2	-	(2)	(2)	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	126	173	47	-	127
Business rates	95	83	(12)	-	81
British transport police costs	27	28	1	1	27
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	1	1	-	-	1
RSSB costs	3	4	1	-	3
Reporters fees	1	-	(1)	-	1
Other industry costs	-	-	-	-	-
	258	294	36	1	245
Total traction electricity, industry costs and rates	260	294	34 -	1	246

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	3	-	(3)	(3)	
	3	-	(3)	(3)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	252	315	63	2	
Business rates	176	165	(11)	-	
British transport police costs	54	56	2	1	
ORR licence fee and railway safety levy	10	9	(1)	-	
RDG membership costs	2	-	(2)	-	
RSSB costs	5	9	4	-	
Reporters fees	2	-	(2)	-	
Other industry costs	-	-	-	-	
	501	554	53	3	
Total traction electricity, industry costs and rates	504	554	50	-	

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses.

Route-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were higher than the regulatory baseline and the previous year due to additional services requested to keep the travelling public safe. The additional costs in the current year account for majority of the control period to date variance.

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. 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.
- (3) British Transport Police costs - expenses in the year are lower than the regulatory baseline this year, and the control period to date.

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

In £m cash prices unless stated

- (4) ORR licence fee and railway safety – costs this year and the control period to date are broadly in line with the regulatory baseline. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (5) Rail Delivery Group (RDG) membership costs – this organisation is a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (6) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). 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.

Eastern

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	0	0	0	0	0
Performance element costs	103	113	10	(29)	110
Access charge supplement Income	(66)	(66)	-	-	(102)
Net (income)/cost	37	47	10	(29)	8
Schedule 8					
Performance element income	(74)	-	74	74	(22)
Performance element costs	7	25	18	18	47
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(67)	25	92	92	25
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	5	18	13	13	(1)
Access charge supplement Income	(15)	(18)	(3)	-	(22)
Net (income)/cost	(10)	-	10	13	(23)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(4)	4	8	8	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(4)	4	8	8	3
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	108	131	23	(16)	109
Access charge supplement Income	(81)	(84)	(3)	-	(124)
Net (income)/cost	27	47	20	(16)	(15)
Schedule 8					
Performance element income	(74)	-	74	74	(22)
Performance element costs	3	29	26	26	50
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(71)	29	100	100	28
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	213	193	(20)	(39)	-
Access charge supplement Income	(168)	(166)	2	-	-
Net (income)/cost	45	27	(18)	(39)	
Schedule 8					
Performance element income	(96)	-	96	96	-
Performance element costs	54	60	6	6	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(42)	60	102	102	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	4	35	31	31	-
Access charge supplement Income	(37)	(38)	(1)	-	-
Net (income)/cost	(33)	(3)	30	31	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(1)	7	8	9	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(1)	7	8	9	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	217	228	11	(8)	-
Access charge supplement Income	(205)	(204)	1	-	-
Net (income)/cost	12	24	12	(8)	
Schedule 8					
Performance element income	(96)	-	96	96	-
Performance element costs	53	67	14	15	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(43)	67	110	111	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Although the arithmetic variance highlights an underspend, financial underperformance has been realised. This is due to the fact that the volume of renewals delivered was significantly lower than the baselined assumed, leading to this financial underperformance. Despite a few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too.

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) The variance in Schedule 4 compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are lower, however financial underperformance was recognised. This underperformance relates to the lower activity in Plain Line renewals compared to the regulatory expectation. The control period to date cost is higher 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 in FY20 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 FY20.

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

In £m cash prices unless stated

- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The region has also invested in performance related schemes in the last few years, which has improved infrastructure performance and reliability, resulting in reduced passenger disruption. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 has resulted in a highly favourable control period to date position.

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 – Access charge supplement income is in line with the regulatory baseline for both this year and the control period to date. 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. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

Eastern

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	90	75	(15)	-	69
PL Replace Partial	63	74	11	-	45
PL High Output	70	72	2	-	54
PL Refurbishment	17	-	(17)	-	14
PL Track Slab Track	1	-	(1)	-	-
Switches & Crossing - Replace	74	95	21	-	79
Switches & Crossing - Other	19	5	(14)	-	9
Off Track	46	22	(24)	-	19
Track Other	14	(23)	(37)	-	13
	394	320	(74)	(74)	302
Signalling					
Signalling Full	85	87	2	0	79
Signalling Partial	21	46	25	0	15
Signalling Refurb	10	19	9	0	7
Level crossings	35	53	18	0	22
Minor works	90	61	(29)	0	62
Other	2	0	(2)	0	-
	243	266	23	(22)	185
Civils					
Underbridges	64	84	20	-	41
Overbridges	10	10	-	-	6
Major structures	10	10	-	-	9
Tunnels	4	6	2	-	7
Minor works	8	(3)	(11)	-	1
Other	13	16	3	-	8
	109	123	14	(13)	72
Earthworks					
Earthworks - Embankments	45	27	(18)	-	13
Earthworks - Soil Cuttings	3	9	6	-	3
Earthworks - Rock Cuttings	9	4	(5)	-	4
Earthworks - Other	2	1	(1)	-	1
	59	41	(18)	(2)	21
Buildings					
Managed stations	15	20	5	-	25
Franchised stations	19	30	11	-	13
Light maint depots	6	2	(4)	-	-
Depot plant	2	-	(2)	-	2
Lineside buildings	4	-	(4)	-	5
MDU buildings	11	11	-	-	15
Other	1	-	(1)	-	1
	58	63	5	(16)	61
Electrical power and fixed plant					
AC distribution	4	7	3	-	1
Overhead Line	62	58	(4)	-	54
DC distribution	-	2	2	-	-
Conductor rail	1	-	(1)	-	4
Signalling Power Supplies	11	16	5	-	10
Other	1	2	1	-	1
Fixed plant	6	8	2	-	3
	85	93	8	4	73
Drainage					
Drainage (Track)	11	7	(4)	-	13
Drainage (Earthworks)	-	6	6	-	1
Drainage (Resilience)	5	7	2	-	4
	16	20	4	-	18
Property					
Property	4	13	9	-	1
	4	13	9	-	1
Total Regionally-managed renewals expenditure					
	968	939	(29)	(123)	733

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	6
	-	-	-	-	6
Telecoms					
Operational communications	5	8	3	-	3
Network	2	7	5	-	2
SISS	2	4	2	-	2
Projects and other	2	1	(1)	-	1
Non-route capital expenditure	26	20	(6)	-	27
	37	40	3	(2)	35
Wheeled plant and machinery					
High output	8	6	(2)	-	7
Incident response	-	-	-	-	-
Infrastructure monitoring	1	3	2	-	1
Intervention	5	9	4	-	2
Materials delivery	(1)	12	13	-	5
On track plant	1	2	1	-	1
Seasonal	-	-	-	-	-
Other	17	8	(9)	-	3
	31	40	9	-	19
Route Services					
Business Improvement	21	8	(13)	-	27
IT Renewals	11	23	12	-	12
Asset Information	3	5	2	-	-
Other	2	1	(1)	-	1
	37	37	-	-	40
STE Renewals					
Intelligent infrastructure	23	13	(10)	-	8
Faster Isolations	1	4	3	-	2
Centrally Managed Signalling Costs	2	4	2	-	1
Research and development	16	14	(2)	-	9
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	6	9	3	-	8
Small plant	3	2	(1)	-	1
Other	25	5	(20)	-	6
	76	54	(22)	-	35
Property					
Property	1	10	9	-	3
	1	10	9	-	3
Other renewals					
ETCS	7	4	(3)	-	5
Digital Railway	1	(6)	(7)	-	1
Civils - Insurance Fund	5	8	3	-	-
Buildings - Insurance Fund	-	5	5	-	-
OPEX/CAPEX Adjustment	(59)	(27)	32	-	(26)
Phasing overlay	-	(47)	(47)	-	-
System Operator	4	6	2	-	2
Other renewals	7	2	(5)	7	1
	(35)	(55)	(20)	7	(17)
Total centrally-managed renewals expenditure	147	126	(21)	5	121
TOTAL RENEWALS EXPENDITURE	1,115	1,065	(50)	(118)	854

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	159	133	(26)	-
PL Replace Partial	108	107	(1)	-
PL High Output	124	135	11	-
PL Refurbishment	31	13	(18)	-
PL Track Slab Track	1	1	-	-
Switches & Crossing - Replace	152	170	18	-
Switches & Crossing - Other	28	15	(13)	-
Off Track	65	40	(25)	-
Track Other	27	(27)	(54)	-
	695	587	(108)	(76)
Signalling				
Signalling Full	163	147	(16)	-
Signalling Partial	36	71	35	-
Signalling Refurb	17	42	25	-
Level crossings	57	82	25	-
Minor works	152	118	(34)	-
Other	2	-	(2)	-
	427	460	33	(22)
Civils				
Underbridges	105	134	29	-
Overbridges	16	17	1	-
Major structures	19	16	(3)	-
Tunnels	11	12	1	-
Minor works	9	(6)	(15)	-
Other	21	24	3	-
	181	197	16	(16)
Earthworks				
Earthworks - Embankments	58	40	(18)	-
Earthworks - Soil Cuttings	6	12	6	-
Earthworks - Rock Cuttings	13	9	(4)	-
Earthworks - Other	3	1	(2)	-
	80	62	(18)	(4)
Buildings				
Managed stations	40	40	-	-
Franchised stations	32	51	19	-
Light maint depots	6	4	(2)	-
Depot plant	4	3	(1)	-
Lineside buildings	9	3	(6)	-
MDU buildings	26	23	(3)	-
Other	2	-	(2)	-
	119	124	5	(18)
Electrical power and fixed plant				
AC distribution	5	13	8	-
Overhead Line	116	99	(17)	-
DC distribution	-	3	3	-
Conductor rail	5	-	(5)	-
Signalling Power Supplies	21	28	7	-
Other	2	3	1	-
Fixed plant	9	15	6	-
	158	161	3	(1)
Drainage				
Drainage (Track)	24	20	(4)	-
Drainage (Earthworks)	1	7	6	-
Drainage (Resilience)	9	10	1	-
	34	37	3	(2)
Property				
Property	5	12	7	-
	5	12	7	-
Total Regionally-managed renewals expenditure	1,699	1,640	(59)	(139)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	6	-	(6)	-
	6	-	(6)	-
Telecoms				
Operational communications	8	13	5	-
Network	4	11	7	-
SISS	4	6	2	-
Projects and other	3	1	(2)	-
Non-route capital expenditure	53	45	(8)	-
	72	76	4	(2)
Wheeled plant and machinery				
High output	15	15	-	-
Incident response	-	-	-	-
Infrastructure monitoring	2	6	4	-
Intervention	7	12	5	-
Materials delivery	4	23	19	-
On track plant	2	3	1	-
Seasonal	-	1	1	-
Other	20	3	(17)	-
	50	63	13	-
Route Services				
Business Improvement	48	39	(9)	-
IT Renewals	23	27	4	-
Asset Information	3	5	2	-
Other	3	2	(1)	-
	77	73	(4)	-
STE Renewals				
Intelligent infrastructure	31	24	(7)	-
Faster Isolations	2	7	5	-
Centrally Managed Signalling Costs	3	6	3	-
Research and development	25	22	(3)	-
Integrated Management System (Incl. BCR)	-	8	8	-
Other National SCADA Programmes	14	17	3	-
Small plant	4	5	1	-
Other	31	11	(20)	-
	110	100	(10)	-
Property				
Property	4	18	14	-
	4	18	14	-
Other renewals				
ETCS	12	9	(3)	-
Digital Railway	2	(5)	(7)	-
Civils - Insurance Fund	5	17	12	4
Buildings - Insurance Fund	-	11	11	-
OPEX/CAPEX Adjustment	(85)	(50)	35	-
Phasing overlay	-	(48)	(48)	-
System Operator	6	8	2	-
Other renewals	8	3	(5)	11
	(52)	(55)	(3)	15
Total centrally-managed renewals expenditure	267	275	8	13
TOTAL RENEWALS EXPENDITURE	1,966	1,915	(51)	(126)

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment and catchup from last year's slippage in STE managed projects are the primary causes for the extra renewals spend in year. Net financial underperformance has been reported across the portfolio this year and now control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

Regionally-managed renewals

- (1) Regionally managed Renewals expenditure is higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio and increased expenditure in Earthworks post the Stonehaven derailment are the primary causes for the extra renewals spend in year. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increased expenditure in earthworks post the Stonehaven derailment and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.
- (2) Track – costs are significantly higher than the regulatory baseline and last year's outturn, due to higher like for like costs than assumed in the regulatory baseline. The impact of Covid-19 and delivery challenges have been the primary cause for the increase in costs. Covid-19 led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs. These extra costs were compounded by access issues on the Manea Bridge Wheel timber project, meaning the original 28 day blockade was rejected by FOCs, and only multiple weekend access was granted, leading to increased delivery costs. Scope changes to ensure projects delivered the required asset management output and increases in material costs augmented the financial underperformance. The aforementioned increase in cost and acceleration of schemes to utilise funding resources, have led to the control period spend and financial underperformance being higher than the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- (3) Signalling – expenditure was lower than the regulatory baseline this year. This included slower delivery the Cambridge resin galling programme and West Hampstead recontrol. Financial underperformance was recognised due the impact of Covid-19 leading to contractor prolongation costs and re-prioritisation of works impacting the portfolio. Additional welfare, labour and vehicle costs were all incurred as direct consequence of Covid-19. Changing scope has also negatively impacted financial performance, particularly at level crossings works at Durham Coast where manually controlled barriers had to be installed as full conversion was not achievable. Spend and financial performance is below target for the control period to date, due to the aforementioned reasons.
- (4) Civils – overall expenditure was lower than the regulatory baseline, largely on Underbridges and tunnels due to some schemes being reprofiled within the control period. The Minor Works category baseline included deliverability overlays for the Civils portfolio so the apparent overspend is expected. Financial underperformance was experienced due to Covid-19 and extra work items being required to respond to inclement weather experienced around Christmas. Additional scope on schemes also led to extra costs being incurred. 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. Control period to date spend is below the regulatory baseline, partially due to rephasing of certain programmes within structures.
- (5) Earthworks – investment in the year was notably higher than the regulatory baseline. The Stonehaven derailment led to increased focus on Network Rails management of the Earthworks asset. Financial underperformance was recognised this year. This mostly related to extra scope being needed to improve poor asset condition. The aforementioned focus on Earthworks asset management, as led to the control period spend and financial underperformance being higher than the regulatory baseline.
- (6) Buildings – investment in the year is under the regulatory expectation with reduced franchised stations activity being the primary cause. Slower delivery of Franchised stations projects was across the portfolio as fewer schemes were identified as well as slower progress at Welwyn Garden City and New Southgate. Financial underperformance was recognised this year across numerous projects, as a result of changes in work practices required to adhere to Covid-19 social distancing guidance and late scope changes in MDU refurbishment schemes. The aforementioned reasons have led to underspend and financial underperformance, for the control period to date.
- (7) Electrical power and fixed plant – expenditure is lower than the regulatory baseline this year. Improved delivery mechanisms, work bank planning efficiencies and successful commercial agreements with national grid have led to financial outperformance in year. However, due to higher like-for-like costs in year one due restricted access on the Shenfield-Southend re-wire programme, which also suffered from difficulties achieving planned unit rates, we are recognising financial underperformance control period to date.
- (8) Drainage – expenditure this year is below the regulatory baseline and last year's outturn, as a result of having to reprioritise jobs due to Covid-19. Financial performance is in line with target this year, however negative financial performance was reported last year due to 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.
- (9) Property – expenditure is significantly higher than last year's actual but below the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn.

Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities

- (2) Track – no costs were incurred 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. Last year 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 lower than the regulatory baseline. Slippage on operation communications and SISS projects have been slightly offset by Non-route capital expenditure acceleration. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. There has been some financial underperformance experienced this year due to delays in the programme testing and delivery because of complexity of design works, plus hardware malfunctions.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 higher than the regulatory baseline and last year's outturn. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is 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 but higher than last year's outturn. This is 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, Eastern – continued

In £m cash prices unless stated

- d. Materials delivery – investment was lower than the regulatory baseline assumption for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory. Negative spend has been recognised in year, as the sunk costs realised in production of the sleeper factory have been expensed to the P&L, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is lower than the regulatory baseline but in line with the previous year's spend. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred into future years.
 - 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 in line with the regulatory baselines but lower than last year's outturn. Last year, significant investment to major programmes included 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. Whilst this spend has continued into this year, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is significantly higher than the regulatory expectation and the previous year's actual. 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.
 - b. Faster isolations – costs are lower than last year's spend and the regulatory baseline. There were fewer schemes being identified and progressed. This 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.
 - c. Centrally managed signalling costs – costs are lower than the regulatory baseline and last year's outturn. This reflects the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash prices unless stated

- d. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
 - e. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - a. Other national SCADA programmes – investment is lower than the regulatory baseline and last year's outturn, due to further 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.
 - b. Small Plant – investment is higher 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 higher than the previous year due to investment in purchases and refurbishment projects to utilise available resource.
 - a. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.
- (7) Property – expenditure is lower than the regulatory baseline this year and control period to date, 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. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure is higher than the regulatory baseline and also higher than last year's outturn. Control period to date spend is also higher than the regulatory baseline as a result of additional activity on Eastern region. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Eastern – continued

In £m cash 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 in the control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund
- 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.
- 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). The adjustment is higher this year, as more schemes that are opex in nature have been delivered.
- e. System Operator – expenditure this year is lower than the regulatory baseline but higher than last year’s outturn
- f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Eastern

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	1	20	1	16	31	-
West Anglia Main Line Capacity	-	-	-	5	9	-
Midland Main Line Programme	166	187	(1)	450	480	(2)
Trans Pennine Route Upgrade	266	749	3	448	953	3
Hope Valley Capacity	2	30	-	2	30	-
Cambridge South Station Dvpt 2	4	6	1	7	11	1
East Coast Main Line Enhancements Programme	189	254	(9)	374	412	(4)
Kings Lynn to Cambridge 8 Car	7	4	(1)	26	22	(1)
St Albans Station Capacity	2	1	-	2	4	-
SFN-Freight Forecasts project	2	4	-	5	8	-
Access for All	2	4	-	4	12	-
Thameslink Resilience Programme	2	-	2	5	-	2
Midlands Hub - Continued Design and Early Development	-	2	-	-	1	-
Crossrail	18	21	8	51	68	(35)
Depots & Stabling Fund	-	2	-	-	2	-
Northern Hub	1	-	-	1	-	-
Northumberland line passenger service re-introduction	-	9	-	-	10	-
Anglia Traction PSU	5	-	-	5	4	-
Other	21	(99)	2	20	(100)	-
Total	688	1,194	6	1,421	1,957	(36)
Other Capital Expenditure	76	-	-	143	-	-
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	100	-	-	214	-	-
Total	100	-	-	214	-	-
Total enhancements	864	1,194	6	1,778	1,957	(36)
Total enhancements less Other third party funded schemes	764	1,194	6	1,564	1,957	(36)

Statement 3.7: Analysis of enhancement expenditure, Eastern – continued

In £m cash prices unless stated

Notes:

- (1) 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.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) 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). 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 (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £764m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£864m) less the PAYGO schemes funded by third parties (£100m).
- (4) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to impact of Covid-19, 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 – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Majority of the works relating to Key Output 2 which involved upgrades, primarily to signalling to accommodate 24 train paths per hour and major platform, track and associated infrastructure remodelling at London Bridge station is complete. Expenditure this year is lower than the baseline with some minor improvements works still being made at London Bridge station of adding new retail units and improving facilities. Cumulative financial performance is now neutral at an overall level.

Statement 3.7: Analysis of enhancement capital expenditure, Eastern – continued

In £m cash prices unless stated

- b. Midland Main Line Programme (MML) – The programme improvements include electrification of the line, upgrading bridges and tunnels, remodelling the stations and line speed enhancements. Progress against London to Corby Electrification (L2C) and other key outputs have progressed slower than the baseline expectations. Continuation of L2C commissioning during Covid-19 pandemic, reprofiling activities into the future years.
 - c. Trans Pennine Route Upgrade – Trans Pennine Route Upgrade – Long-term railway infrastructure programme that will improve connectivity stretching across the North between York and Manchester via Leeds and Huddersfield. Expenditure is lower than the original CP5 Hendy baseline this year. DfT have agreed a new baseline and funding profile to design and deliver notable schemes which included line speed, signalling, station and electrification work.
 - d. East Coast Main Line Enhancements Programme – The programme will upgrade the infrastructure which connects London and Edinburgh via Peterborough, Doncaster, York, Darlington, Durham and Newcastle, improving capacity, reduce journey times and improvement to freight. Slower progress and under financial performance in the year is partially due to Covid-19 and retiming of East Coast Programme, Werrington and Kings Cross to reduce the impact on passengers by allowing the running of more services during partial closures.
 - e. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - f. Crossrail – This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Underspend in year and adverse financial performance in the control period is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. Covid-19 had caused a temporary pause in construction and slowdown impacting on Schedule delays into future years.
 - g. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial outperformance in this category this year reflects Leeds Intermediate Interventions and other schemes.
- (5) Third party funded schemes – A significant proportion of expenditure in this category relates to schemes delivered this year include Brent Cross New Station development, Luton Airport Parkway and Harrogate Line Capacity.
- a. Brent Cross New Station – This project is on the Midland Main Line, Brent Cross West, which is being delivered as part of Barnet Council's, Brent Cross Cricklewood regeneration programme. Signalling and track remodelling works are continuing to schedule.
- (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.

Eastern

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	70	54	1,296	63	45	1,400
	PL Replace Partial	km	78	207	377	51	164	311
	PL High Output	km	69	62	1,113	56	66	848
	PL Refurbishment	km	21	196	107	14	121	116
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	42	78	538	46	71	648
	Switches & Crossing - Other	point ends	26	410	63	20	160	125
	Off Track	km/No.	57	515	111	38	215	177
	Track Other		-	-	-	-	-	-
Total			363	-	-	288	-	-
Signalling	Signalling Full	SEU	71	155	458	54	96	563
	Signalling Partial	SEU	26	191	136	10	57	175
	Signalling Refurb	SEU	44	95	463	3	13	231
	Level crossings	No.	74	165	448	18	19	947
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		215	-	-	85	-	-
Civils	Underbridges	m2	82	22,566	4	81	37,597	2
	Overbridges (incl BG3)	m2	13	1,828	7	3	323	9
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	2	20,177	0	-	-	-
	Culverts	m2	5	2,618	2	5	1,493	3
	Footbridges	m2	4	550	7	2	250	8
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	3	2,090	1	1	461	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		109	-	-	92	-	-
Earthworks	Earthworks - Embankments	No.	37	725	51	12	314	38
	Earthworks - Soil Cuttings	No.	9	580	16	6	281	21
	Earthworks - Rock Cuttings	No.	9	73	123	3	110	27
	Earthworks - Other	No.	-	-	-	-	-	-
	Drainage - Earthworks	m	-	9,114	-	-	99	-
	Drainage - Other	m	19	44,520	0	21	26,463	1
	TOTAL		74	-	-	42	-	-
Buildings	Buildings (MS)	m2	2	31,561	0	22	38,725	1
	Platforms (MS)	m2	24	410	59	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	1	2,600	0	1	2,710	0
	Buildings (FS)	m2	1	678	1	1	1,195	1
	Platforms (FS)	m2	3	1,765	2	1	966	1
	Canopies (FS)	m2	-	200	-	2	2,330	1
	Train sheds (FS)	m2	-	-	-	1	6,240	0
	Footbridges (FS)	m2	6	1,005	6	1	827	1
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	1	20,697	0	1	1,360	1
	Light Maintenance Depots	m2	4	75,878	0	1	33,051	0
	Depot Plant	m2	3	1,773	2	-	145	-
	Lineside Buildings	m2	6	39,178	0	4	36,063	0
	MDU Buildings	m2	27	86,230	0	18	61,066	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		78	-	-	53	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	11	37	297	29	157	185
	mid-life refurbishment	Wire runs	-	-	-	7	55	127
	structure renewals	No.	39	616	63	48	754	64
	other OLE		1	2	500	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	1	42	24
	Signalling Power Cables	km	1	12	83	10	13	769
	Signalling Supply Points	point end	8	8	1,000	20	30	667
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		60	-	-	115	-	-
Telecoms	Customer Information Systems	No.	2	146	14	2	144	14
	Public Address	No.	-	12	-	-	12	-
	CCTV	No.	2	417	5	2	417	5
	Other Surveillance	No.	-	10	-	-	-	-
	PABX Concentrator	No.	8	5,302	2	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		6	465	13	5	391	13
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		18	-	-	9	-	-

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - The High Output volumes delivered in the year are slightly lower than the volumes delivered in the prior year. In high output volumes heavily affect the unit cost due to the length of time spent preparing and transforming the high output machine. The decreased volumes tell the story of why the unit cost has increased. In Plain Line Replace Partial there was an increase in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There was a decrease in the unit cost for both Switches & Crossings Replace and Other. Major Switches and Crossings projects in the year took place at Colchester, Clacton and Dock Junction which helped to drive down the unit cost.

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

In £m cash prices unless stated

- (3) Signalling – There has been a decrease in the unit cost for Signalling Full in the current year. There was only one project that spanned both years (Norwich-Yarmouth-Lowerstoft) so no useful analysis can be done between the years. However there has been an increase in the unit cost for Signalling Refurb in the current year. There was only one project in the current year (West Hampstead) which has a particularly high unit cost. There has been a decrease in the unit cost for Level Crossings in the current year. In 2019-20 the Norwich project mentioned above had had a material effect on the high unit cost.
- (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 – There has been an increase in the unit cost of both Embankments and Rock Cuttings in the year. This is due to an increase in the proportion of more expensive full renewal in the year compared to the less expensive refurb and maintain work. However there has been a decrease in the unit cost of Soil Cuttings in the year where there has been a decrease in the proportion of full renewal work.
- (6) Buildings – There has been a large increase in the unit cost for Franchised Stations Footbridges in the year. This has been due to expensive projects at Prudhoe and Oakham in the year which have dragged up the unit cost.
- (7) Electrical Power and Fixed Plant – There has been an increase in the unit cost of Wiring in the year. This is mainly down to one relatively expensive job at Stratford which has dragged up the unit cost. There has been a decrease in the unit cost of Signalling Power cables in the year. There was only one project taking place in this category in 2019-20 making any variance analysis meaningless due to the tiny sample size. However, there has been an increase in the unit cost of Signalling Supply Points in the year. In 2020-21 there was only one project (Thameside) so the same issue with the sample size exists in this category.
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.

Eastern**Statement 4: Regulatory financial position**

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	20,350
Indexation to 2020-21 prices	20,411
RAB additions	
Renewals expenditure	1,115
Enhancements expenditure	-
Less amortisation	(1,115)
Property Sales	(26)
Closing RAB	20,385

Net debt

	£m
Opening net debt	14,316
Income	(2,875)
Expenditure	2,463
Financing Costs - Government borrowing	251
Financing Costs - index linked debt	149
Financing Costs - Other	54
Corporation tax	15
Working capital	(98)
Closing net debt	14,275

Statement 4: Regulatory financial position, Eastern – continued

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was £1.1bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually results in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to the Eastern Region and how it has moved during the year.
- (8) Unlike other statements in this document, the information included in Part 2 of Statement 4 is stated in cash prices in accordance
- (9) Network Rail's debt attributable to Eastern has decreased during the year. This was mostly due to relatively higher levels of Network grant, reflecting the planned net investment across the control period along with working capital benefits. These were partly offset 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 cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't move (except for the aforementioned accretion) but the mix between DfT-funded and market issued debt will move as the control period progresses.
- (13) Working capital – this largely relates to timing differences between when government grants are received from funders to meet cash payment obligations and when these grants are recognised for accounting purposes as revenue. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

North West & Central

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	1,524	1,324	200	-	1,087
Franchised track access charges	494	543	(49)	(18)	561
Other Single Till Income	108	201	(93)	(93)	125
Total Income	2,126	2,068	58	(111)	1,773
Operating expenditure					
Network operations	149	144	(5)	(5)	141
Support costs	258	217	(41)	(19)	152
Traction electricity, industry costs and rates	173	191	18	-	164
Maintenance	427	418	(9)	9	426
Schedule 4	39	68	29	46	62
Schedule 8	(78)	3	81	81	74
	968	1,041	73	112	1,019
Capital expenditure					
Renewals	795	709	(86)	(35)	558
Enhancements	277	278	1	(6)	225
	1,072	987	(85)	(41)	783
Risk expenditure					
Risk (Centrally-held)	-	31	31	-	-
Risk (Route-controlled)	-	27	27	-	-
Risk (Contingent asset management funding)	-	32	32	-	-
	-	90	90	-	-
Other expenditure					
Financing costs	361	469	108	-	447
Corporation tax	11	4	(7)	-	-
	372	473	101	-	447
Total expenditure	2,412	2,591	179	71	2,249
Total Financial Out/(under) performance				(40)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	2,607	2,540	67	-
Franchised track access charges	1,054	1,113	(59)	(16)
Other Single Till Income	233	330	(97)	(96)
Total Income	3,894	3,983	(89)	(112)
Operating expenditure				
Network operations	289	281	(8)	(10)
Support costs	409	429	20	14
Traction electricity, industry costs and rates	337	366	29	(1)
Maintenance	852	834	(18)	3
Schedule 4	101	158	57	63
Schedule 8	(4)	33	37	37
	1,984	2,101	117	106
Capital expenditure				
Renewals	1,351	1,298	(53)	(41)
Enhancements	500	560	60	16
	1,851	1,858	7	(25)
Risk expenditure				
Risk (Centrally-held)	-	29	29	-
Risk (Route-controlled)	-	27	27	-
Risk (Contingent asset management funding)	-	46	46	-
	-	102	102	-
Other expenditure				
Financing costs	808	940	132	-
Corporation tax	11	6	(5)	-
	819	946	127	-
Total expenditure	4,654	5,007	353	81
Total Financial Out/(under) performance				(31)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of North West & Central's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £237m lower than the regulatory baseline and £264m lower than the control period to date regulatory baseline. This was mostly due to Schedule 8 inflow due to outstanding train performance and lower than expected financing costs.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £40m this year and £31m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and other single till income being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was higher than the regulatory baseline. This was mostly due increased expenditure on renewals. 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 variable usage charge and traction electricity income, as few trains ran in year as a result of the Covid-19 pandemic. 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 lower than the previous year mostly due to the reduction in variable usage charged mentioned above. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to the reduction of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Overall, network operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. For the Control Period to date, expenditure is over the regulatory assumption, with the majority of additional costs being incurred in relation to the reasons listed above. These additional costs have led to financial underperformance this year and for the control period to date. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 led expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs, but has still led to financial underperformance recognised this year. The Control Period to date is below the regulatory expectation and financial outperformance has been recognised, as unrealised PPF restructuring costs and further efficiencies relating to headcount and employee remuneration have offset the additional costs incurred this year. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date 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 business rates expenses. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Overall, maintenance costs are higher than the regulatory baseline this year and higher than last year's outturn. The primary cause for the increase in costs is extra reactive maintenance investment required, augmented by investment to respond to Covid-19. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the previous year, which was mainly due to higher reactive maintenance in Civils. Reactive maintenance is considered neutral in the scope of financial performance.

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

In £m cash prices unless stated

- (10) Operating expenditure - Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred, meaning that the financial outperformance reported exceeds the arithmetic variance. Despite few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline. Schedule 4 costs are set out in more detail in Statement 3.5.
- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too. Schedule 8 costs are discussed in more detail in Statement 3.5.
- (12) Capital expenditure - Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, additional expenditure on OLE assets to address tunnel fixings in the West Midlands and project Alpha works to fix tension equipment in stations and catchup from last year's slippage in STE managed project. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure. Renewals investment is discussed in more detail in Statement 3.6.
- (13) Capital expenditure - Enhancements expenditure this year is slightly lower than the regulatory baseline. This mainly related to impact of Covid-19, slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. 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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so risks are more likely to be realised, the further along we move into the control period. 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, North West & Central – continued

In £m cash 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 lower than the regulatory baseline and 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 higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

North West & Central

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	229	230	(1)	-	265
Variable usage charge	52	66	(14)	(14)	63
Electrification asset usage charge	4	5	(1)	(1)	5
Capacity charge	-	-	-	-	-
Open access income	-	1	(1)	(1)	-
Managed stations long term charge	22	22	-	-	21
Franchised stations long term charge	44	45	(1)	(1)	43
Schedule 4 access charge supplement	46	47	(1)	(1)	59
	397	416	(19)	(18)	456
Other single till income					
Freight income					
Freight variable usage charge	15	15	-	-	16
Freight other income	-	-	-	-	-
	15	15	-	-	16
Stations income					
Managed stations qualifying expenditure	28	29	(1)	(1)	27
Franchised stations lease income	7	7	-	-	7
	35	36	(1)	(1)	34
Facility and financing charges					
Facility charges	13	13	-	-	13
	13	13	-	-	13
Property income					
Property rental	13	44	(31)	(31)	-
Property sales	5	18	(13)	(13)	-
	18	62	(44)	(44)	-
Depots Income	16	17	(1)	(1)	15
Other income	1	1	-	-	2
Total other single till income	98	144	(46)	(46)	80
Total Regionally-managed income	495	560	(65)	(64)	536
Centrally-managed income					
Network grant	1,222	993	229	-	770
Internal financing grant	136	170	(34)	-	148
External financing grant	135	136	(1)	-	149
BTP grant	20	20	-	-	20
Corporation tax grant	11	5	6	-	-
Infrastructure cost charges	9	9	-	-	12
Schedule 4 access charge supplement	11	11	-	-	12
Traction electricity charges	77	107	(30)	-	81
Freight traction electricity charges	1	1	-	-	1
	1,622	1,452	170	-	1,193
Other single till income					
Property income					
Property rental	2	8	(6)	(6)	47
Property sales	7	48	(41)	(41)	(3)
	9	56	(47)	(47)	44
Total other single till income	9	56	(47)	(47)	44
Total centrally-managed income	1,631	1,508	123	(47)	1,237
Total income	2,126	2,068	58	(111)	1,773

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	493	494	(1)	-
Variable usage charge	115	127	(12)	(12)
Electrification asset usage charge	9	10	(1)	(1)
Capacity charge	-	-	-	-
Open access income	-	1	(1)	(1)
Managed stations long term charge	43	43	-	-
Franchised stations long term charge	87	89	(2)	(2)
Schedule 4 access charge supplement	105	105	-	-
	852	869	(17)	(16)
Other single till income				
Freight income				
Freight variable usage charge	31	30	1	1
Freight other income	-	1	(1)	-
	31	31	-	1
Stations income				
Managed stations qualifying expenditure	55	57	(2)	(2)
Franchised stations lease income	14	13	1	-
	69	70	(1)	(2)
Facility and financing charges				
Facility charges	26	26	-	-
	26	26	-	-
Property income				
Property rental	13	44	(31)	(31)
Property sales	5	17	(12)	(13)
	18	61	(43)	(44)
Depots Income	31	33	(2)	(2)
Other income	3	2	1	1
Total other single till income	178	223	(45)	(46)
Total Regionally-managed income	1,030	1,092	(62)	(62)
Centrally-managed income				
Network grant	1,990	1,884	106	-
Internal financing grant	283	324	(41)	-
External financing grant	283	286	(3)	-
BTP grant	40	40	-	-
Corporation tax grant	11	6	5	-
Infrastructure cost charges	21	20	1	-
Schedule 4 access charge supplement	23	24	(1)	-
Traction electricity charges	158	200	(42)	-
Freight traction electricity charges	2	3	(1)	-
	2,811	2,787	24	-
Other single till income				
Property income				
Property rental	49	51	(2)	(1)
Property sales	4	53	(49)	(49)
	53	104	(51)	(50)
Total other single till income	53	104	(51)	(50)
Total centrally-managed income	2,864	2,891	(27)	(50)
Total income	3,894	3,983	(89)	(112)

Statement 2: Analysis of income, North West & Central

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is higher than the CP6 baseline mainly due to higher Network Grants, partially offset by lower Traction electricity income, financing grants, variable usage charge and reduction in property income. Income is higher than the previous year mostly due to additional grant income received, reflecting the new financial framework for CP6 but has been partially offset by lower property income due to Covid-19. Income for the control period to date is lower than the regulatory baseline as a result of the lower property income and variable usage charge received this year due to Covid-19, plus lower than anticipated traction electricity income and internal financing grants received. Financial underperformance has been recognised both for the year, and the control period to date, due to the lower property income and variable usage charge received this year.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This also explains the lower income in the control period to date. Income is lower than the previous year due to lower Infrastructure cost charges which was anticipated in the regulatory baseline.
- (2) Infrastructure cost charges - fixed charge income was broadly in line with the baseline this year. Income is lower 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 lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services considered superfluous by the industry. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.
- (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.

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

In £m cash prices unless stated

- (5) Schedule 4 access charge supplement – this type of income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements. Income was lower than the previous year but 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.
- (6) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (7) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is higher than the previous year as some of the responsibilities for property sales has been devolved from the centre. This means a reduction in Centrally-managed property sales income and an increase in Regionally-managed. However, the impact of the pandemic means that property sales have reduced year-on-year across Network Rail as a whole.

Centrally-managed income

- (1) Aggregate Centrally-managed income is higher than the CP6 baseline mainly due to higher Network Grants only being partially offset by lower Traction electricity income, lower financing grants and reduction in property income. Income is higher than the previous year mostly due to additional grant income, reflecting the new financial framework for CP6 where grants are received in the current year to meet expenditure requirement.
- (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 greater than the regulatory baseline as accelerated activity and higher like for like renewal costs have led to higher renewals expenditure than assumed in the regulatory baselines as noted in statement 3. In the control period to date, the Network grant recognised is higher than the baseline as a result of the aforementioned extra investment realised. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in statement 3, the Network grant is substantially higher than last year.

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

In £m cash prices unless stated

- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times-
- (5) External financing grants – grants received in the year and the control period to date is slightly lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.
- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. This is largely due to the aforementioned higher Network grant. As some of this funds renewals activity but there is no change in the corresponding renewals costs recognised in the Income Statement, this helps generate a profit on which tax has to be paid. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is lower than the previous year reflecting the regulatory determination for CP6. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).

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

In £m cash prices unless stated

- (10)Property rental – income was lower than the regulatory baseline this year due to the impact of Covid-19 on customer demand. Income is lower than the previous year as responsibility for most of the property estate has devolved meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is broadly in line with to the regulatory baseline despite the reductions this year due to additional income generated in 2019/20, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston.
- (11)Property sales – the current year and control period to date is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment.

North West & Central

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	143	138	(5)	(5)	136
Maintenance	412	403	(9)	8	405
Support costs	123	63	(60)	(60)	43
Traction electricity, industry costs and rates	1	-	(1)	(1)	1
Schedule 4	37	53	16	34	63
Schedule 8	(52)	-	52	52	71
	664	657	(7)	28	719
Capital expenditure					
Renewals	678	597	(81)	(40)	456
Enhancements	274	278	4	(6)	203
	952	875	(77)	(46)	659
Total Regionally-managed expenditure	1,616	1,532	(84)	(18)	1,378
Centrally-managed expenditure					
Operating expenditure					
Network operations	6	6	-	-	5
Maintenance	15	15	-	1	21
Support costs	135	154	19	41	109
Traction electricity, industry costs and rates	172	191	19	1	163
Schedule 4	2	15	13	12	(1)
Schedule 8	(26)	3	29	29	3
	304	384	80	84	300
Capital expenditure					
Renewals	117	112	(5)	5	102
Enhancements	3	-	(3)	-	22
	120	112	(8)	5	124
Risk Expenditure	-	90	90	-	-
Other					
Financing costs	361	469	108	-	447
Taxation	11	4	(7)	-	-
	372	473	101	-	447
Total centrally-managed expenditure	796	1,059	263	89	871
Total expenditure	2,412	2,591	179	71	2,249

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	278	268	(10)	(10)
Maintenance	816	802	(14)	13
Support costs	166	117	(49)	(50)
Traction electricity, industry costs and rates	2	-	(2)	(2)
Schedule 4	100	129	29	36
Schedule 8	19	27	8	8
	1,381	1,343	(38)	(5)
Capital expenditure				
Renewals	1,132	1,064	(68)	(52)
Enhancements	475	531	56	(6)
	1,607	1,595	(12)	(58)
Total Regionally-managed expenditure	2,988	2,938	(50)	(63)
Centrally-managed expenditure				
Operating expenditure				
Network operations	11	13	2	-
Maintenance	36	32	(4)	(10)
Support costs	243	312	69	64
Traction electricity, industry costs and rates	335	366	31	1
Schedule 4	1	29	28	27
Schedule 8	(23)	6	29	29
	603	758	155	111
Capital expenditure				
Renewals	219	234	15	11
Enhancements	25	29	4	22
Other	-	-	-	-
	244	263	19	33
Risk Expenditure	-	102	102	-
Other				
Financing costs	808	940	132	-
Taxation	11	6	(5)	-
	819	946	127	-
Total centrally-managed expenditure	1,666	2,069	403	144
Total expenditure	4,654	5,007	353	81

Statement 3: Analysis of expenditure, North West & Central

In £m cash prices unless stated

Comments:

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to lower finance and operating expenses incurred, and underspend on risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes and underspend on risk. Costs are higher than the previous year mainly due to increased renewals investment. Financial overperformance has been recognised for the year and control period to date, but less than the extent of the favourable variance experienced in the year. This was largely due to the Renewals category, which experienced higher like for like costs than expected.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to acceleration and higher like for like costs for Renewals, higher operating expenditure as a result of extra investment in performance improvement plans, Putting passenger first programme costs and the impact of Covid-19 across all expenditure line items. Costs are higher than last year due to increased capital expenditure. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. Some financial underperformance was recognised, as a result of higher like for like costs in the Renewals category and support costs being offset by Schedule 4 and 8 savings.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to reduced financing costs and risk expenditure. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

North West & Central

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	57	58	1	1	57
Operations Management	35	31	(4)	(4)	29
Controllers	6	7	1	1	7
Electrical control room operators	3	3	-	-	2
	101	99	(2)	(2)	95
Non signaller expenditure					
Mobile operations managers	9	9	-	-	9
Managed stations	20	18	(2)	(2)	18
Performance	(8)	(7)	1	1	(6)
Other	21	19	(2)	(2)	20
Total Regionally-managed Operations expenditure	143	138	(5)	(5)	136
Centrally-managed Operations expenditure					
Network Services	6	6	-	-	5
Total centrally-managed Operations expenditure	6	6	-	-	5
Total operations expenditure	149	144	(5)	(5)	141

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	114	114	-	-
Operations Management	64	62	(2)	(2)
Controllers	13	14	1	1
Electrical control room operators	5	5	-	-
	196	195	(1)	(1)
Non signaller expenditure				
Mobile operations managers	18	17	(1)	(1)
Managed stations	38	36	(2)	(2)
Performance	(14)	(13)	1	1
Other	40	33	(7)	(7)
Total Regionally-managed Operations expenditure	278	268	(10)	(10)
Centrally-managed Operations expenditure				
Network Services	11	13	2	-
Total centrally-managed Operations expenditure	11	13	2	-
Total operations expenditure	289	281	(8)	(10)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. For the Control Period to date, expenditure is over the regulatory assumption, with the majority of additional costs being incurred in relation to the reasons listed above. These additional costs have led to financial underperformance this year and for the control period to date.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. Control Period to date spend is over the regulatory assumption, primarily due to the above reasons. These additional costs are reflected in the financial underperformance both for the current year and the control period to date.
- (2) Operations management - costs are higher than the regulatory expectation for both the control period to date and the current year. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic.
- (3) Managed stations – costs are slightly higher than the regulatory target this year and last year's actuals. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra agency staff have also been recruited to help manage passenger commuting and help station staff enforce social distancing. This has led to the Control Period to date spend being slightly higher than the regulatory assumption also.

Centrally-managed operations expenditure

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

North West & Central

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	178	178	-	-	175
Signalling & Telecoms	74	72	(2)	(2)	72
Civils	43	46	3	21	41
Buildings	23	24	1	-	24
Electrical power and fixed plant	38	37	(1)	(1)	35
Other network operations	56	46	(10)	(10)	58
	412	403	(9)	8	405
Centrally-managed maintenance expenditure					
Telecoms	5	7	2	2	5
Route Services - Asset Information	8	7	(1)	(1)	8
STE Maintenance	1	1	-	-	2
Property	-	(1)	(1)	(1)	4
Route Services - Other	(1)	-	1	1	5
Other	2	1	(1)	-	(3)
	15	15	-	1	21
Total maintenance expenditure	427	418	(9)	9	426

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	352	352	-	-
Signalling & Telecoms	146	141	(5)	(5)
Civils	84	88	4	33
Buildings	47	48	1	-
Electrical power and fixed plant	73	73	-	-
Other network operations	114	100	(14)	(15)
	816	802	(14)	13
Centrally-managed maintenance expenditure				
Telecoms	10	12	2	2
Route Services - Asset Information	16	14	(2)	(2)
STE Maintenance	3	3	-	-
Property	4	-	(4)	(4)
Route Services - Other	4	2	(2)	(7)
Other	(1)	1	2	1
	36	32	(4)	(10)
Total maintenance expenditure	852	834	(18)	3

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and higher than last year's outturn. The primary cause for the increase in costs is extra reactive maintenance investment required, augmented by investment to respond to Covid-19. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year and the previous year, which was mainly due to higher reactive maintenance in Civils. Reactive maintenance is considered neutral in the scope of financial performance.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline for both the current year, and the Control Period to date. The primary cause for the increase in costs is additional investment required in reactive maintenance activity and the response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. Control Period and FY21 FPM outperformance to date has been realised due to higher than expected reactive maintenance expenditure in Civils, which is considered neutral in the assessment of financial performance.
- (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 and are slightly higher than the previous year, fuelled by Covid-19 resilience and compliance investment. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Control Period to date is in line with the regulatory assumption.

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

In £m cash prices unless stated

- (3) Signalling & telecoms – This year, costs are marginally higher than the regulatory baseline and the previous year's expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been additional resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.
- (4) Civils – costs were slightly lower than the regulatory baseline, despite reactive maintenance expenses being considerably higher than the regulatory expectation. 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 slightly higher than the previous year. The Control Period to date is slightly lower than expected, due to savings in inspection costs included successful settlement of legacy commercial claims and greater than expected efficiencies on contract negotiations.
- (5) Buildings — the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 3.6) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is broadly in line with what 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 broadly in line with the previous year, and for the Control Period to date with the regulatory baseline.
- (6) Other network operations – costs are higher than the regulatory baseline. There are numerous contributory factors including Covid-19 resilience and compliance investment contributing to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. The remaining costs are attributable to further asset resiliency initiatives. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year

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

In £m cash prices unless stated

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are in line with the regulatory baseline. As expected by the regulatory baselines, costs were lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are broadly consistent with the previous year
- (3) Route Services – Other – Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance.
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are below the regulatory baseline as the extra costs this year were offset by savings last year as noted above.

North West & Central

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	4	2	(2)	(2)	2
Finance	3	2	(1)	(1)	1
Accommodation	21	20	(1)	(1)	15
Utilities	19	19	-	-	20
Other	76	20	(56)	(56)	5
	123	63	(60)	(60)	43
Centrally-managed Support costs					
Finance & Legal	10	13	3	3	8
Communications	5	5	-	-	3
Human Resources	7	7	-	-	5
System Operator	7	10	3	3	9
Property	2	2	-	-	-
Telecoms	16	17	1	2	13
Network Services	5	7	2	2	5
Safety Technical and Engineering	9	10	1	1	7
RS - IT and Business Services	32	33	1	1	28
RS - Asset Information	3	8	5	5	3
RS - Directorate	9	6	(3)	(3)	4
Other corporate functions	3	1	(2)	(2)	7
Insurance	7	10	3	3	6
OPEX/CAPEX Adjustment	37	15	(22)	-	17
Group costs	(17)	10	27	26	(6)
	135	154	19	41	109
Total support costs	258	217	(41)	(19)	152

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	6	5	(1)	(2)
Finance	4	4	-	-
Accommodation	36	36	-	-
Utilities	39	38	(1)	-
Other	81	34	(47)	(48)
	166	117	(49)	(50)
Centrally-managed Support costs				
Finance & Legal	18	22	4	4
Communications	8	9	1	1
Human Resources	12	12	-	-
System Operator	16	21	5	5
Property	2	1	(1)	(1)
Telecoms	29	31	2	2
Network Services	10	13	3	3
Safety Technical and Engineering	16	18	2	2
RS - IT and Business Services	59	63	4	4
RS - Asset Information	6	12	6	6
RS - Directorate	13	11	(2)	(2)
Other corporate functions	10	17	7	(2)
Insurance	13	20	7	7
OPEX/CAPEX Adjustment	54	31	(23)	-
Group costs	(23)	31	54	35
	243	312	69	64
Total support costs	409	429	20	14

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 led expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs but has still led to financial underperformance recognised this year. The Control Period to date costs is below the regulatory expectation and financial outperformance has been recognised, as unrealised PPF restructuring costs and further efficiencies relating to headcount and employee remuneration have offset the additional costs incurred this year.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme, Covid-19 related expenditure and delivery of performance initiatives. The Control Period to date is also higher than the regulatory baseline, as the additional expenditure this year has offset savings made by tighter headcount and pay control. These additional costs are reflected in the financial underperformance recognised both for the current year and the control period to date.
- (2) Human resources – costs in the current year are higher than the baseline expectation and the previous year, reflecting Network Rail's continued devolution to align decision-making more closely with railway passengers and freight users. Control Period to date is also marginally higher than the regulatory expectation.
- (3) Finance – costs in the current year are higher than the baseline expectation and 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 additional local Finance staff in order to support this initiative. Control Period to date, however is in line with the regulatory expectation.

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

In £m cash prices unless stated

- (4) Other – costs were significantly higher than the regulatory baseline this year and previous year's outturn. This is primarily due to implementation of the PPF programme, Project Alpha performance programme delivery, an on-going programme developed in response to train performances falling below target and Covid-19 related expenditure, such as PPE purchases and extra staff costs, as less annual leave being taken in year has led to an increase in salary costs needing to be recognised this year. This additional expenditure has offset savings made in the previous year, leading to the higher Control Period to date spend than regulatory expectation.

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.

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

In £m cash prices unless stated

- (6) Telecoms – costs are lower than the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Financial outperformance has been recognised for the financial year, and the Control Period to date due to efficiencies made in headcount, as a result of the aforementioned efficiencies arising from headcount control. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regards to financial performance.
- (7) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (8) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (9) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous' year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (10) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (11) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.

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

In £m cash prices unless stated

- (12) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.
- (13) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are slightly higher than the previous year due to variability in the benefits arising from actuarial reassessments.
- (14) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (15) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Regionally-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

North West & Central

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 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	79	109	30	-	82
Business rates	67	56	(11)	-	55
British transport police costs	19	20	1	1	20
ORR licence fee and railway safety levy	2	2	-	-	2
RDG membership costs	-	1	1	-	1
RSSB costs	4	3	(1)	-	3
Reporters fees	1	-	(1)	-	-
Other industry costs	-	-	-	-	-
	172	191	19	1	163
Total traction electricity, industry costs and rates	173	191	18	-	164

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	2	-	(2)	(2)	
	2	-	(2)	(2)	
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	161	203	42	-	
Business rates	122	111	(11)	-	
British transport police costs	39	40	1	1	
ORR licence fee and railway safety levy	4	5	1	-	
RDG membership costs	1	-	(1)	-	
RSSB costs	7	7	-	-	
Reporters fees	1	-	(1)	-	
Other industry costs	-	-	-	-	
	335	366	31	1	
Total traction electricity, industry costs and rates	337	366	29	-	1

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses.

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were higher than the regulatory baseline due to additional services requested to keep the travelling public safe. The additional costs in the current year account contribute to the control period to date variance

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.
- (3) ORR licence fee and railway safety – costs this year and the control period to date 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.

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

In £m cash prices unless stated

- (4) 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.
- (5) 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.
- (6) 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

North West & Central

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	0	0	0	0	0
Performance element costs	37	53	16	34	63
Access charge supplement Income	(46)	(44)	2	-	(59)
Net (income)/cost	(9)	9	18	34	4
Schedule 8					
Performance element income	(55)	-	55	55	(15)
Performance element costs	3	-	(3)	(3)	86
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(52)	-	52	52	71
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	2	15	13	12	(1)
Access charge supplement Income	(11)	(15)	(4)	-	(12)
Net (income)/cost	(9)	-	9	12	(13)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(26)	3	29	29	3
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(26)	3	29	29	3
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	39	68	29	46	62
Access charge supplement Income	(57)	(59)	(2)	-	(71)
Net (income)/cost	(18)	9	27	46	(9)
Schedule 8					
Performance element income	(55)	-	55	55	(15)
Performance element costs	(23)	3	26	26	89
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(78)	3	81	81	74
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	100	129	29	36	-
Access charge supplement Income	(105)	(94)	11	-	-
Net (income)/cost	(5)	35	40	36	
Schedule 8					
Performance element income	(70)	-	70	70	-
Performance element costs	89	27	(62)	(62)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	19	27	8	8	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	1	29	28	27	-
Access charge supplement Income	(23)	(31)	(8)	-	-
Net (income)/cost	(22)	(2)	20	27	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(23)	6	29	29	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(23)	6	29	29	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	101	158	57	63	-
Access charge supplement Income	(128)	(125)	3	-	-
Net (income)/cost	(27)	33	60	63	
Schedule 8					
Performance element income	(70)	-	70	70	-
Performance element costs	66	33	(33)	(33)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(4)	33	37	37	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred, meaning that the financial outperformance reported exceeds the arithmetic variance. Despite few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). 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. Efficient usage of access, allowed for renewals delivery to require reduced possessions hence less cost incurred, meaning that the financial outperformance reported exceeds the arithmetic variance. Despite a few disturbances caused by adverse weather, such as the summer heat and storms in February. For the control period to date, the aforementioned reasons contribute to the cost being lower than the regulatory baseline and outperformance being lower than the arithmetic variance. In FY20 Savings were also 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.
- (2) Schedule 8 performance was exceptional this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net nil movement, but instead there was a huge inflow from operators. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, has led to favourable control period to date position. The control period to date outperformance is lower than other regions, as Schedule 8 costs in FY20 were 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.

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 – Access charge supplement income is less than the regulatory baseline for the both the year and the control period to date. 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 income is used to fund the theoretical costs of schedule 4. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

North West & Central

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	60	44	(16)	-	37
PL Replace Partial	41	26	(15)	-	31
PL High Output	17	17	-	-	29
PL Refurbishment	7	27	20	-	3
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	26	11	(15)	-	32
Switches & Crossing - Other	1	15	14	-	7
Off Track	17	13	(4)	-	7
Track Other	1	2	1	-	6
	170	155	(15)	(16)	152
Signalling					
Signalling Full	96	100	4	0	31
Signalling Partial	5	1	(4)	0	4
Signalling Refurb	23	20	(3)	0	5
Level crossings	9	18	9	0	3
Minor works	35	40	5	0	25
Other	0	0	0	0	-
	168	179	11	(9)	68
Civils					
Underbridges	33	32	(1)	-	25
Overbridges	10	9	(1)	-	5
Major structures	1	-	(1)	-	-
Tunnels	10	17	7	-	8
Minor works	39	23	(16)	-	25
Other	13	14	1	-	11
	106	95	(11)	(1)	74
Earthworks					
Earthworks - Embankments	25	14	(11)	-	14
Earthworks - Soil Cuttings	24	21	(3)	-	18
Earthworks - Rock Cuttings	6	1	(5)	-	4
Earthworks - Other	7	4	(3)	-	3
	62	40	(22)	(4)	39
Buildings					
Managed stations	7	9	2	-	7
Franchised stations	48	37	(11)	-	40
Light maint depots	7	3	(4)	-	3
Depot plant	-	-	-	-	1
Lineside buildings	5	2	(3)	-	5
MDU buildings	4	2	(2)	-	2
Other	-	-	-	-	-
	71	53	(18)	(2)	58
Electrical power and fixed plant					
AC distribution	1	2	1	-	2
Overhead Line	35	10	(25)	-	15
DC distribution	8	8	-	-	7
Conductor rail	1	1	-	-	-
Signalling Power Supplies	14	16	2	-	16
Other	-	-	-	-	-
Fixed plant	9	2	(7)	-	1
	68	39	(29)	(6)	41
Drainage					
Drainage (Track)	26	29	3	-	16
Drainage (Earthworks)	6	2	(4)	-	8
Drainage (Resilience)	-	-	-	-	-
	32	31	(1)	(2)	24
Property					
Property	1	5	4	-	-
	1	5	4	-	-
Total Regionally-managed renewals expenditure					
	678	597	(81)	(40)	456

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	5
	-	-	-	-	5
Telecoms					
Operational communications	-	2	2	-	1
Network	3	2	(1)	-	2
SISS	3	4	1	-	1
Projects and other	1	1	-	-	-
Non-route capital expenditure	17	15	(2)	-	22
	24	24	-	(1)	26
Wheeled plant and machinery					
High output	5	3	(2)	-	3
Incident response	-	-	-	-	-
Infrastructure monitoring	1	3	2	-	1
Intervention	3	5	2	-	1
Materials delivery	(1)	7	8	-	2
On track plant	-	1	1	-	1
Seasonal	1	3	2	-	-
Other	3	1	(2)	-	1
	12	23	11	-	9
Route Services					
Business Improvement	19	5	(14)	-	25
IT Renewals	12	22	10	-	11
Asset Information	2	3	1	-	-
Other	2	1	(1)	-	1
	35	31	(4)	-	37
STE Renewals					
Intelligent infrastructure	14	10	(4)	-	7
Faster Isolations	23	19	(4)	-	6
Centrally Managed Signalling Costs	1	2	1	-	1
Research and development	12	10	(2)	-	7
Integrated Management System (Incl. BCR)	-	3	3	-	-
Other National SCADA Programmes	5	5	-	-	6
Small plant	1	2	1	-	-
Other	13	4	(9)	-	5
	69	55	(14)	-	32
Property					
Property	1	13	12	-	3
	1	13	12	-	3
Other renewals					
ETCS	4	5	1	-	3
Digital Railway	1	(4)	(5)	-	-
Civils - Insurance Fund	3	6	3	-	-
Buildings - Insurance Fund	-	4	4	-	-
OPEX/CAPEX Adjustment	(37)	(15)	22	-	(17)
Phasing overlay	-	(35)	(35)	-	-
System Operator	2	4	2	-	2
Other renewals	3	1	(2)	6	2
	(24)	(34)	(10)	6	(10)
Total centrally-managed renewals expenditure	117	112	(5)	5	102
TOTAL RENEWALS EXPENDITURE	795	709	(86)	(35)	558

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	96	87	(9)	-
PL Replace Partial	72	41	(31)	-
PL High Output	46	43	(3)	-
PL Refurbishment	10	45	35	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	58	39	(19)	-
Switches & Crossing - Other	8	24	16	-
Off Track	24	24	-	-
Track Other	7	2	(5)	-
	321	305	(16)	(19)
Signalling	-	-	-	-
Signalling Full	127	147	20	-
Signalling Partial	9	6	(3)	-
Signalling Refurb	28	23	(5)	-
Level crossings	12	23	11	-
Minor works	60	61	1	-
Other	-	-	-	-
	236	260	24	(14)
Civils	-	-	-	-
Underbridges	58	58	-	-
Overbridges	15	19	4	-
Major structures	1	-	(1)	-
Tunnels	18	27	9	-
Minor works	64	46	(18)	-
Other	24	28	4	-
	180	178	(2)	3
Earthworks	-	-	-	-
Earthworks - Embankments	39	36	(3)	-
Earthworks - Soil Cuttings	42	43	1	-
Earthworks - Rock Cuttings	10	3	(7)	-
Earthworks - Other	10	4	(6)	-
	101	86	(15)	(5)
Buildings				
Managed stations	14	14	-	-
Franchised stations	87	71	(16)	-
Light maint depots	10	6	(4)	-
Depot plant	1	-	(1)	-
Lineside buildings	10	5	(5)	-
MDU buildings	6	3	(3)	-
Other	-	-	-	-
	128	99	(29)	(7)
Electrical power and fixed plant	-	-	-	-
AC distribution	3	3	-	-
Overhead Line	50	26	(24)	-
DC distribution	15	11	(4)	-
Conductor rail	1	1	-	-
Signalling Power Supplies	30	29	(1)	-
Other	-	-	-	-
Fixed plant	10	3	(7)	-
	109	73	(36)	(5)
Drainage	-	-	-	-
Drainage (Track)	42	52	10	-
Drainage (Earthworks)	14	6	(8)	-
Drainage (Resilience)	-	-	-	-
	56	58	2	(5)
Property	-	-	-	-
Property	1	5	4	-
	1	5	4	-
	-	-	-	-
Total Regionally-managed renewals expenditure	1,132	1,064	(68)	(52)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	-	(5)	-
Telecoms	-	-	-	-
Operational communications	1	6	5	-
Network	5	5	-	-
SISS	4	5	1	-
Projects and other	1	1	-	-
Non-route capital expenditure	39	33	(6)	-
	50	50	-	(1)
Wheeled plant and machinery				
High output	8	8	-	-
Incident response	-	-	-	-
Infrastructure monitoring	2	4	2	-
Intervention	4	8	4	-
Materials delivery	1	13	12	-
On track plant	1	1	-	-
Seasonal	1	5	4	-
Other	4	-	(4)	-
	21	39	18	-
Route Services				
Business Improvement	44	29	(15)	-
IT Renewals	23	25	2	-
Asset Information	2	4	2	-
Other	3	1	(2)	-
	72	59	(13)	-
STE Renewals				
Intelligent infrastructure	21	17	(4)	-
Faster Isolations	29	36	7	-
Centrally Managed Signalling Costs	2	5	3	-
Research and development	19	16	(3)	-
Integrated Management System (Incl. BCR)	-	5	5	-
Other National SCADA Programmes	11	12	1	-
Small plant	1	4	3	-
Other	18	9	(9)	-
	101	104	3	-
Property				
Property	4	16	12	-
	4	16	12	-
Other renewals				
ETCS	7	9	2	-
Digital Railway	1	(4)	(5)	-
Civils - Insurance Fund	3	12	9	3
Buildings - Insurance Fund	-	7	7	-
OPEX/CAPEX Adjustment	(54)	(31)	23	-
Phasing overlay	-	(35)	(35)	-
System Operator	4	6	2	-
Other renewals	5	2	(3)	9
	(34)	(34)	-	12
Total centrally-managed renewals expenditure	219	234	15	11
TOTAL RENEWALS EXPENDITURE	1,351	1,298	(53)	(41)

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

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include, financial underperformance within the Track portfolio, additional expenditure on OLE assets to address tunnel fixings in the West Midlands, project Alpha works to fix tension equipment in stations and catchup from last year's slippage in STE managed project. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure.

Regionally-managed renewals

- (1) Total Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include: financial underperformance within the Track portfolio and additional expenditure on OLE assets to address tunnel fixings in the West Midlands and project Alpha works to fix tension equipment in stations. Net financial underperformance has been reported across the portfolio this year and for the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery and changes in scope to signalling programmes to minimise risk of asset failure.
- (2) Track — investment this year is higher than the regulatory baseline and last year's outturn, which is primarily due to higher net like for like costs. Financial underperformance has been reported this year which is mainly due to lost volumes as a result of Covid-19, workbank mix needing to be changed to ensure renewal delivered minimises likelihood of future asset failure and workbank planning challenges. High output volume was lost due to operators of the high output machines being stranded in Eastern Europe due to Covid-19 restrictions, leading to delivery being postponed. Covid-19 also led to additional costs incurring, such as additional staff, accommodation and vehicle costs, to allow delivery did not breach Covid-19 social distancing rules. Changes in workbank scope came at premium, and complexities on a number of sites led to extra shifts being needed to deliver the renewal. Financial spend and underperformance for the control period to date is higher than the regulatory baseline due to the aforementioned reasons.

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

In £m cash prices unless stated

- (3) Signalling – expenditure was lower than the regulatory baseline this year, mainly due to delays in level crossing and minor works programmes. Financial underperformance has been recognised this year, primarily due to design challenges and Covid-19. This includes additional complexity to the Rugeley to Colwich resignalling programme, as additional scope is required to remove asbestos from several signal boxes, install crossovers and install plain line track volumes. As a result of Covid-19 restrictions, the contractor delivering Ditton connection could not commission to the original plan. This deferral led to significant financial underperformance as additional staff and other associated costs were incurred. Other programmes incurred costs to ensure sites were compliant with social distancing rules. Control period to date financial underperformance has been recognised due to the aforementioned reasons. Control period to date spend is under 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.
- (4) Civils – expenditure was higher than the regulatory baseline this year but is broadly in line with the control period regulatory baseline. Although Tunnels projects have suffered from a lack of resource to complete design works, minor work schemes have been accelerated to utilise funding resources. Financial underperformance was recognised this year due to extra scope being required to ensure renewal delivery would minimise asset failure risk and additional complexities on site identified leading to increased plant and labour costs being realised.
- (5) Earthworks – expenditure in the year was significantly higher than the regulatory baseline this year as a result of acceleration of Harbury phase 2, Blackthorn and Piddington. These schemes started delivery in FY19/20, but due to excess flooding, slipped into 20/21. There were also several emergency schemes needing to be delivered. Financial underperformance has been reported this year and for the control period to date due to prolongation costs as a result of the flooding mentioned above and additional complexities for jobs after investigations undertaken.
- (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. Small financial underperformance has been reported this year due to changes in delivery to address safety concerns identified, including increased scaffolding requirements. Control period to date underperformance has been recognised due to 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.

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

In £m cash prices unless stated

- (7) Electrical power and fixed plant – expenditure was significantly higher than the regulatory baseline this year. This included extra costs incurred to deliver Project Alpha, a scheme not included in the original delivery plan, but one that has been initiated by the Executive management to improve performance and customer service. This scheme has led to additional spend in OLE investment to address tunnel fixings in the West Midlands. Also, extra works have been delivered to fix tension equipment at key stations to reduce the likelihood of asset failures. Investment was higher than the previous year mainly due to the aforementioned schemes. Underperformance this year and control period to date, is primarily driven by change in scope and design works, to ensure renewals delivered meet compliance requirements.
- (8) Drainage – investment was higher than last year's outturn but broadly in line with the regulatory expectation this year. Financial underperformance has been reported this year and for the control period to date. This is due to more complex interventions being required post survey inspections this year. Last year, 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, created financial underperformance. Plus, 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.
- (9) Property – expenditure is higher than last year's actual but below the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is slightly over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn. Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities
- (2) Track – no costs were incurred 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. Last year 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, North West & Central – continued

In £m cash prices unless stated

- (3) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 higher than the regulatory baseline and last year's outturn. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is 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 but higher than last year's outturn. This is 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 for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory. Negative spend has been recognised in year, as the sunk costs realised in production of the sleeper factory have been expensed to the P&L, as the programme is no longer continuing.
 - e. 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.
- (4) Route Services – Expenditure is higher than the regulatory baselines but lower than last year's outturn. Last year significant investment to major programmes included 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. Whilst this spend has continued into this year, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (1) STE renewals – overall STE expenditure is significantly higher 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.

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

In £m cash prices unless stated

- b. Faster isolations – costs are higher than the regulatory baseline and higher than last year's outturn. Although last year there were fewer schemes being identified and progressed due to delays in design and tendering processes, the programme delivery has accelerated this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - c. Centrally-managed signalling costs – costs are lower than the regulatory baseline and broadly in line with last year's outturn. This reflects the lower overall signalling costs this year compared to expectation. As the outputs have not been delivered no financial outperformance has been recognised.
 - d. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
 - e. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - f. Small Plant – investment is less 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 higher than the previous year due to investment in purchases and refurbishment projects to utilise available resource
 - g. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.
- (5) Property – expenditure is lower than the regulatory baseline this year and control period to date, 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. As the regulatory baseline shows, this increase was expected due to additional outputs required in CP6.

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

In £m cash prices unless stated

- (6) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure is marginally lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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 control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund
 - 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.
 - 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.
 - e. System Operator – expenditure this year is lower than the regulatory baseline but higher than last year's outturn
 - f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

North West & Central

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Hope Valley Capacity	-	(4)	-	-	-	-
East West Rail Phase 2	207	197	1	299	310	1
North West Train Lengthening	2	-	-	19	32	-
London Euston (in support of High Speed Rail Group scheme)	11	6	-	17	16	-
SFN-Freight Forecasts project	2	3	-	2	3	-
Access for All	1	19	-	7	19	-
Midlands Hub - Continued Design and Early Development	1	-	-	1	-	-
Integrated Crewe Hub - HS2	-	-	-	6	8	-
Portfolio Contingency (including T-12)	-	-	(1)	5	29	22
Depots & Stabling Fund	-	2	-	5	2	-
Northern Hub	7	3	(1)	48	42	(2)
West Coast PSU	10	-	-	12	16	-
High Speed 2	-	-	-	7	-	-
Birmingham New Street Gateway	14	6	(8)	14	10	(8)
University Station	-	4	-	-	6	-
Energy Coast Rail Upgrade Project	3	3	1	5	7	1
NWEP Phase 7 Lostock - Wigan	1	4	-	1	9	-
Other	15	35	2	32	51	2
Total	274	278	(6)	480	560	16
Other Capital Expenditure	3	-	-	20	-	-
Other third party funded schemes						
HS2	162	-	-	351	-	-
Other third Party	77	-	-	125	-	-
Total	239	-	-	476	-	-
Total enhancements	516	278	(6)	976	560	16
Total enhancements less Other third party funded schemes	277	278	(6)	500	560	16

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

In £m cash prices unless stated

Notes:

- (1) 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.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) 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). 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 (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £277m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£516m) less the PAYGO schemes funded by third parties (£239m).

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

In £m cash prices unless stated

- (4) Department for Transport funded schemes – expenditure this year is lower than the regulatory baseline. This mainly related to impact of Covid-19, 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 – The objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. This is part of the wider programme being delivered by a separate organisation: East West Railway Company, 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. Delivery on the programme this year has been greater than the baseline.
 - b. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - c. Portfolio Contingency (including T-12) –Actual costs reported in this category this year are for the additional schedule 4 payments to TOC's, which resulted from Covid-19 related delays to publishing timetables earlier in the year.
 - d. Birmingham New Street Gateway – This project was delivered in partnership with various local government agencies including Birmingham City Council to improve passenger capacity and facilities at the station. Increased spend in year and adverse financial performance relate to ongoing remediation in the steelworks of the Birmingham New Street atrium roof and on-going compensation and associated costs relating to the multi-storey car park.
 - e. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF). The financial outperformance in this category this year reflects Energy Coast and other schemes.
- (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: Merseyrail power supply and work on the Northern Powerhouse programme.
- (6) Other capital expenditure – this year, this category includes investment on the National Productivity Infrastructure Programme, largely relating to digital signalling initiatives.

North West & Central

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
		Unit	AFC	AFV	Unit Costs	AFC	AFV	Unit Costs
Track	PL Replace Full	km	55	33	1,667	35	21	1,667
	PL Replace Partial	km	63	162	389	37	75	493
	PL High Output	km	14	15	933	28	29	966
	PL Refurbishment	km	10	92	109	4	40	100
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	17	63	270	22	63	349
	Switches & Crossing - Other	point ends	5	48	104	8	47	170
	Off Track	km/No.	9	64	141	5	48	104
	Track Other		-	-	-	-	-	-
Total			173	-	-	139	-	-
Signalling	Signalling Full	SEU	-	-	-	-	-	-
	Signalling Partial	SEU	9	12	750	5	16	313
	Signalling Refurb	SEU	18	42	429	1	4	250
	Level crossings	No.	4	28	143	-	-	-
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		31	-	-	6	-	-
Civils	Underbridges	m2	31	10,358	3	30	12,309	2
	Overbridges (incl BG3)	m2	11	2,230	5	6	2,122	3
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	5	15,005	0	10	5,150	2
	Culverts	m2	1	166	6	3	917	3
	Footbridges	m2	1	95	11	2	110	18
	Coastal & Estuarial Defences	m2	6	1,615	4	2	725	3
	Retaining Walls	m2	3	3,959	1	4	2,540	2
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		58	-	-	57	-	-
Earthworks	Earthworks - Embankments	No.	34	345	99	29	167	174
	Earthworks - Soil Cuttings	No.	31	393	79	19	343	55
	Earthworks - Rock Cuttings	No.	3	60	50	3	42	71
	Earthworks - Other	No.	4	204	20	-	110	-
	Drainage - Earthworks	m	5	21,092	0	4	4,727	1
	Drainage - Other	m	21	13,642	2	11	10,245	1
	TOTAL		98	-	-	66	-	-
Buildings	Buildings (MS)	m2	-	15	-	-	-	-
	Platforms (MS)	m2	-	-	-	1	1,053	1
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	4	51	78	-	-	-
	Buildings (FS)	m2	3	7,693	0	1	361	3
	Platforms (FS)	m2	21	6,807	3	19	4,704	4
	Canopies (FS)	m2	4	4,692	1	9	7,831	1
	Train sheds (FS)	m2	-	-	-	-	450	-
	Footbridges (FS)	m2	10	1,676	6	2	425	5
	Lifts & Escalators (FS)	m2	3	15	200	-	-	-
	Other (FS)	m2	2	16,673	0	2	28,961	0
	Light Maintenance Depots	m2	3	6,790	0	1	7,446	0
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	8	4,000	2	5	1,417	4
	MDU Buildings	m2	5	2,471	2	1	827	1
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		63	-	-	41	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	28	53	528	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	3	292	10	5	10	500
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	3	8	375	2	8	250
	HV Switchgear Renewal AC	No.	2	5	400	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	6	14	429	3	7	429
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	8	61	131	5	54	93
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	1	20	50	-	-	-
	Signalling Power Cables	km	48	139	345	47	127	370
	Signalling Supply Points	point end	-	-	-	2	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		99	-	-	64	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	2	618	3	2	1,370	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	7	-	-	21	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		2	30	67	2	30	67
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		4	-	-	4	-	-

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - In Plain Line Replace Partial there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There was a decrease in the unit cost for both Switches & Crossings Replace and Other. In the prior year there were major projects at Acton Grange and Willesden which drove up the unit cost. There was an increase in the unit cost for Off Track in the year. However, in the prior year there was only one project, so the sample size is too small to do any meaningful analysis.
- (3) Signalling – There has been an increase in the unit cost for Signalling Partial in the current year. However, there was only one project in each year with Ditton in the current year have a higher rate than Liverpool Lime Street in 2019-20. There has also been an increase in the unit cost for Signalling Refurb in the current year. In the prior year there was once again only one project. The low sample size makes it difficult to do any useful analysis between the years.

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

In £m cash prices unless stated

- (4) Civils – There has been a decrease in the unit cost for Footbridges. However, there was only one project which took place this year. The low sample size makes it difficult to do any meaningful analysis.
- (5) Earthworks & Drainage – There has been a decrease in the unit cost of both Embankments and Rock Cuttings in the year. There has been a decrease in the proportion of full renewals in the current year with a higher proportion of less expensive refurb and maintain taking place instead. There has been an increase in the unit cost of Soil Cuttings in the year for the opposite reason as above. There has been a higher proportion of full renewal work.
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been a decrease in the unit cost of Structural Renewals in the year. There was only one project taking place in this category in 2019-20 making any variance analysis meaningless due to the tiny sample size. There has been an increase in unit cost on Conductor Rail in the year. Once again though there was only one project in the prior 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

North West & Central

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	15,588
Indexation to 2020-21 prices	15,635
RAB additions	
Renewals expenditure	795
Enhancements expenditure	-
Less amortisation	(795)
Property Sales	(12)
Closing RAB	15,623

Net debt

	£m
Opening net debt	11,438
Income	(2,126)
Expenditure	1,763
Financing Costs - Government borrowing	200
Financing Costs - index linked debt	118
Financing Costs - Other	43
Corporation tax	11
Working capital	(64)
Closing net debt	11,383

Statement 4: Regulatory financial position, North West & Central

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was £0.8bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs).
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to North West & Central and how it has moved during the year.
- (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 decreased during the year. This was mostly due to relatively higher levels of Network grant, reflecting the planned net investment across the control period along with working capital benefits. These were partly offset 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 cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

Southern

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	1,370	1,627	(257)	-	1,284
Franchised track access charges	619	680	(61)	(6)	617
Other Single Till Income	148	226	(78)	(77)	270
Total Income	2,137	2,533	(396)	(83)	2,171
Operating expenditure					
Network operations	186	182	(4)	(4)	177
Support costs	198	197	(1)	15	141
Traction electricity, industry costs and rates	258	283	25	1	235
Maintenance	445	371	(74)	(78)	381
Schedule 4	86	72	(14)	2	76
Schedule 8	(149)	4	153	153	(27)
	1,024	1,109	85	89	983
Capital expenditure					
Renewals	972	772	(200)	(83)	708
Enhancements	193	259	66	(10)	210
	1,165	1,031	(134)	(93)	918
Risk expenditure					
Risk (Centrally-held)	-	29	29	-	-
Risk (Route-controlled)	-	35	35	-	-
Risk (Contingent asset management funding)	-	45	45	-	-
	-	109	109	-	-
Other expenditure					
Financing costs	386	508	122	-	478
Corporation tax	14	6	(8)	-	-
	400	514	114	-	478
Total expenditure	2,589	2,763	174	(4)	2,379
Total Financial Out/(under) performance				(87)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	2,651	3,071	(420)	-
Franchised track access charges	1,233	1,317	(84)	(7)
Other Single Till Income	417	459	(42)	(44)
Total Income	4,301	4,847	(546)	(51)
Operating expenditure				
Network operations	363	362	(1)	(2)
Support costs	339	377	38	23
Traction electricity, industry costs and rates	492	538	46	2
Maintenance	825	748	(77)	(89)
Schedule 4	161	156	(5)	16
Schedule 8	(176)	12	188	189
	2,004	2,193	189	139
Capital expenditure				
Renewals	1,678	1,454	(224)	(96)
Enhancements	403	480	77	2
Other	-	-	-	-
	2,081	1,934	(147)	(94)
Risk expenditure				
Risk (Centrally-held)	-	28	28	-
Risk (Route-controlled)	-	35	35	-
Risk (Contingent asset management funding)	-	46	46	-
	-	109	109	-
Other expenditure				
Financing costs	863	1,016	153	-
Corporation tax	14	9	(5)	-
	877	1,025	148	-
Total expenditure	4,962	5,261	299	45
Total Financial Out/(under) performance				(6)

Statement 1: Summary of regulatory financial performance, Southern

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Southern's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year. 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.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £222m higher than the regulatory baseline and £247m higher than the control period to date regulatory baseline. This was mostly due to a reduction in Grant Income and increase in renewals expenditure which is partially offset by Schedule 8 inflow due to outstanding train performance and lower than expected financing costs.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £87m this year and £6m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and other single till income being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income - Grant income in the year was lower than the CP6 Business Plan. This was mostly due to savings in the train performance regime. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. 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 variable usage charge and traction electricity income, as fewer trains ran in year as a result of the Covid-19 pandemic. 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 broadly in line with the previous year. Franchised track access income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (5) Income – Other single till income in the year is lower than the baseline mostly due to impact of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Regionally-managed property income is higher than the previous year as most of the responsibilities for property rental have been devolved from the centre. This means a reduction in Centrally-managed property rental income. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole. Other single till income is discussed in more detail in Statement 2.
- (6) Operating expenditure - Overall, network operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra costs were incurred including cleaning at offices and stations, vehicle costs to comply with social distancing regulations and additional staff at stations. These additional costs have led to the slight financial underperformance recognised to date. For the Control Period to date, spend is slightly higher than the regulatory assumption, primarily due to the incurring of costs in relation to Network Rail's response to the pandemic, which has offset efficiencies achieved in the previous year. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, performance initiatives being delivered, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, which have been partly offset by the savings made as a result of the reduced PRP expense incurred. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates are lower than the regulator's assumption in the current year and control period to date 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 business rates expenses. 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. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (1) Operating expenditure - Overall, maintenance costs are higher than the regulatory baseline this year and the previous year's expenditure. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year. This additional expenditure is reflected in the financial underperformance recognised both for the current year, and the control period to date. Maintenance costs are discussed in more detail in Statement 3.2.

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

In £m cash prices unless stated

- (9) Operating expenditure - Overall Schedule 4 costs are higher than the regulatory baseline this year, mainly due to increased renewal activity which is partially offset by fewer disruptive weather events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals in the year, meaning that the financial underperformance reported is lower than the arithmetic variance. Reduced passenger numbers this year also resulted in the lower compensation payable for major events, partially offsetting the extra costs incurred. This narrative holds true for the control period to date position, which is also higher than the regulatory baseline. Schedule 4 costs are set out in more detail in Statement 3.5.
- (1) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too, and subsequently high financial overperformance, both this year and the control period to date. Schedule 8 flows are set out in more detail in Statement 3.5.
- (10) Capital expenditure – Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include, financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment plus high number of emergency and reactive jobs needing to be delivered due to landslips and acceleration of buildings schemes to utilise funding resource and take advantage of lower footfall due to Covid-19. Net financial underperformance has been reported across the portfolio this year and now control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increasing amount of earthworks reactive schemes and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above. Renewals investment is discussed in more detail in Statement 3.6.
- (11) Capital expenditure - Department for Transport funded schemes – Expenditure this year is lower than the regulatory baseline. This mainly related to impact of Covid-19, slower identification of suitable schemes with DfT, agreeing appropriate scope and costs of potential schemes. Activity has generally been reprofiled into future years. Enhancement investment is set out in more detail in Statement 3.7.
- (12) 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.
- (13) 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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so risks are more likely to be realised, the further along we move into the control period. 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, Southern – continued

In £m cash 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 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.
- (15) Other expenditure – Corporation tax costs are higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Southern

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	245	246	(1)	-	230
Variable usage charge	46	55	(9)	(9)	52
Electrification asset usage charge	4	5	(1)	(1)	4
Capacity charge	-	-	-	-	-
Open access income	5	-	5	5	-
Managed stations long term charge	22	22	-	-	22
Franchised stations long term charge	54	54	-	-	53
Schedule 4 access charge supplement	69	70	(1)	(1)	76
	445	452	(7)	(6)	437
Other single till income					
Freight income					
Freight variable usage charge	4	4	-	-	3
Freight other income	-	-	-	-	-
	4	4	-	-	3
Stations income					
Managed stations qualifying expenditure	33	36	(3)	(3)	32
Franchised stations lease income	28	25	3	3	28
	61	61	-	-	60
Facility and financing charges					
Facility charges	17	17	-	-	17
	17	17	-	-	17
Property income					
Property rental	26	97	(71)	(71)	-
Property sales	4	3	1	1	-
	30	100	(70)	(70)	-
Depots Income	37	33	4	4	33
Other income	2	1	1	1	2
Total other single till income	151	216	(65)	(65)	115
Total Regionally-managed income	596	668	(72)	(71)	552
Centrally-managed income					
Network grant	1,036	1,263	(227)	-	938
Internal financing grant	147	184	(37)	-	159
External financing grant	146	147	(1)	-	160
BTP grant	27	28	(1)	-	27
Corporation tax grant	14	5	9	-	-
Infrastructure cost charges	11	11	-	-	11
Schedule 4 access charge supplement	17	17	-	-	16
Traction electricity charges	146	200	(54)	-	153
Freight traction electricity charges	2	3	(1)	-	2
	1,546	1,858	(312)	-	1,466
Other single till income					
Property income					
Property rental	1	-	1	1	100
Property sales	(6)	7	(13)	(13)	53
	(5)	7	(12)	(12)	153
Total other single till income	(5)	7	(12)	(12)	153
Total centrally-managed income	1,541	1,865	(324)	(12)	1,619
Total income	2,137	2,533	(396)	(83)	2,171

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	474	474	-	-
Variable usage charge	98	108	(10)	(10)
Electrification asset usage charge	8	9	(1)	(1)
Capacity charge	-	-	-	-
Open access income	5	-	5	5
Managed stations long term charge	44	44	-	-
Franchised stations long term charge	107	107	-	-
Schedule 4 access charge supplement	144	145	(1)	(1)
	880	887	(7)	(7)
Other single till income				
Freight income				
Freight variable usage charge	7	8	(1)	-
Freight other income	-	-	-	-
	7	8	(1)	-
Stations income				
Managed stations qualifying expenditure	65	71	(6)	(6)
Franchised stations lease income	56	50	6	6
	121	121	-	-
Facility and financing charges				
Facility charges	34	34	-	-
	34	34	-	-
Property income				
Property rental	26	97	(71)	(71)
Property sales	4	3	1	1
	30	100	(70)	(70)
Depots Income	70	64	6	5
Other income	4	3	1	2
Total other single till income	266	330	(64)	(63)
Total Regionally-managed income	1,146	1,217	(71)	(70)
Centrally-managed income				
Network grant	1,971	2,347	(376)	-
Internal financing grant	306	351	(45)	-
External financing grant	306	309	(3)	-
BTP grant	54	55	(1)	-
Corporation tax grant	14	9	5	-
Infrastructure cost charges	22	22	-	-
Schedule 4 access charge supplement	33	32	1	-
Traction electricity charges	298	376	(78)	-
Freight traction electricity charges	4	5	(1)	-
	3,008	3,506	(498)	-
Other single till income				
Property income				
Property rental	100	99	1	1
Property sales	47	25	22	18
	147	124	23	19
Total other single till income	147	124	23	19
Total centrally-managed income	3,155	3,630	(475)	19
Total income	4,301	4,847	(546)	(51)

Statement 2: Analysis of income, Southern

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower grants, property related income and Traction electricity income received. Income is lower than the previous year mostly due to lower property income as a result of Covid-19. Income for the control period to date is lower than the regulatory baseline as a result of lower grant income received, lower property related income plus lower than anticipated traction electricity income. The lower property income has resulted in the financial underperformance recognised both in this year and the control period to date.

Regionally-managed income

- (2) Total Regionally-managed income is lower than the CP6 baseline this year, mainly due to the impact of Covid-19. Reduced passenger numbers have led to a decrease in property income and fewer train services. This also explains the lower income in the control period to date. Despite Covid-19, income is higher than the previous year. This is mainly because responsibility for property has been devolved from Centrally-managed to Regionally-managed. This extra income largely offsets the reductions from running fewer train services this year. The decrease in property income in comparison to the regulatory baseline is reflected in the financial underperformance experienced this year, and for the control period to date.
- (3) 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.
- (4) Variable usage charge – income from variable usage charges paid by train operators is lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services. The control period to date variance is largely as a result of the current year shortfalls. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.
- (5) Capacity charges – under the regulatory financial framework for CP6, this form of income from train operators does not exist. Instead, income is generated through other headings, notably Infrastructure cost charges which explains the sharp decrease compared to the previous year.

Statement 2: Analysis of income, Southern - continued

In £m cash 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 lower than the previous year, however, 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) 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.
- (8) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (9) Depots income – revenue is slightly higher than the regulator's assumptions this year and the control period to date due to rent reviews having been undertaken for the GTR and LSER portfolio along with two new Depots having been added to the LSER portfolio at Dover Priory and Tonbridge. These Additional services provided this year have increased income compared to 2019/20.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to lower Network Grants and Traction electricity income. Income is lower than the previous year due property rental income being below regulatory expectations as a result of Covid-19 on customer demand.
- (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 CP6 Business Plan are considered neutral when assessing financial performance.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

- (3) Network grant – income was lower than the CP6 Business Plan mainly due to Schedule 8 savings, as set out in Statement 3.5. Network grant income is lower in the control period to date as the savings in the current year have augmented those reported last year. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in statement 3, the Network grant is higher than last year
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times-
- (5) External financing grants – grants received in the year and the control period to date is slightly lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.
- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.
- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Property rental – although income is higher than the regulatory expectation this year it is lower than the previous year. This is due to the impact of Covid-19 on customer demand.

Statement 2: Analysis of income, Southern - continued

In £m cash prices unless stated

- (11) Property sales – sales are lower than the regulatory baseline this year but higher than the control period to date expectation. The cost this year relates to a loss recognised on the joint venture scheme at Twickenham.

Southern

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	183	178	(5)	(5)	174
Maintenance	432	356	(76)	(82)	367
Support costs	80	65	(15)	(15)	46
Traction electricity, industry costs and rates	2	1	(1)	(1)	1
Schedule 4	82	61	(21)	(5)	88
Schedule 8	(141)	2	143	143	(29)
	638	663	25	35	647
Capital expenditure					
Renewals	852	641	(211)	(79)	597
Enhancements	191	259	68	(10)	173
	1,043	900	(143)	(89)	770
Total Regionally-managed expenditure	1,681	1,563	(118)	(54)	1,417
Centrally-managed expenditure					
Operating expenditure					
Network operations	3	4	1	1	3
Maintenance	13	15	2	4	14
Support costs	118	132	14	30	95
Traction electricity, industry costs and rates	256	282	26	2	234
Schedule 4	4	11	7	7	(12)
Schedule 8	(8)	2	10	10	2
	386	446	60	54	336
Capital expenditure					
Renewals	120	131	11	(4)	111
Enhancements	2	-	(2)	-	37
	122	131	9	(4)	148
Risk Expenditure	-	109	109	-	-
Other					
Financing costs	386	508	122	-	478
Taxation	14	6	(8)	-	-
	400	514	114	-	478
Total centrally-managed expenditure	908	1,200	292	50	962
Total expenditure	2,589	2,763	174	(4)	2,379

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	357	353	(4)	(4)
Maintenance	798	716	(82)	(91)
Support costs	126	116	(10)	(9)
Traction electricity, industry costs and rates	3	3	-	-
Schedule 4	169	133	(36)	(14)
Schedule 8	(170)	8	178	179
	1,283	1,329	46	61
Capital expenditure				
Renewals	1,447	1,172	(275)	(97)
Enhancements	364	462	98	(11)
	1,811	1,634	(177)	(108)
Total Regionally-managed expenditure	3,094	2,963	(131)	(47)
Centrally-managed expenditure				
Operating expenditure				
Network operations	6	9	3	2
Maintenance	27	32	5	2
Support costs	213	261	48	32
Traction electricity, industry costs and rates	489	535	46	2
Schedule 4	(8)	23	31	30
Schedule 8	(6)	4	10	10
	721	864	143	78
Capital expenditure				
Renewals	231	282	51	1
Enhancements	39	18	(21)	13
Other	-	-	-	-
	270	300	30	14
Risk Expenditure	-	109	109	-
Other				
Financing costs	863	1,016	153	-
Taxation	14	9	(5)	-
	877	1,025	148	-
Total centrally-managed expenditure	1,868	2,298	430	92
Total expenditure	4,962	5,261	299	45

Statement 3: Analysis of expenditure, Southern

In £m cash 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, lower finance expenses incurred and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes and lack of risk expenditure, being partially offset by increased renewal activity. Costs are higher than the previous year mainly due to increased renewals investment. Financial underperformance has been recognised this year, as higher like for like costs in the Renewals category and maintenance costs have only partly been offset by savings in Schedule 4 and 8 compensatory payments.

Regionally-managed expenditure

- (1) Regionally-managed costs are higher than the regulatory baseline assumed mainly due to acceleration and higher like for like costs in Renewals, higher operating expenditure as a result of extra investment in performance improvement plans, Putting passenger first programme costs and the impact of Covid-19 across all expenditure line items however this has been partially offset by savings in Schedule 8 costs. Costs are higher than the previous year and the baseline for the Control period to date because of acceleration of renewal programmes. Further breakdown and analysis of Regionally-managed expenditure is included in the remainder of Statement 3. Financial underperformance has been recognised this year, as higher like for like costs in the Renewals category have only partly been offset by savings in Schedule 8 compensatory payments.

Centrally-managed expenditure

- (1) Centrally-managed costs are lower than the regulatory baseline mainly due to reduced financing costs and risk. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of Centrally-managed expenditure is included in the remainder of Statement 3.

Southern

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	60	57	(3)	(3)	57
Operations Management	8	12	4	4	11
Controllers	30	31	1	1	31
Electrical control room operators	9	8	(1)	(1)	7
	107	108	1	1	106
Non signaller expenditure					
Mobile operations managers	12	8	(4)	(4)	11
Managed stations	40	31	(9)	(9)	31
Performance	6	9	3	3	8
Other	18	22	4	4	18
Total Regionally-managed Operations expenditure	183	178	(5)	(5)	174
Centrally-managed Operations expenditure					
Network Services	3	4	1	1	3
Total centrally-managed Operations expenditure	3	4	1	1	3
	-	-	-	-	-
Total operations expenditure	186	182	(4)	(4)	177

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	117	116	(1)	(1)
Operations Management	19	23	4	4
Controllers	61	64	3	3
Electrical control room operators	16	15	(1)	(1)
	213	218	5	5
Non signaller expenditure				
Mobile operations managers	23	17	(6)	(6)
Managed stations	71	62	(9)	(9)
Performance	14	17	3	3
Other	36	39	3	3
Total Regionally-managed Operations expenditure	357	353	(4)	(4)
Centrally-managed Operations expenditure				
Network Services	6	9	3	2
Total centrally-managed Operations expenditure	6	9	3	2
Total operations expenditure	363	362	(1)	(2)

Statement 3.1: Analysis of operations expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra costs were incurred including cleaning at offices and stations, vehicle costs to comply with social distancing regulations and additional staff at stations. These additional costs have led to the slight financial underperformance recognised to date. For the Control Period to date, spend is slightly higher than the regulatory assumption, primarily due to the incurring of costs in relation to Network Rail's response to the pandemic, which has offset efficiencies achieved in the previous year.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra costs were incurred including cleaning at offices and stations, vehicle costs to comply with social distancing regulations and additional staff at stations. For the Control Period to date, spend is higher than the regulatory assumption, primarily due to the incurring of costs in relation to Network Rail's response to the pandemic, which has offset efficiencies achieved in the previous year. These additional costs have led to financial underperformance this year and for the control period to date.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for both the Control Period to date and the current year. Savings made last year due to reduced recruitment, have been offset by increases in staff costs to ensure the railway kept moving during the Covid-19 pandemic.
- (3) Operations management - costs are lower than the regulatory expectation for the control period to date and the current year. Delays in a number of operations projects such as SCADA and ETCS due to the necessary precedence of Covid-19 resilience spending this year, have led to the savings to date.
- (4) Mobile operation managers – costs are higher than the regulatory target for this year and the Control Period to date, as premium hour costs have increased to provide extra resilience during the Covid-19 pandemic.

Statement 3.1: Analysis of operations expenditure, Southern - continued

In £m cash prices unless stated

- (5) Managed stations – costs are significantly higher than the regulatory target this year and last year's actuals. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra customer service assistants have also been recruited to help manage passenger commuting and help station staff enforce social distancing. The Control Period to date is similarly higher than the regulator's assumption, due to the aforementioned reasons.
- (6) Other – costs are lower than the regulatory target for this year, and the Control Period to date. This is partly due to restructuring as a result of the PPF Programme.

Centrally-managed operations expenditure

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

Southern

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	170	158	(12)	(12)	157
Signalling & Telecoms	68	67	(1)	(1)	65
Civils	40	45	5	(4)	36
Buildings	32	30	(2)	1	32
Electrical power and fixed plant	25	29	4	4	25
Other network operations	97	27	(70)	(70)	52
	432	356	(76)	(82)	367
Centrally-managed maintenance expenditure					
Telecoms	5	6	1	1	4
Route Services - Asset Information	6	5	(1)	(1)	5
STE Maintenance	1	1	-	-	2
Property	-	2	2	2	3
Route Services - Other	(1)	-	1	1	3
Other	2	1	(1)	1	(3)
	13	15	2	4	14
Total maintenance expenditure	445	371	(74)	(78)	381

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	327	307	(20)	(20)
Signalling & Telecoms	133	130	(3)	(3)
Civils	76	84	8	(6)
Buildings	64	59	(5)	-
Electrical power and fixed plant	50	56	6	6
Other network operations	148	80	(68)	(68)
	798	716	(82)	(91)
Centrally-managed maintenance expenditure				
Telecoms	9	12	3	3
Route Services - Asset Information	11	10	(1)	(1)
STE Maintenance	3	2	(1)	(1)
Property	3	6	3	3
Route Services - Other	2	1	(1)	(5)
Other	(1)	1	2	3
	27	32	5	2
Total maintenance expenditure	825	748	(77)	(89)

Statement 3.2: Analysis of maintenance expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6).
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, maintenance costs are higher than the regulatory baseline this year and the previous year's expenditure. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance, and the implementation of the PPF Programme. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year. This additional expenditure is reflected in the financial underperformance recognised both for the current year, and the control period to date.

Regionally-managed maintenance costs

- (2) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and the previous year's expenditure. The primary cause for the increase in costs, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, the company had to provide extra resilience to ensure the railway continued to be operational. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. Control Period to date spend is higher than the regulatory baseline, primarily due to the aforementioned costs incurred this year.
- (3) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than both the regulatory baseline and the previous year's expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend. This has included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Performance Schemes within the region were also contributory factors. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

- (4) Signalling & telecoms - This year, costs are marginally higher than the regulatory baseline, and the previous year's expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been additional resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, mitigating the risk of long delays and unneeded frustration for passengers. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred this year due to the aforementioned reasons.
- (5) Civils – costs were lower than the regulatory baseline mainly due to a delay in tenanted arches inspections and reactive maintenance expenses being lower than the regulatory expectation. 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 slightly higher than the previous year. Control Period to date spend is lower than the regulatory baseline, predominantly because of lower reactive maintenance expenditure.
- (6) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance, which was higher than the regulatory expectation. 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 small amount of outperformance is from the other expenditure which isn't related to reactive maintenance. 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 in line with the previous year. Control Period to date spend is higher than the regulatory baseline, primarily due to higher than expected reactive maintenance spend.
- (7) Electrical power and fixed plant – costs for the current year are lower than the regulatory expectation and broadly in line with spend for the previous year. This decrease is largely attributable to a delay in planned OLE works till next financial year. Control Period to date spend is lower than the regulatory baseline, despite the additional costs incurred this year in relation to Covid-19.

Statement 3.2: Analysis of maintenance expenditure, Southern – continued

In £m cash prices unless stated

- (8) Other network operations – costs are significantly higher than the regulatory baseline and last year's actual. There are numerous contributory factors, including Covid-19 resilience and compliance investment contributing to this extra spend. This has included additional staff costs, procurement of Covid-19 secure PPE and the fitting of vehicles with shields to ensure adherence to social distancing rules. Additionally, there are various one-off expenses and other asset resilience initiatives to protect train performance, including a £24 million Performance scheme granted for performance improvement, and the introduction of Trespass and Welfare teams across the route's stations. Control Period to date spend is higher than the regulatory baseline, as a result of the additional aforementioned costs incurred this year.

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are lower than the regulatory baseline and the previous year's actuals.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme and successful resolution of commercial claims in the previous year. Costs are higher than the previous year's actuals.
- (3) Route Services – Other – Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are lower than the regulatory baseline as the extra costs this year were offset by savings last year as noted above.

Southern

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	11	9	(2)	(2)	7
Finance	3	6	3	3	4
Accommodation	21	18	(3)	(3)	19
Utilities	15	17	2	2	16
Other	30	15	(15)	(15)	-
	80	65	(15)	(15)	46
Centrally-managed Support costs					
Finance & Legal	8	11	3	3	7
Communications	4	4	-	-	2
Human Resources	5	5	-	-	4
System Operator	7	10	3	3	8
Property	6	-	(6)	(6)	8
Telecoms	17	17	-	(1)	12
Network Services	4	10	6	6	4
Safety Technical and Engineering	7	8	1	1	7
RS - IT and Business Services	24	25	1	1	21
RS - Asset Information	2	5	3	3	2
RS - Directorate	8	5	(3)	(3)	4
Other corporate functions	2	1	(1)	(1)	5
Insurance	6	8	2	2	6
OPEX/CAPEX Adjustment	27	11	(16)	-	10
Group costs	(9)	12	21	22	(5)
	118	132	14	30	95
Total support costs	198	197	(1)	15	141

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	18	17	(1)	-
Finance	7	12	5	4
Accommodation	40	37	(3)	(2)
Utilities	31	34	3	3
Other	30	16	(14)	(14)
	126	116	(10)	(9)
Centrally-managed Support costs				
Finance & Legal	15	19	4	4
Communications	6	7	1	1
Human Resources	9	9	-	-
System Operator	15	21	6	6
Property	14	3	(11)	(11)
Telecoms	29	31	2	-
Network Services	8	16	8	8
Safety Technical and Engineering	14	15	1	1
RS - IT and Business Services	45	47	2	2
RS - Asset Information	4	8	4	4
RS - Directorate	12	9	(3)	(3)
Other corporate functions	7	13	6	(2)
Insurance	12	16	4	4
OPEX/CAPEX Adjustment	37	20	(17)	-
Group costs	(14)	27	41	18
	213	261	48	32
Total support costs	339	377	38	23

Statement 3.3: Analysis of support costs, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

Support costs are in line with the regulatory baseline but higher than the previous year spend. Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements, have been offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. The Control Period to date spend is lower than the regulatory expectation, primarily as a result of deferral of investment of CSAC income both this year and the previous, and reductions in performance-related pay for staff, headcount control and other efficiencies realised in the control period. As Opex to Capex movements are considered neutral in the measure of financial performance, some financial overperformance was recognised this year, despite costs being in line with the regulatory assumption.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. The Control Period to date is also higher than the regulatory baseline, despite the realisation of efficiencies in the previous year, which were offset by the additional spend this year.
- (2) Human resources – costs in the current year and control period to date are slightly higher than the baseline expectation and 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.
- (3) Accommodation – costs are slightly higher than the baseline expectation and the previous year as a result of expenditure on required Covid-19 compliance measures. The Control Period to date spend is similarly higher than the regulators assumption, due to this extra cost.
- (4) Other – costs were significantly higher than the regulatory baseline this year and for the Control Period to date. This is primarily due to implementation of the PPF programme, and Covid-19 related expenditure, such as PPE purchases and extra staff costs, incurred as less annual leave being taken during the year has resulted in an increase in salary costs needing to be recognised this year.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last year's actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority.
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are higher than the previous year reflecting responsibilities transferred to this function as part of the PPF restructure, notably the Centre of Excellence team introduced to add support and expertise to capital projects delivery.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are noticeably higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are higher than the regulatory baseline this year and for the control period to date. This is mostly due to the devolution of accountabilities to the Regionally managed teams. Responsibility for running managed stations (both the costs and the income earned from car parks and other auxiliary services supplied at these stations to customers) now resides with the Regions to allow decisions to be made closer to the passengers.
- (7) Telecoms – costs are in line with the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regard to financial performance.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

- (8) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (9) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year and in line with the previous year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic.
- (10) Route Services – IT and Business Services – costs are generally consistent with the regulatory baseline this year. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiling of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.

Statement 3.3: Analysis of support costs, Southern - continued

In £m cash prices unless stated

- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position.
- (15) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

Southern

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	2	1	(1)	(1)	1
	2	1	(1)	(1)	1
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	148	203	55	-	157
Business rates	75	43	(32)	-	43
British transport police costs	25	27	2	2	26
ORR licence fee and railway safety levy	5	5	-	-	5
RDG membership costs	1	1	-	-	1
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	1	1	-	-
	256	282	26	2	234
Total traction electricity, industry costs and rates	258	283	25	1	235

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
British transport police costs	3	3	-	-
	3	3	-	-
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	305	381	76	-
Business rates	117	85	(32)	-
British transport police costs	51	53	2	2
ORR licence fee and railway safety levy	10	9	(1)	-
RDG membership costs	2	-	(2)	-
RSSB costs	4	6	2	-
Reporters fees	-	-	-	-
Other industry costs	-	1	1	-
	489	535	46	2
Total traction electricity, industry costs and rates	492	538	46	2

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date 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 business rates expenses.

Regionally-managed traction electricity, industry costs and rates

- (1) British Transport Police costs – Costs were higher than the regulatory baseline and the previous year's actuals due to additional services requested to keep the travelling public safe. The additional costs in the current year account for the control period to date variance.

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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. 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.
- (3) British Transport Police costs - expenses in the year are lower than the regulatory baseline this year, and the control period to date.
- (4) ORR licence fee and railway safety – costs this year and the control period to date 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.

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

In £m cash prices unless stated

- (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.

Southern

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

£m, Cash prices

				Of which financial out / (under) performance	
2020-21	Actual	Regulatory baseline	Variance		2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	0	0	0	0	0
Performance element costs	82	61	(21)	(5)	88
Access charge supplement Income	(69)	(79)	(10)	-	(76)
Net (income)/cost	13	(18)	(31)	(5)	12
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(141)	-	141	141	(48)
Access charge supplement Income	-	2	2	2	19
Net (income)/cost	(141)	2	143	143	(29)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	4	11	7	7	(12)
Access charge supplement Income	(17)	(12)	5	-	(16)
Net (income)/cost	(13)	(1)	12	7	(28)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(8)	2	10	10	2
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(8)	2	10	10	2
Total	-	-	-	-	-
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	86	72	(14)	2	76
Access charge supplement Income	(86)	(91)	(5)	-	(92)
Net (income)/cost	-	(19)	(19)	2	(16)
Schedule 8					
Performance element income	(141)	-	141	141	(48)
Performance element costs	(8)	4	12	12	21
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(149)	4	153	153	(27)
Cumulative					
	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	169	133	(36)	(14)	-
Access charge supplement Income	(144)	(171)	(27)	-	-
Net (income)/cost	25	(38)	(63)	(14)	
Schedule 8					
Performance element income	(189)	-	189	189	-
Performance element costs	19	8	(11)	(10)	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(170)	8	178	179	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	(8)	23	31	30	-
Access charge supplement Income	(33)	(25)	8	-	-
Net (income)/cost	(41)	(2)	39	30	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(6)	4	10	10	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(6)	4	10	10	
Total	-	-	-	-	-
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	161	156	(5)	16	-
Access charge supplement Income	(177)	(196)	(19)	-	-
Net (income)/cost	(16)	(40)	(24)	16	
Schedule 8					
Performance element income	(189)	-	189	189	-
Performance element costs	13	12	(1)	-	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(176)	12	188	189	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (2) Overall Schedule 4 costs are higher than the regulatory baseline this year, mainly due to increased renewal activity which is partially offset by fewer disruptive weather events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was increased activity on this class of renewals in the year, meaning that there was small financial outperformance in the year. Reduced passenger numbers this year also resulted in the lower compensation payable for major events, partially offsetting the extra costs incurred. This narrative holds true for the control period to date position, which is also higher than the regulatory baseline.
- (3) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable control period to date position too, and subsequently high financial overperformance, both this year and the control period to date.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). 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 extra capital delivery. The extra capital delivery includes additional S&C and Signalling jobs conducted this year compared to the regulatory baseline. These are treated as neutral when assessing Schedule 4 financial performance. The control period to date cost is also higher than the regulatory baseline due to the aforementioned reasons, plus higher like-for-like costs and the adverse impact from weather events in FY20. This included 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.
- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 has resulted in a highly favourable control period to date position. The control period to date, is also extremely favourable against the regulatory baseline. These aforementioned reasons, along with investment in OPEX last year to improve train performance, have helped generate these savings.

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 – Access charge supplement income is slightly higher than the regulatory baseline for both this year and the control period to date. 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. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

Southern

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	63	41	(22)	-	56
PL Replace Partial	25	19	(6)	-	24
PL High Output	-	-	-	-	19
PL Refurbishment	31	19	(12)	-	28
PL Track Slab Track	-	1	1	-	-
Switches & Crossing - Replace	46	55	9	-	37
Switches & Crossing - Other	23	14	(9)	-	16
Off Track	24	10	(14)	-	22
Track Other	19	9	(10)	-	9
	231	168	(63)	(21)	211
Signalling					
Signalling Full	118	68	(50)	0	89
Signalling Partial	(10)	3	13	0	16
Signalling Refurb	11	33	22	0	4
Level crossings	11	16	5	0	7
Minor works	40	24	(16)	0	26
Other	1	5	4	0	1
	171	149	(22)	(13)	143
Civils					
Underbridges	44	65	21	-	16
Overbridges	5	10	5	-	4
Major structures	4	1	(3)	-	1
Tunnels	2	2	-	-	2
Minor works	19	17	(2)	-	16
Other	7	9	2	-	3
	81	104	23	(3)	42
Earthworks					
Earthworks - Embankments	62	16	(46)	-	43
Earthworks - Soil Cuttings	46	24	(22)	-	28
Earthworks - Rock Cuttings	20	4	(16)	-	1
Earthworks - Other	1	-	(1)	-	1
	129	44	(85)	(42)	73
Buildings					
Managed stations	4	12	8	-	5
Franchised stations	93	41	(52)	-	49
Light maint depots	4	(5)	(9)	-	8
Depot plant	7	8	1	-	-
Lineside buildings	8	2	(6)	-	8
MDU buildings	13	7	(6)	-	5
Other	-	-	-	-	-
	129	65	(64)	(1)	75
Electrical power and fixed plant					
AC distribution	2	8	6	-	4
Overhead Line	-	1	1	-	-
DC distribution	38	21	(17)	-	13
Conductor rail	16	15	(1)	-	10
Signalling Power Supplies	4	11	7	-	5
Other	10	22	12	-	8
Fixed plant	3	3	-	-	4
	73	81	8	4	44
Drainage					
Drainage (Track)	18	17	(1)	-	5
Drainage (Earthworks)	4	3	(1)	-	4
Drainage (Resilience)	-	-	-	-	-
	22	20	(2)	(3)	9
Property					
Property	16	10	(6)	-	-
	16	10	(6)	-	-
Total Regionally-managed renewals expenditure					
	852	641	(211)	(79)	597

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	5
	-	-	-	-	5
Telecoms	-	-	-	-	-
Operational communications	3	6	3	-	3
Network	1	1	-	-	-
SISS	6	26	20	-	4
Projects and other	-	1	1	-	1
Non-route capital expenditure	18	14	(4)	-	19
	28	48	20	(3)	27
Wheeled plant and machinery					
High output	-	5	5	-	-
Incident response	-	-	-	-	-
Infrastructure monitoring	1	3	2	-	1
Intervention	3	6	3	-	3
Materials delivery	(1)	5	6	-	2
On track plant	-	3	3	-	-
Seasonal	3	8	5	-	1
Other	4	2	(2)	-	1
	10	32	22	-	8
Route Services					
Business Improvement	14	5	(9)	-	19
IT Renewals	7	16	9	-	7
Asset Information	2	3	1	-	-
Other	1	1	-	-	1
	24	25	1	-	27
STE Renewals					
Intelligent infrastructure	16	10	(6)	-	7
Faster Isolations	26	30	4	-	22
Centrally Managed Signalling Costs	2	2	-	-	1
Research and development	13	10	(3)	-	7
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	5	5	-	-	6
Small plant	1	2	1	-	1
Other	19	3	(16)	-	3
	82	64	(18)	-	47
Property					
Property	1	-	(1)	-	9
	1	-	(1)	-	9
Other renewals					
ETCS	5	4	(1)	-	3
Digital Railway	1	(4)	(5)	-	-
Civils - Insurance Fund	2	6	4	-	-
Buildings - Insurance Fund	-	3	3	-	-
OPEX/CAPEX Adjustment	(25)	(11)	14	-	(10)
Phasing overlay	-	(41)	(41)	-	-
System Operator	3	4	1	-	2
Other renewals	(11)	1	12	(1)	(7)
	(25)	(38)	(13)	(1)	(12)
Total centrally-managed renewals expenditure	120	131	11	(4)	111
TOTAL RENEWALS EXPENDITURE	972	772	(200)	(83)	708

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	119	95	(24)	-
PL Replace Partial	49	37	(12)	-
PL High Output	19	21	2	-
PL Refurbishment	59	41	(18)	-
PL Track Slab Track	-	1	1	-
Switches & Crossing - Replace	83	94	11	-
Switches & Crossing - Other	39	27	(12)	-
Off Track	46	21	(25)	-
Track Other	28	19	(9)	-
	442	356	(86)	(21)
Signalling	-	-	-	-
Signalling Full	207	165	(42)	-
Signalling Partial	6	5	(1)	-
Signalling Refurb	15	45	30	-
Level crossings	18	24	6	-
Minor works	65	52	(13)	-
Other	2	9	7	-
	313	300	(13)	(19)
Civils	-	-	-	-
Underbridges	60	87	27	-
Overbridges	9	14	5	-
Major structures	5	3	(2)	-
Tunnels	4	4	-	-
Minor works	35	34	(1)	-
Other	10	14	4	-
	123	156	33	(1)
Earthworks	-	-	-	-
Earthworks - Embankments	104	24	(80)	-
Earthworks - Soil Cuttings	74	36	(38)	-
Earthworks - Rock Cuttings	21	6	(15)	-
Earthworks - Other	2	1	(1)	-
	201	67	(134)	(51)
Buildings	-	-	-	-
Managed stations	9	16	7	-
Franchised stations	142	85	(57)	-
Light maint depots	12	(2)	(14)	-
Depot plant	7	10	3	-
Lineside buildings	16	3	(13)	-
MDU buildings	18	9	(9)	-
Other	-	-	-	-
	204	121	(83)	(2)
Electrical power and fixed plant	-	-	-	-
AC distribution	6	13	7	-
Overhead Line	-	1	1	-
DC distribution	51	38	(13)	-
Conductor rail	26	20	(6)	-
Signalling Power Supplies	9	17	8	-
Other	18	33	15	-
Fixed plant	7	6	(1)	-
	117	128	11	-
Drainage	-	-	-	-
Drainage (Track)	23	27	4	-
Drainage (Earthworks)	8	7	(1)	-
Drainage (Resilience)	-	-	-	-
	31	34	3	(3)
Property	-	-	-	-
Property	16	10	(6)	-
	16	10	(6)	-
	-	-	-	-
Total Regionally-managed renewals expenditure	1,447	1,172	(275)	(97)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	5	-	(5)	-
	5	-	(5)	-
Telecoms	-	-	-	-
Operational communications	6	11	5	-
Network	1	3	2	-
SISS	10	29	19	-
Projects and other	1	2	1	-
Non-route capital expenditure	37	32	(5)	-
	55	77	22	(3)
Wheeled plant and machinery				
High output	-	12	12	-
Incident response	-	-	-	-
Infrastructure monitoring	2	4	2	-
Intervention	6	9	3	-
Materials delivery	1	9	8	-
On track plant	-	3	3	-
Seasonal	4	11	7	-
Other	5	2	(3)	-
	18	50	32	-
Route Services				
Business Improvement	33	29	(4)	-
IT Renewals	14	19	5	-
Asset Information	2	3	1	-
Other	2	1	(1)	-
	51	52	1	-
STE Renewals				
Intelligent infrastructure	23	17	(6)	-
Faster Isolations	48	54	6	-
Centrally Managed Signalling Costs	3	4	1	-
Research and development	20	15	(5)	-
Integrated Management System (Incl. BCR)	-	5	5	-
Other National SCADA Programmes	11	12	1	-
Small plant	2	4	2	-
Other	22	9	(13)	-
	129	120	(9)	-
Property				
Property	10	16	6	-
	10	16	6	-
Other renewals				
ETCS	8	7	(1)	-
Digital Railway	1	(4)	(5)	-
Civils - Insurance Fund	2	11	9	2
Buildings - Insurance Fund	-	5	5	-
OPEX/CAPEX Adjustment	(35)	(20)	15	-
Phasing overlay	-	(40)	(40)	-
System Operator	5	6	1	-
Other renewals	(18)	2	20	2
	(37)	(33)	4	4
Total centrally-managed renewals expenditure	231	282	51	1
TOTAL RENEWALS EXPENDITURE	1,678	1,454	(224)	(96)

Statement 3.6: Analysis of renewals expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment plus high number of emergency and reactive jobs needing to be delivered due to landslips and acceleration of buildings schemes to utilise funding resource and take advantage of lower footfall due to Covid-19. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increasing number of earthworks reactive schemes and other headwinds such as increases in Material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date primarily as a result of the reasons highlighted above.

Regionally-managed renewals

- (1) Total Regionally-managed Renewals expenditure is significantly higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio, increased expenditure in Earthworks post the Stonehaven derailment plus high number of emergency and reactive jobs needing to be delivered due to landslips and acceleration of buildings schemes to utilise funding resource and take advantage of lower footfall due to Covid-19. Net financial underperformance has been reported across the portfolio this year and the control period to date. This underperformance is due to multitude of factors including the impact of Covid-19 on project delivery, especially within the Track and Signalling portfolio, increasing number of earthworks reactive schemes and other headwinds such as increases in material rates. Renewals expenditure is higher than the regulatory baseline for the control period to date, as is financial underperformance, primarily as a result of the reasons highlighted above.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

- (2) Track – investment was higher than the regulatory baseline and last year's outturn, mainly due to acceleration of activity to utilise available resource this year. S&C and off-track Volumes delivered this year were higher than the regulatory expectation, which included delivery of schemes at Guildford, Nine Elms and Slade green junction. However, higher like for like costs have also led to financial underperformance in the year. Financial underperformance has been recognised due to increases in hardwood prices, leading to wheel timber renewals costing considerably more than the baseline assumed. Covid-19 also led to extra welfare and labour costs. PPE purchases and vehicle costs were also borne, to ensure adherence to social distancing rules. Delivery delays due to hot weather on plain line renewal interventions, material rate increases, and rail drop failures, have also augmented the financial underperformance within the track asset category. Financial performance and spend are both higher than control period to date regulatory baseline, due to the aforementioned reasons.
- (3) Signalling – expenditure is higher than the regulatory baseline and last year's outturn. This was to be expected as the Brighton mainline upgrades had been delayed in 19/20 due to higher tender prices necessitating a change in design and approach. Feltham resignalling scheme was also deferred into FY21 from FY20, due to changes in design and scope, which has led to a significant volume of design and installation works being delivered in FY21. Financial underperformance has been recognised this control period to date. The additional costs projects have had to bear due to Covid-19 has been the primary cause of this underperformance this year. Hither green signalling commissioning, was due for completion in easter 2020 but had to be deferred, as works could not be completed in the original timeframe in accordance with social distancing restrictions. Whilst last year higher tender and contractor prices compared to expectations, delays obtaining access from third parties and unfavourable settlement of commercial claims lead to financial underperformance.
- (4) Civils – expenditure this year is lower than the regulatory baseline and the control period to date, which is 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. Small financial underperformance has been realised in Structures due to delivery and Covid-19 issues. Increased complexity and scope requirement, such as additional brickwork repair costs and vegetation removal have increased AFCs across the portfolio. Covid-19 led to a number of schemes having to be deferred, which has caused projects to incur prolongation costs.
- (5) Earthworks – investment was noticeably higher than the previous year and the regulatory baseline. As a result of inclement weather, a large number of emergency and reactive works have been required in FY21. This has seen a significant increase in volume which has led to this increase in spend but also large increase in financial underperformance. Kent route suffered over 15 landslips across various locations which put the safe running of the railway at risk. Higher like-for-like costs also included construction of ballast bag walls to catch falling material, challenging crest access, delays in material delivery to site prolongating projects and higher contractor costs on some schemes. The control period to date spend is significantly higher than the regulatory baseline due to the aforementioned reasons plus the extra embankment works at Edenbridge, Epsom, Headcorn and Crouch Lane as well as soil works at Barnehurst, Hever, Wadhurst and Red Lane in FY20.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

- (6) Buildings – investment exceeded the regulatory baseline this year and last year's actual, mainly due to acceleration of activity from future years to help utilise available funding and deliver extra schemes due to reduced footfall in stations as a result of Covid-19. Control period to date spend is significantly higher than the regulatory baseline due to works directly delivered by Southeastern and Govia Thameslink Railway operators at franchised stations, full paint job and replacement decks, canopy repairs, enhanced tactiles 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. Financial performance is broadly in line with target
- (7) Electrical power and fixed plant – investment in the year was lower than the regulatory expectation but higher than last year's outturn. The increase in spend relates to increased activity on the safer isolations schemes in Sussex and Kent, whilst Wessex have made good progress on delivering their cabling renewal scheme.
- (8) Drainage – expenditure was slightly higher than the regulatory baseline this year. Higher like for like costs led to slight financial underperformance, which is a result of required changes in solution intervention and as projects across the region have seen increased complexity to deliver schemes, access and delivery costs have subsequently increased. This was experienced in the Sussex drainage programme and Templecombe cutting. Spend is significantly higher than last year. The region incurred delays in securing access, agreeing contractor framework for CP6 and shortage of drainage plant in FY20, which has been overcome in FY21.
- (9) Property – expenditure is significantly higher than last year's actual and the regulatory baseline. This is due to some of the centrally managed property renewals, being flexed over to the regional teams as part of the PPF programme, and the regional team deciding to conduct more property renewal activity.

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is lower than the regulatory baseline this year, with higher spend on STE programmes being offset by underspend in Telecoms 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn.

Centrally managed renewals control period to date spend is lower than the regulatory baseline, due to additional schemes being transferred into OPEX, fewer insurance funded jobs than expected and slow progress in wheeled plant and machinery activities.

Statement 3.6: Analysis of renewals expenditure, Southern - continued

In £m cash prices unless stated

- (2) Track – no costs were incurred 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. Last year 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 lower than the regulatory baseline. Slippage on operation communications and SISS projects have been slightly offset by Non-route capital expenditure acceleration. Control period to date spend is lower than the regulatory baseline due to the aforementioned slippage. There has been some financial underperformance experienced this year due to delays in the programme testing and delivery because of complexity of design works, plus hardware malfunctions.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 the regulatory baseline. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and in line with last year's spend. The spend control period to date is 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 but in line with prior year's outturn. This is 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 for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory. Negative spend has been recognised in year, as the sunk costs realised in production of the sleeper factory have been expensed to the P&L, as the programme is no longer continuing.
 - e. On track plant – expenditure in the year is in lower with the regulatory baselines. Spend in this category which included the purchase of equipment such as mobile elevated working platform, has been deferred into future years.
 - 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, Southern – continued

In £m cash prices unless stated

- (5) Route Services – Expenditure is broadly in line with the regulatory baselines but lower than last year's outturn. Last year significant investment to major programmes included 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. Whilst this spend has continued into this year, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (1) STE renewals – overall STE expenditure is significantly higher 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.
 - b. Faster isolations – costs are slightly lower than the regulatory baseline but higher than last year's outturn. This is due to fewer schemes being identified and progressed caused by delays in design and tendering processes. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - c. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
 - d. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - e. Small Plant – investment is less than the regulatory baseline this year but in line with last year's outturn. 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.
 - f. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.

Statement 3.6: Analysis of renewals expenditure, Southern – continued

In £m cash prices unless stated

- (6) Other – investments are lower than the regulatory baseline mainly due to fewer insurable events this year compared to the regulatory expectation. Costs are lower to the regulatory baseline due to a change in accounting policy enacted for CP6 (the Opex/ Capex adjustment line). Notable items in the Other category include:
- a. ETCS – expenditure is higher than the regulatory baseline and higher than last year's outturn. Control period to date spend is also higher than the regulatory baseline as a result of additional activity on Southern region. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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 control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund.
 - 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.
 - 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.
 - e. System Operator – expenditure this year is lower than the regulatory baseline but higher than last years outturn.
 - f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Southern

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Thameslink	58	78	3	118	125	-
Brighton Mainline Upgrade Programme	23	34	-	45	51	-
Wessex Enhancements (Waterloo and South London HV Grid)	(10)	20	-	11	39	(2)
Victoria station redevelopment	2	4	-	2	5	-
Gatwick Station	51	33	(10)	62	39	(10)
SFN-Freight Forecasts project	15	24	-	17	27	-
Access for All	8	10	-	17	47	-
Thameslink Resilience Programme	5	2	(2)	13	25	-
Reading, Ascot to Waterloo Train Lengthening	3	4	1	15	21	1
Portfolio Contingency (including T-12)	-	-	(2)	4	18	13
Depots & Stabling Fund	(1)	9	-	16	26	-
Feltham	7	7	-	7	12	-
Other	30	34	-	41	45	-
Total	191	259	(10)	368	480	2
Other Capital Expenditure	2	-	-	35	-	-
Other third party funded schemes						
HS2	-	-	-	-	-	-
Other third Party	8	-	-	27	-	-
Total	8	-	-	27	-	-
Total enhancements	201	259	(10)	430	480	2
Total enhancements less Other third party funded schemes	193	259	(10)	403	480	2

Statement 3.7: Analysis of enhancement expenditure, Southern

In £m cash prices unless stated

Notes:

- (1) 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.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) 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). 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 (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £193m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£201m) less the PAYGO schemes funded by third parties (£8m).
- (4) Department for Transport funded schemes – Expenditure this year is lower than the regulatory baseline. This mainly related to impact of Covid-19, 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 – The Programme is delivering new infrastructure, better stations, new technology and new trains on an expanded Thameslink network to deliver significant improvements transforming north-south travel through London, providing more frequent, reliable, and better connectivity for passengers. Majority of the works relating to Key Output 2 which involved upgrades, primarily to signalling to accommodate 24 train paths per hour and major platform, track and associated infrastructure remodelling at London Bridge station is complete. Expenditure this year is lower than the baseline with some minor improvement works still being made at London Bridge station of adding new retail units and improving facilities. Cumulative financial performance is now neutral at an overall level.

Statement 3.7: Analysis of enhancement expenditure, Southern – continued

In £m cash prices unless stated

- b. Brighton Main Line Upgrade Programme – The Croydon Area Remodelling Scheme (CARS) is part of the longer-term Brighton Main Line upgrade proposals. Infrastructure Investment will provide major improvements at East Croydon and Norwood Junction stations and facilitate better timetables, a reduction in reactionary delay and permit additional peak trains in response to high levels of standing passengers on the London to South Coast rail network. Progress has been slower this year than baseline expectations due to funding restrictions and in relation to purchase and maintenance of key land and buildings essential for any future development opportunities.
 - c. Wessex enhancements (Waterloo and South London HV Grid) – This project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes. Negative expenditure in the year is due to release of Liability held by Network rail for Waterloo International Terminal construction lease, for which payment has been made directly by the DfT. Previously baselined works for South London HV Grid were deferred pending funding decision and is reprofiled in future years of the control period.
 - d. Gatwick Airport Station – The project will provide a new station concourse above the existing station platforms with increased space for passengers and an improved connection to Gatwick Airport South Terminal via the Network Rail footbridge. Increased spend in year due to acceleration of works primarily driven by access opportunities arising due to Covid-19. Adverse financial performance is a result of additional scope required to meet regulatory standards relating to improved physical security at the station.
 - e. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - f. Thameslink Resilience Programme – Strategic enabling programme to increase asset resilience on critical sections of Thameslink related routes. Greater progress has been made this year, interfacing with other projects on the network to minimise disruption to passengers.
 - g. Other – this category covers a number of smaller projects, including CP5 close out projects and Small Operational Enhancement Fund (SOEF).
- (5) Third party funded schemes – notable schemes delivered this year include Thanet Parkway; Victoria Way Bridge Enhancement and East Croydon Upgrade.
- (6) Other capital expenditure – There was minimum activity in this category this year.

Southern

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
Unit		AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	47	36	1,306	62	41	1,512
	PL Replace Partial	km	57	197	289	55	197	279
	PL High Output	km	-	-	-	22	17	1,294
	PL Refurbishment	km	68	308	221	57	328	174
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	32	51	627	26	44	591
	Switches & Crossing - Other	point ends	40	439	91	38	451	84
	Off Track	km/No.	59	2,146	27	40	1,404	28
	Track Other		-	-	-	-	-	-
Total		303	-	-	300	-	-	
Signalling	Signalling Full	SEU	72	198	364	134	132	1,015
	Signalling Partial	SEU	6	16	375	5	18	278
	Signalling Refurb	SEU	6	31	194	5	14	357
	Level crossings	No.	2	11	182	2	4	500
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		86	-	-	146	-	-
Civils	Underbridges	m2	37	6,098	6	19	3,135	6
	Overbridges (incl BG3)	m2	10	4,485	2	13	5,749	2
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	1	746	1	2	1,656	1
	Culverts	m2	2	937	2	9	756	12
	Footbridges	m2	4	911	4	4	1,803	2
	Coastal & Estuarial Defences	m2	-	-	-	-	-	-
	Retaining Walls	m2	-	-	-	1	255	4
	Structures Other	m2	-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		54	-	-	48	-	-	
Earthworks	Earthworks - Embankments	No.	72	304	237	35	283	124
	Earthworks - Soil Cuttings	No.	44	5,441	8	21	471	45
	Earthworks - Rock Cuttings	No.	13	143	91	6	121	50
	Earthworks - Other	No.	-	-	-	-	-	-
	Drainage - Earthworks	m	7	37,312	0	14	17,069	1
	Drainage - Other	m	38	86,057	0	33	57,641	1
	TOTAL		174	-	-	109	-	-
Buildings	Buildings (MS)	m2	1	2,500	0	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	1	11,915	0	4	15,270	0
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	2	1,412	1	-	-	-
	Buildings (FS)	m2	9	12,940	1	1	227	4
	Platforms (FS)	m2	24	70,671	0	12	19,322	1
	Canopies (FS)	m2	33	35,804	1	14	9,950	1
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	25	3,833	7	6	1,036	6
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	11	145,320	0	1	8,772	0
	Light Maintenance Depots	m2	9	114,774	0	-	1,452	-
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	18	39,128	0	7	22,685	0
	MDU Buildings	m2	31	74,620	0	-	4,420	-
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		164	-	-	45	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	7	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	30	99	303	23	102	225
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	19	21	905	11	15	733
	HV cables DC	km	10	19	526	-	-	-
	LV cables DC	km	4	28	143	11	47	234
	Transformer Rectifiers DC	No.	-	1	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	10	-	1	14	71
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	-	-	-	-	-	-
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	4	28	143	4	17	235
	Signalling Supply Points	point end	-	-	-	-	-	-
	NSCD / Track Feeder Switch (#)		10	476	21	10	524	19
	Total		77	-	-	60	-	-
Telecoms	Customer Information Systems	No.	-	-	-	13	525	25
	Public Address	No.	-	-	-	11	3,791	3
	CCTV	No.	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	1	100	10
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	1	16	63	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	-	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		1	-	-	25	-	-

Statement 3.8: Analysis of renewals unit costs, Southern

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - In Plain Line Replace Full there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. The difference mix in the work bank can also explain why the unit cost for Plain Line Refurbishment has increased in the year.
- (3) Signalling – There has been a decrease in the unit cost for Signalling Full in the year. This was due to the complicated Feltham project in 2019-20 that massively drove up the unit cost. There has been an increase in the unit costs for Signalling Partial in the year but there was only one project (Dual Train Protection) so the sample size is too small to do any meaningful analysis. There has been a decrease in the unit cost for Signalling Refurb in the year. In the previous year there were a couple of relatively expensive projects on the Sussex route which dragged up the unit cost. Finally, there has also been a decrease in the unit cost for Level Crossings in the year. This has been due to the complicated Feltham project that was mentioned above taking place in the prior year.

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

In £m cash prices unless stated

- (4) Civils – There has been a decrease in the unit cost for Culverts. In the previous year all the renewals work on this asset involved replacement. In the current year there was some repair work which is less expensive and thus drives down the unit cost.
- (5) Earthworks & Drainage – There has been an increase in the unit cost of both Embankments and Rock Cuttings in the year. This is due to an increase in the proportion of more expensive full renewal in the year compared to the less expensive refurb and maintain work. However there has been a decrease in the unit cost of Soil Cuttings in the year where there has been a decrease in the proportion of full renewal work.
- (6) Buildings – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year.
- (7) Electrical Power and Fixed Plant – There has been an increase in unit cost on Conductor Rail in the year. This is because in 2019-20 there was a proportion of relatively less expensive refurbishment whilst in the current year all the work has been full renewals. There has been an increase in unit cost on HV Switchgear Renewal DC in the year. However, this data has been skewed by the massive Substation Renewal project in Kent which delivered volumes in 2020-21 but didn't deliver any in 2019-20. There has been a decrease in the unit cost of LV Cables DC in the year. However, there was only one project taking place in the current year making any variance analysis meaningless due to the tiny sample size. There has been a decrease in the unit cost of Signalling Power cables in the year. There has been only one project spanning both years with the overall forecast volumes increasing in the year and thus driving down the unit cost.
- (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.

Southern

Statement 4: Regulatory financial position

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	15,903
Indexation to 2020-21 prices	15,951
RAB additions	
Renewals expenditure	972
Enhancements expenditure	-
Less amortisation	(972)
Property Sales	2
Closing RAB	15,953

Net debt

	£m
Opening net debt	12,103
Income	(2,137)
Expenditure	1,996
Financing Costs - Government borrowing	214
Financing Costs - index linked debt	126
Financing Costs - Other	46
Corporation tax	14
Working capital	(67)
Closing net debt	12,295

Statement 4: Regulatory financial position, Southern

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was nearly £1.0bn. This is shown in more detail in Statement 3.6.
- (4) Enhancements – in the current year, all enhancement programmes were grant funded through either DfT or other third parties. Therefore, no enhancement expenditure undertaken in the year needs to be added to the RAB.
- (5) Amortisation represents remuneration of past investment that has been previously added to the RAB. For CP6, the Regulator is using renewals funding added to the RAB in the year as a proxy for the equivalent level of amortisation.
- (6) Disposals – in line with the regulator's published Regulatory Accounting Guidelines (December 2019), disposals of property usually result in a reduction in the value of the RAB commensurate with the sales proceeds (net of disposal costs). This year, no significant sales were made in Southern, whilst losses were recognised on the joint venture scheme at Twickenham.
- (7) Part 2 of this schedule shows the **Regulatory debt**. Network Rail does not issue debt for each of its operating Regions. Instead, treasury operations are managed for Great Britain in total with debt and interest attributed to each Region in line with specified policies agreed with the regulator. This statement shows the Regulatory debt attributable to Southern and how it has moved during the year.
- (8) 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 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. This was partly offset by working capital benefits as overall, Network Rail reduced debtors and increased creditors, a share of which is attributable to Southern.

Statement 4: Regulatory financial position, Southern – continued

In £m cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

Wales & Western

Statement 1: Summary of regulatory financial performance

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Income					
Grant Income	914	928	(14)	-	787
Franchised track access charges	450	486	(36)	(8)	392
Other Single Till Income	70	84	(14)	(14)	559
Total Income	1,434	1,498	(64)	(22)	1,738
Operating expenditure					
Network operations	92	82	(10)	(10)	88
Support costs	149	140	(9)	9	107
Traction electricity, industry costs and rates	86	97	11	1	86
Maintenance	275	256	(19)	(20)	257
Schedule 4	31	36	5	(1)	36
Schedule 8	(46)	6	52	52	(28)
	587	617	30	31	546
Capital expenditure					
Renewals	555	537	(18)	(39)	461
Enhancements	225	350	125	(7)	388
	780	887	107	(46)	849
Risk expenditure					
Risk (Centrally-held)	-	23	23	-	-
Risk (Route-controlled)	-	21	21	-	-
Risk (Contingent asset management funding)	-	23	23	-	-
	-	67	67	-	-
Other expenditure					
Financing costs	324	442	118	-	411
Corporation tax	6	3	(3)	-	-
	330	445	115	-	411
Total expenditure	1,697	2,016	319	(15)	1,806
Total Financial Out/(under) performance				(37)	

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Income				
Grant Income	1,700	1,805	(105)	-
Franchised track access charges	841	872	(31)	(1)
Other Single Till Income	626	165	461	(12)
Total Income	3,167	2,842	325	(13)
Operating expenditure				
Network operations	180	166	(14)	(15)
Support costs	256	299	43	41
Traction electricity, industry costs and rates	172	189	17	2
Maintenance	531	505	(26)	(31)
Schedule 4	67	67	-	(7)
Schedule 8	(74)	8	82	81
	1,132	1,234	102	71
Capital expenditure				
Renewals	1,015	992	(23)	(44)
Enhancements	613	781	168	(94)
Other	-	-	-	-
	1,628	1,773	145	(138)
Risk expenditure				
Risk (Centrally-held)	-	22	22	-
Risk (Route-controlled)	-	21	21	-
Risk (Contingent asset management funding)	-	23	23	-
	-	66	66	-
Other expenditure				
Financing costs	734	885	151	-
Corporation tax	6	4	(2)	-
	740	889	149	-
Total expenditure	3,500	3,962	462	(67)
Total Financial Out/(under) performance				(80)

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

In £m cash prices unless stated

Notes:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the CP6 Business Plan baseline and the prior year. Greater detail and insight are provided in the other statements of this document.
- (2) The prior year column is prepared using the same accounting policies and classifications as the CP6 Regulatory Accounting Guidelines (December 2019) to provide a like-for-like comparison with the current year where possible.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £255m lower than the regulatory baseline and £787m lower than the control period to date regulatory baseline. This was mostly due to Schedule 8 inflow due to outstanding train performance and lower than expected financing costs.
- (2) This statement also shows that Network Rail has recognised financial underperformance of £37m this year and £80m for the control period to date. This includes underperformance within renewals due to higher like for like capital project costs and maintenance costs being heavily affected by the Covid-19 pandemic being partially offset by improvements in the train performance regime.
- (3) Income – Grant income in the year was lower than the CP6 Business Plan. This was mostly due to savings in train performance regime. Variances in Grant income is outside of the scope of financial performance. Grant income was higher than the previous year. 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 variable usage charge and traction electricity income, as few trains ran in year as a result of the Covid-19 pandemic. 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 increased infrastructure cost charges. 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 impact of property rental and sales income, as a result of the Covid-19 pandemic. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is lower than the previous year due to the proceeds received last year as a result of the Cardiff Valley Lines divestment. Other single till income is discussed in more detail in Statement 2.

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

In £m cash prices unless stated

- (6) Operating expenditure - Network Operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance. Network Operations costs are discussed in more detail in Statement 3.1.
- (7) Operating expenditure - Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. The Control Period to date spend is much lower than the regulatory expectation, as a result of savings in the form of slower implementation of the PPF re-organisation, and the settlement of historic property disputes in the previous year. FPM outperformance this year is due the savings made by reductions in performance related pay, and augmented in the control period to date, due to the favourable commercial property dispute outcome last year. Support costs are discussed in more detail in Statement 3.3.
- (8) Operating expenditure – Traction electricity, industry costs and rates this year and in the control period to date are 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). When assessing financial performance, variations in both income and cost are considered, so that Network Rail is only exposed to differences in the net costs compared to the regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line. Traction electricity, industry costs and rates are discussed in more detail in Statement 3.4.
- (9) Operating expenditure - Overall maintenance costs are higher than the regulatory baseline this year and the previous year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year. Maintenance costs are discussed in more detail in Statement 3.2.

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

In £m cash prices unless stated

- (10) Operating expenditure – Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial outperformance reported is lower than the arithmetic variance. Despite few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (11) Operating expenditure – Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable Control Period to date position too. Schedule 8 flows are set out in more detail in Statement 3.5.
- (12) Capital expenditure – Overall, Renewals expenditure is higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include financial underperformance within the Track portfolio and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery within the Track and Signalling portfolio. 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 due to Covid-19. Financial underperformance has been recognised this year, mostly in connection with ECML, Gatwick Station, EGIP and Birmingham New Street Gateway. 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. 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 Department for Transport. 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 significant values included in the regulatory baseline. This is to be expected, as the regulatory baselines were set towards the end of 2018/19 so risks are more likely to be realised, the further along we move into the control period. 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 cash prices unless stated

- (16) Other expenditure – Financing costs represents the interest payable in the year to debt-holders, including 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 higher than the regulatory baseline assumed. As agreed with the Regulator, variances in this category are not included in the assessment of financial performance.

Wales & Western

Statement 2: Analysis of income

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed income					
Franchised track access income					
Infrastructure cost charges	296	311	(15)	-	222
Variable usage charge	28	34	(6)	(6)	36
Electrification asset usage charge	2	2	-	-	2
Capacity charge	-	-	-	-	2
Open access income	10	10	-	-	10
Managed stations long term charge	8	8	-	-	8
Franchised stations long term charge	24	26	(2)	(2)	26
Schedule 4 access charge supplement	25	25	-	-	25
	393	416	(23)	(8)	331
Other single till income					
Freight income					
Freight variable usage charge	9	10	(1)	(1)	10
Freight other income	-	-	-	-	-
	9	10	(1)	(1)	10
Stations income					
Managed stations qualifying expenditure	11	11	-	-	12
Franchised stations lease income	5	5	-	-	5
	16	16	-	-	17
Facility and financing charges					
Facility charges	16	17	(1)	(1)	16
	16	17	(1)	(1)	16
Property income					
Property rental	10	25	(15)	(15)	-
Property sales	3	4	(1)	(1)	-
	13	29	(16)	(16)	-
Depots Income	11	11	-	-	10
Other income	3	-	3	3	1
Total other single till income	68	83	(15)	(15)	54
Total Regionally-managed income	461	499	(38)	(23)	385
Centrally-managed income					
Network grant	642	626	16	-	499
Internal financing grant	129	160	(31)	-	139
External financing grant	127	128	(1)	-	139
BTP grant	10	11	(1)	-	10
Corporation tax grant	6	3	3	-	-
Infrastructure cost charges	10	11	(1)	-	11
Schedule 4 access charge supplement	6	6	-	-	5
Traction electricity charges	41	53	(12)	-	45
Freight traction electricity charges	1	1	-	-	1
	972	999	(27)	-	849
Other single till income					
Property income					
Property rental	1	-	1	1	28
Property sales	-	-	-	-	476
	1	-	1	1	504
Total other single till income	1	-	1	1	504
Total centrally-managed income	973	999	(26)	1	1,353
Total income	1,434	1,498	(64)	(22)	1,738

Statement 2: Analysis of income - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed income				
Franchised track access income				
Infrastructure cost charges	517	532	(15)	-
Variable usage charge	64	64	-	-
Electrification asset usage charge	4	5	(1)	(1)
Capacity charge	2	-	2	2
Open access income	20	20	-	-
Managed stations long term charge	16	16	-	-
Franchised stations long term charge	50	52	(2)	(2)
Schedule 4 access charge supplement	50	50	-	-
	723	739	(16)	(1)
Other single till income				
Freight income				
Freight variable usage charge	19	19	-	(1)
Freight other income	-	-	-	-
	19	19	-	(1)
Stations income				
Managed stations qualifying expenditure	22	21	1	1
Franchised stations lease income	10	10	-	-
	32	31	1	1
Facility and financing charges				
Facility charges	32	33	(1)	(1)
	32	33	(1)	(1)
Property income				
Property rental	10	25	(15)	(15)
Property sales	3	4	(1)	(1)
	13	29	(16)	(16)
Depots Income	21	21	-	-
Other income	4	1	3	4
Total other single till income	121	134	(13)	(13)
Total Regionally-managed income	844	873	(29)	(14)
Centrally-managed income				
Network grant	1,140	1,205	(65)	-
Internal financing grant	268	306	(38)	-
External financing grant	266	269	(3)	-
BTP grant	20	21	(1)	-
Corporation tax grant	6	4	2	-
Infrastructure cost charges	21	21	-	-
Schedule 4 access charge supplement	11	11	-	-
Traction electricity charges	86	101	(15)	-
Freight traction electricity charges	2	1	1	-
	1,820	1,939	(119)	-
Other single till income				
Property income				
Property rental	29	26	3	4
Property sales	474	4	470	(3)
	503	30	473	1
Crossrail finance charge	-	-	-	-
Total other single till income	503	30	473	1
Total centrally-managed income	2,323	1,969	354	1
Total income	3,167	2,842	325	(13)

Statement 2: Analysis of income, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 3.5.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime are disclosed in Statement 3.5.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, income is lower than the CP6 baseline mainly due to lower financing grants, property related income, infrastructure cost charges and Traction electricity income offset by additional network grants received as a result of increased renewal investment in year. The reduction in property income, is the primary driver for the financial underperformance recognised both for the current year and the control period to date. Income is lower than the previous year mostly due to the proceeds recognised in 19/20 relating to the divestment of the Cardiff Valley lines to Transport for Wales. Income for the control period to date is higher than the regulatory baseline as a result of the aforementioned proceeds received last year.

Regionally-managed income

- (1) Total Regionally-managed income is lower than the CP6 baseline this year mainly due the impact of Covid-19, where reduced passenger numbers have led to a decrease in property income and fewer train services. This is reflected in the financial underperformance both for this year and the control period to date.
- (2) Infrastructure cost charges - fixed charge income was lower than 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 lower than the regulatory expectation this year mainly due to Covid-19 reducing the demand for passenger train services. Government advice on working from home, restrictions placed on retail and entertainment industries and personal preferences have all contributed to reduced demand. This has resulted in reduced timetables being implemented which aim to provide safe journeys to allow people to travel but also reducing some services considered superfluous by the industry. The control period to date, however, is in line with the regulatory expectation. Income generated under this mechanism is lower than the previous year due to the impact of the pandemic upon passenger demand.
- (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) Franchised stations long term charge – income earned in the year is lower than the regulatory expectation and the previous year's income, 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, Wales & Western – continued

In £m cash 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 used to set the regulatory baselines. As agreed with ORR, such variances are considered neutral when assessing financial performance. Income was in line with the previous year, and the regulatory assumption for this year. 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 lower than the regulatory baseline this year due to the disruption caused by Covid-19. This was particularly apparent at the start of the pandemic where freight volumes experienced their lowest quarter since comparable records began in 1998-99. Reduced demand this year has offset the benefits of extra income from Drax power facility and removal of waste materials from HS2 construction last year, meaning the control period to date is now broadly in line with the regulatory baseline. Income is lower than the previous year due to the aforementioned impact of the pandemic. As agreed with the regulator, variances to the baseline arising from traction electricity income is outside the scope of financial performance.
- (8) Property rental – this year income is lower than the regulatory expectation due to the devastating impact of Covid-19. Station footfall reduced significantly as train passenger numbers have plummeted and the public have been encouraged to work from home, meaning fewer people have used the retail facilities at managed stations. To support our retail and commercial estate tenants during the pandemic we cancelled rent payments in the first quarter of the year from commercial estate tenants and all base rent payments from retailers in managed stations. Income is higher than the previous year as most of the responsibilities for property rental has been devolved from the centre. This means a reduction in Centrally-managed property rental income and an increase in Regionally-managed. However, the impact of the pandemic means that property rental income has reduced year-on-year across Network Rail as a whole.
- (9) Property sales – the current year is lower than the regulatory baseline as Covid-19 has created macroeconomic uncertainty which has discouraged investment. Income is higher than the previous year as some of the responsibilities for property sales has been devolved from the centre. This means a reduction in Centrally-managed property sales income and an increase in Regionally-managed. However, the impact of the pandemic means that property sales have reduced year-on-year across Network Rail as a whole.

Centrally-managed income

- (1) Aggregate Centrally-managed income is lower than the CP6 baseline mainly due to higher Network Grants being offset by lower Traction electricity income and lower financing grants. Income is lower than the previous year mostly due to the proceeds from the divestment of the Cardiff Valley lines to Transport for Wales in 19/20, which distorts the control period to date comparison to the CP6 baselines.

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

In £m cash prices unless stated

Centrally-managed income

- (2) Grant income – under the financial framework Network Rail operates under in CP6, 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 greater than the regulatory baseline as accelerated activity has led to higher renewals expenditure than assumed in the regulatory baselines as noted in statement 3. In the control period to date, the Network grant recognised is lower than the baseline as additional grants this year have been more than offset by lower grants in 2019/20 when savings were made in net operating costs and differences in the timing of renewals works has meant that less cash, and so grants, was required at the start of the control period compared to the regulatory baseline. Due to the increased amount of renewal activity in 2020/21 compared to 2019/20, as highlighted in statement 3, the Network grant is substantially higher than last year.
- (4) Internal financing grant – grants received this year are lower than the regulatory baseline. Interest payable on inter-group debt is governed by the Bank of England base rate at the date of the loan draw down. Rates were, on average, lower than the regulatory baseline expected, meaning interest costs were lower as were corresponding grants. The lower grants recognised in the control period to date are also due to the difference in base rates compared to the assumptions in the regulatory baselines. Costs are lower than the previous year, even though the level of debt issued from DfT has increased since 2019/20. This is due to the historically low interest rates this year in light of the Covid-19 pandemic and the government attempts to stimulate the economy during these unprecedented times.
- (5) External financing grants – grants received in the year and the control period to date are slightly lower than the regulatory baseline, mainly due to the reduced income in the current year. Revenue is lower than the previous year mainly as the average level of external debt is lower than the previous year. As external debt instruments fall due, they are refinanced by borrowings from DfT, with the corresponding income to meet the costs included in the Internal financing grant heading.
- (6) Corporation tax grant – grant is higher than the regulatory baseline as more profit has been generated this year. This is largely due to the aforementioned higher Network grant. As some of this funds renewals activity but there is no change in the corresponding renewals costs recognised in the Income Statement, this helps generate a profit on which tax has to be paid. Corporation tax grant income recognised in the control period to date is higher than the baseline due to the higher value this year. Corporation tax grant income is higher than last year when Network Rail did not draw down any of the funding available for Corporation tax costs as no Corporation tax has been payable.

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

In £m cash prices unless stated

- (7) Infrastructure cost charges – this relates to track access payments made by operators which span numerous Regions and so are managed centrally, such as Cross Country and Serco Sleeper services. Income in this category is largely fixed as they are determined through access contracts. Therefore, the similarity to the regulatory baseline for the current year and the control period to date is to be expected. Reductions in income compared to the previous year reflect the financial framework in place for CP6 and the split of income Network Rail received from operators and government.
- (8) 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. Therefore, the similarity in the current year and control period to date is expected. Income is slightly higher than the previous year reflecting the regulatory determination for CP6. Schedule 4 access charge supplement is largely designed to mirror schedule 4 compensation costs assumptions (across the control period).
- (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 this year and in the control period to date 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, reducing 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 lower than the previous year reflecting fewer train services ran this year in light of Covid-19 affecting passenger demand. This was largely offset by increased costs payable by Network Rail for electricity (as shown in Statement 3.4).
- (10) Property rental – income was slightly higher than the regulatory baseline this year. Income is lower than the previous year as responsibility for most of the property estate has devolved meaning a reduction in Centrally-managed income but an increase in Regionally-managed income, ceteris paribus. Income for the control period to date is favourable to the regulatory baseline despite the reductions this year due to additional income generated in 2019/20, mainly from retail outlets at Network Rail's managed stations, with the largest contributions from Liverpool Street and Euston.
- (11) Property sales – the current year income was minimal, matching regulatory expectation. Income is lower than the previous year which included the recognition of proceeds from the divestment of the Cardiff Valley lines to Transport for Wales. This transaction accounts for the huge increase compared to the baseline for the control period to date. However, this benefit is excluded from the assessment of financial performance for the control period to date. Adjusting for these items, there has been financial underperformance this control period so far.

Wales & Western

Statement 3: Analysis of expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed expenditure					
Operating expenditure					
Network operations	89	79	(10)	(10)	85
Maintenance	266	248	(18)	(20)	246
Support costs	55	39	(16)	(16)	44
Traction electricity, industry costs and rates	1	1	-	-	-
Schedule 4	28	30	2	(4)	36
Schedule 8	(43)	5	48	48	(29)
	396	402	6	(2)	382
Capital expenditure					
Renewals	476	486	10	(44)	400
Enhancements	147	350	203	(7)	336
	623	836	213	(51)	736
Total Regionally-managed expenditure	1,019	1,238	219	(53)	1,118
Centrally-managed expenditure					
Operating expenditure					
Network operations	3	3	-	-	3
Maintenance	9	8	(1)	-	11
Support costs	94	101	7	25	63
Traction electricity, industry costs and rates	85	96	11	1	86
Schedule 4	3	6	3	3	-
Schedule 8	(3)	1	4	4	1
	191	215	24	33	164
Capital expenditure					
Renewals	79	51	(28)	5	61
Enhancements	78	-	(78)	-	52
	157	51	(106)	5	113
Risk Expenditure	-	67	67	-	-
Other	-	-	-	-	-
Financing costs	324	442	118	-	411
Taxation	6	3	(3)	-	-
	330	445	115	-	411
Total centrally-managed expenditure	678	778	100	38	688
Total expenditure	1,697	2,016	319	(15)	1,806

Statement 3: Analysis of expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed expenditure				
Operating expenditure				
Network operations	174	158	(16)	(16)
Maintenance	511	486	(25)	(27)
Support costs	99	91	(8)	(8)
Traction electricity, industry costs and rates	1	1	-	-
Schedule 4	64	56	(8)	(16)
Schedule 8	(72)	6	78	77
	777	798	21	10
Capital expenditure				
Renewals	875	869	(6)	(53)
Enhancements	483	778	295	(96)
	1,358	1,647	289	(149)
Total Regionally-managed expenditure	2,135	2,445	310	(139)
Centrally-managed expenditure				
Operating expenditure				
Network operations	6	8	2	1
Maintenance	20	19	(1)	(4)
Support costs	157	208	51	49
Traction electricity, industry costs and rates	171	188	17	2
Schedule 4	3	11	8	9
Schedule 8	(2)	2	4	4
	355	436	81	61
Capital expenditure				
Renewals	140	123	(17)	9
Enhancements	130	3	(127)	2
Other	-	-	-	-
	270	126	(144)	11
Risk Expenditure	-	66	66	-
	-	-	-	-
Other	-	-	-	-
Financing costs	734	885	151	-
Taxation	6	4	(2)	-
	740	889	149	-
Total centrally-managed expenditure	1,365	1,517	152	72
Total expenditure	3,500	3,962	462	(67)

Statement 3: Analysis of expenditure, Wales & Western

In £m cash prices unless stated

- (1) Overall, expenditure is lower than the regulatory baseline this year, mainly due to deferrals of Enhancement activity to later in the control period, lower finance expenses incurred and risk. The control period to date position is lower than the regulatory baseline as we have seen operating expenditure savings, lower performance regime costs and industry expenses plus the deferrals in enhancements schemes. Costs are lower than the previous year mainly due to reduced financing costs and deferrals in enhancements schemes.

Regionally-managed expenditure

- (1) Regionally-managed costs are lower than the regulatory baseline assumed mainly due to slower progress on Enhancements this year and savings in Schedule 8 costs, which has been partly offset by higher operating expenditure as a result of extra investment in performance improvement plans, Putting passenger first programme costs and the impact of Covid-19 across all other expenditure line items. Costs are lower than the previous year mainly due to less enhancements activity occurring this year as highlighted above. 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 reduced financing costs and risk. The financial framework for CP6 provided risk 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. No expenditure is reported against these categories. Actual expenditure will be reported against the appropriate category elsewhere in this statement. This, plus the operating expenditure savings, lower performance regime costs and industry expenses experienced last year, have led to centrally managed costs being considerably lower than the regulatory baseline for the control period. Costs are lower than the previous year mainly due to lower Financing costs. Further breakdown and analysis of centrally-managed expenditure is included in the remainder of Statement 3.

Wales & Western

Statement 3.1: Analysis of operations expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed operations expenditure					
Signaller expenditure					
Signallers and level crossing keepers	43	40	(3)	(3)	41
Operations Management	6	5	(1)	(1)	6
Controllers	8	12	4	4	12
Electrical control room operators	2	1	(1)	(1)	1
	59	58	(1)	(1)	60
Non signaller expenditure					
Mobile operations managers	6	6	-	-	6
Managed stations	14	11	(3)	(3)	11
Performance	2	3	1	1	2
Other	8	1	(7)	(7)	6
Total Regionally-managed Operations expenditure	89	79	(10)	(10)	85
Centrally-managed Operations expenditure					
Network Services	3	3	-	-	3
Total centrally-managed Operations expenditure	3	3	-	-	3
	-	-	-	-	-
Total operations expenditure	92	82	(10)	(10)	88

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed operations expenditure				
Signaller expenditure				
Signallers and level crossing keepers	84	79	(5)	(5)
Operations Management	12	10	(2)	(2)
Controllers	20	23	3	3
Electrical control room operators	3	3	-	-
	119	115	(4)	(4)
Non signaller expenditure				
Mobile operations managers	12	11	(1)	(1)
Managed stations	25	22	(3)	(3)
Performance	4	6	2	2
Other	14	4	(10)	(10)
Total Regionally-managed Operations expenditure	174	158	(16)	(16)
Centrally-managed Operations expenditure				
Network Services	6	8	2	1
Total centrally-managed Operations expenditure	6	8	2	1
Total operations expenditure	180	166	(14)	(15)

Statement 3.1: Analysis of operations expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Operations costs. Maintenance costs are addressed in Statement 3.2, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, operations costs are higher than the regulatory baseline and last year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide additional resilience. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance.

Regionally-managed operations expenditure

- (1) Total Regionally-managed costs were higher than the regulatory expectation this year and the previous year's actuals. The primary reason for this, is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue to move, extra staff costs were incurred to provide appropriate cover for sick and self-isolating staff. This has been augmented by increased costs at managed stations to ensure Covid-19 standards have been adhered to. As to be expected, this has led to financial underperformance both for the current year and the control period to date. The Control Period to date is also higher than regulatory expectation, due to costs incurred as a result of the above reasons and re-investment of Schedule 8 savings in schemes to help operators improve fleet performance.
- (2) Signaller and level crossing keepers - costs are higher than the regulatory expectation for this year and the Control Period to date. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic.
- (3) Operations management - costs are higher than the regulatory expectation for the Control Period to date and the current year. There has been an increase in staff costs to provide extra resilience and ensure the railway kept moving during the Covid-19 pandemic.
- (4) Managed stations – costs are higher than the regulatory target this year and the previous year's actuals. To ensure stations were compliant to Covid-19 standards, investment in one-way systems, extra PPE and additional Covid-19 related branding has been required. Extra agency staff have also been recruited to help manage passenger commuting and help station staff enforce social distancing. These extra incurred costs are reflected in the Control Period to date spend being higher than the regulatory expectation.

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

In £m cash prices unless stated

- (5) Other – costs are significantly higher than the regulatory target, both for this year, and the Control Period to date. This is due to PPF restructuring, which saw the Senior Incident Officer reporting unit being transferred into other operations.

Centrally-managed operations expenditure

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

Wales & Western

Statement 3.2: Analysis of maintenance expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed maintenance expenditure					
Track	101	91	(10)	(10)	88
Signalling & Telecoms	51	44	(7)	(7)	48
Civils	29	31	2	2	27
Buildings	13	14	1	(1)	12
Electrical power and fixed plant	17	20	3	3	16
Other network operations	55	48	(7)	(7)	55
	266	248	(18)	(20)	246
Centrally-managed maintenance expenditure					
Telecoms	3	4	1	1	3
Route Services - Asset Information	5	5	-	-	5
STE Maintenance	-	-	-	-	1
Property	-	(2)	(2)	(2)	1
Route Services - Other	(1)	-	1	1	3
Other	2	1	(1)	-	(2)
	9	8	(1)	-	11
Total maintenance expenditure	275	256	(19)	(20)	257

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed maintenance expenditure				
Track	189	180	(9)	(9)
Signalling & Telecoms	98	89	(9)	(9)
Civils	56	60	4	5
Buildings	25	28	3	-
Electrical power and fixed plant	33	38	5	5
Other network operations	110	91	(19)	(19)
	511	486	(25)	(27)
Centrally-managed maintenance expenditure				
Telecoms	6	7	1	1
Route Services - Asset Information	10	10	-	-
STE Maintenance	1	2	1	1
Property	1	(2)	(3)	(3)
Route Services - Other	2	1	(1)	(4)
Other	-	1	1	1
	20	19	(1)	(4)
Total maintenance expenditure	531	505	(26)	(31)

Statement 3.2: Analysis of maintenance expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Maintenance costs. Operations costs are addressed in Statement 3.1, Support costs in Statement 3.3 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Maintenance costs are those incurred keeping the infrastructure asset in appropriate condition. Network Rail has a detailed handbook to determine whether the nature of works undertaken on the railway are classified as maintenance or renewals (set out in Statement 3.6)
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall maintenance costs are higher than the regulatory baseline this year and the previous year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide extra resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.

Regionally-managed maintenance costs

- (1) Total Regionally-managed maintenance costs are higher than the regulatory baseline this year and the previous year's outturn. The primary cause for the increase in costs is Network Rail's response to the Covid-19 pandemic. To ensure the railway allowed Britain to continue moving, Network Rail had to provide further resilience to allow operations to be continued. Extra expenditure included additional premium costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. This has also been augmented with investment in additional schemes to help asset resilience and train performance. These further costs are reflected in the financial underperformance recognised both in the current year and the control period to date. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the regulatory baseline and the previous year's expenditure. Covid-19 resilience and compliance investment has contributed to this extra spend. This has included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional aforementioned costs incurred this year.

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

In £m cash prices unless stated

- (3) Signalling & telecoms – This year, costs are higher than the regulatory baseline. Covid-19 resilience and compliance investment has contributed to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. There has also been additional resilience works undertaken to support train performance. Further preventative works can help safeguard against signalling failures, helping to mitigate the risk of long delays and frustration for passengers. Control Period to date spend is higher than the regulatory baseline, primarily due to the additional costs incurred this year as a result of the aforementioned reasons.
- (4) Civils – costs were slightly lower the regulatory baseline. 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 slightly higher than the previous year. Control Period to date spend is lower than the regulatory baseline.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. This year, there was a slight underspend in regards to the expected amount of 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 what 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. Control Period to date spend is slightly lower than the regulatory baseline.
- (6) Electrical power and fixed plant – costs for the current year are below the regulatory expectation but are slightly higher than the previous year. Control Period to date spend is also lower than the regulatory baseline.
- (7) Other network operations – costs are higher than the regulatory baseline and in line with the previous year's actual. There are numerous contributory factors including Covid-19 resilience and compliance investment contributing to this extra spend. This included additional staff costs, procurement of Covid-19 secure PPE and fitting vehicles with shields to ensure adherence to social distancing rules. Additionally, there are various one-off expenses and other initiatives, largely workforce safety and works planning expenditure. Control Period to date spend is higher than the regulatory baseline, partially due to the additional aforementioned costs incurred this year and increased vegetation management intervention the year previous.

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

In £m cash prices unless stated

Centrally-managed maintenance costs

- (1) Aggregate Centrally-managed maintenance costs are slightly higher than the regulatory baseline. As expected by the regulatory baselines, costs were slightly lower than the previous year.
- (2) Telecoms – costs are lower than the regulatory baseline this year and in the Control Period to date, mainly arising from savings realised in the telecoms organisation as a result of reduced recruitment due to the PPF programme. Costs are broadly consistent with the previous year.
- (3) Route Services – Other – Costs are lower than the regulatory expectation this year but higher for the Control Period to date. The reason for the costs being lower than regulatory baseline and the previous year's outturn, is because of additional income received from HS2 for the Washwood Heath site and reduced haulage fuel costs due to low market oil prices, partially offset by expenses experienced due to the cancellation of the railway sleeper factory. Costs are higher than the baseline for the Control Period to date, due 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 last year reflect 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 also recognised last 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. Some of the Supply Chain Operations costs were reclassified as renewals work last year. The impact of this recharge on both Maintenance and Renewals has been ignored when assessing financial performance.
- (4) Other – costs this year include expenses from central assessments of reactive maintenance which are treated as neutral when assessing financial performance which accounts for the difference to the regulatory baseline. Costs are higher than the previous year. As detailed in the 2019/20 Regulatory Financial Statements, there were credit balances mostly relating to notional vehicle rental income for vehicles owned by Network Rail which were recognised in the Other category, separately to the charge for using these vehicles (which is included throughout the other expenditure categories). Costs for the Control Period to date are slightly lower than the regulatory baseline as the extra costs this year were offset by savings last year as noted above.

Wales & Western

Statement 3.3: Analysis of support expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed Support costs					
Human resources	6	5	(1)	(1)	5
Finance	4	3	(1)	(1)	3
Accommodation	15	9	(6)	(6)	9
Utilities	12	12	-	-	13
Other	18	10	(8)	(8)	14
	55	39	(16)	(16)	44
Centrally-managed Support costs					
Finance & Legal	6	9	3	3	6
Communications	3	3	-	-	2
Human Resources	4	4	-	-	3
System Operator	5	7	2	2	7
Property	1	1	-	-	(15)
Telecoms	10	10	-	-	7
Network Services	3	4	1	1	3
Safety Technical and Engineering	6	7	1	1	5
RS - IT and Business Services	20	19	(1)	(1)	18
RS - Asset Information	2	6	4	4	2
RS - Directorate	5	4	(1)	(1)	3
Other corporate functions	2	1	(1)	(1)	4
Insurance	4	6	2	2	4
OPEX/CAPEX Adjustment	30	12	(18)	-	16
Group costs	(7)	8	15	15	(2)
	94	101	7	25	63
Total support costs	149	140	(9)	9	107

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed Support costs				
Human resources	11	9	(2)	(1)
Finance	7	6	(1)	(1)
Accommodation	24	19	(5)	(5)
Utilities	25	25	-	(1)
Other	32	32	-	-
	99	91	(8)	(8)
Centrally-managed Support costs				
Finance & Legal	12	16	4	4
Communications	5	5	-	-
Human Resources	7	7	-	-
System Operator	12	16	4	4
Property	(14)	-	14	14
Telecoms	17	18	1	-
Network Services	6	8	2	2
Safety Technical and Engineering	11	13	2	2
RS - IT and Business Services	38	37	(1)	(1)
RS - Asset Information	4	8	4	4
RS - Directorate	8	7	(1)	(1)
Other corporate functions	6	10	4	(2)
Insurance	8	12	4	4
OPEX/CAPEX Adjustment	46	27	(19)	-
Group costs	(9)	24	33	19
	157	208	51	49
Total support costs	256	299	43	41

Statement 3.3: Analysis of support costs, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Support costs. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Traction electricity, industry costs and rates in Statement 3.4.
- (2) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Support costs are higher than the regulatory baseline and the previous year spend. Significant reasons for the additional spend this year include: Implementation of the PPF re-organisation programme, Covid-19 related expenditure and higher than expected OPEX to CAPEX movements. These costs have been partially offset by not investing the extra revenue earned under the Crossrail Supplementary Access Charge and reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. The Control Period to date spend is much lower than the regulatory expectation, as a result of savings in the form of slower implementation of the PPF re-organisation, and the settlement of historic property disputes in the previous year. FPM outperformance this year is due the savings made by reductions in performance related pay, and augmented in the control period to date, due to the favourable commercial property dispute outcome last year.

Regionally-managed support costs

- (1) Total Regionally-managed support costs are higher than the regulatory baseline and prior year spend, due to the implementation of the PPF re-organisation programme and Covid-19 related expenditure. This is reflected in the financial underperformance both for the current year and the control period to date. For the Control Period to date, spend is higher than the regulatory expectation, as the additional costs incurred this year were only partially offset by extra efficiencies realised in the previous year.
- (2) Human resources – costs in the current year are higher than the baseline expectation and the Control Period to date, 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.
- (3) Accommodation – costs are higher than the baseline expectation and the Control Period to date, as a result of the required expenditure on Covid-19 compliance at NR sites.
- (4) Other – costs were higher than the regulatory baseline this year and previous outturn. This is primarily due to implementation of the PPF programme, and Covid-19 related expenditure, such as PPE purchases and extra staff costs, as less annual leave being taken during the year has led to an increase in salary costs needing to be recognised this year. This additional spend is offset in the Control Period to date by extra efficiencies realised during the previous year, leaving expenditure in line with the regulatory assumption.

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

In £m cash prices unless stated

Centrally-managed support costs

- (1) Aggregate Centrally-managed support costs are lower than the regulatory baselines this year, but higher than last years actual. Whilst there are a number of areas of saving the most significant items are: Deferral of investing CSAC income as well as reductions in performance-related pay for staff. These savings have been partially offset by costs relating to the Opex/capex adjustment. This is higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority
- (2) Finance & legal – costs are lower than the regulatory baseline this year which includes savings made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Headcount restraint and other efficiencies has also helped deliver outperformance. These savings augmented the outperformance reported in last year's Regulatory Financial Statements arising mainly from reduced pay-outs made to staff under the 2018/19 performance-related pay mechanism. Costs this year are in line with the previous year.
- (3) Communications – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme.
- (4) Human Resources – costs this year and for the control period to date are broadly in line with the regulatory baseline. Costs are higher than the previous year. This was expected by the increase in the regulatory baseline this year reflecting changes in responsibility arising from the PPF programme, notably around change management programmes.
- (5) System Operator – costs are noticeably lower than the regulatory baseline, continuing the trend of the opening year of the control period. 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. Savings this year also included reduced staff travel and accommodation costs during the pandemic. Costs are lower than the previous year. This is mainly due to accountabilities being devolved to the Regional teams, partly offset by increased activity by the department, notably strengthening capabilities in response to the Glaister review published in 2018 and DfT direction.
- (6) Property – costs are in line with the regulatory expectation for the year but significantly under for the control period to date. This is due to a favourable commercial dispute resolution, property resolved last year.
- (7) Telecoms -- costs are in line with the regulatory baseline this year. This is primarily due to efficiencies arising from headcount control. Expenditure is higher than the previous year's outturn, due to a ramp up in the rollout of the cab radio programme, which will improve safety and performance by ameliorating signal interference. Control Period to date is slightly below the regulatory expectation due to the slower than expected rollout in the cab radio program, however this delay has been treated as neutral in regard to financial performance.

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

In £m cash prices unless stated

- (8) Network Services – costs are lower than the regulatory assumption this year and control period to date. 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. Network services also have a 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. Spend is lower than the Control Period to date target due to slower progress on the aforementioned fund in FY20. Delays in setting up the necessary governance and approvals process caused delays in Year 1 delivery. This underspend has been treated as neutral when assessing financial performance.
- (9) Safety, Technical and Engineering – costs are lower than the regulatory baseline with this year continuing the trend from the opening year of the control period, as further efficiencies were achieved by this function, including headcount restraint, reductions in pay outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic. Costs are higher than the previous year reflecting changes in responsibility following the PPF restructure.
- (10) Route Services – IT and Business Services – costs are slightly higher the regulatory baseline this year. Savings this year have been made through reduced pay-outs under performance-related pay schemes and staff travel and accommodation savings during the pandemic largely offset by one-off costs as this function supported a transition to back-office staff working from home. As noted in the previous' year's Regulatory Financial Statements, savings last year were made through training costs through 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, which was expected in the higher regulatory baseline. This includes transfer of responsibilities into the department following the PPF reorganisation.
- (11) Route Services – Asset Information – costs are significantly lower than the regulatory baseline this year, but in line with the expenses in 2019/20. Anticipated OPEX projects have realised extra recoveries due to more CAPEX delivered work and headcount savings have all contributed to the underspend.
- (12) Route Services – Directorate – costs are higher than the regulatory baseline this year mainly due to Covid-19 related costs and commercial disputes. The former includes purchases of PPE and hand sanitisers for the company at the start of the pandemic to protect staff. The higher costs in the control period to date are due to the extra spend recognised this year. Costs have increased compared to the previous year due to the aforementioned Covid-19 related costs and commercial disputes this year.
- (13) Other Corporate Functions – this category includes the costs of organisational restructuring to support Network Rail's strategic Putting Passengers First programme. Changes in strategy means that some parts of this are being delivered by other Support. Reprofiting of this activity is also the main reason for the control period to date underspend. Saving relating to the phasing of these reorganizational costs have been treated as neutral when assessing financial performance. Costs are lower than the previous year due to greater activity on the aforementioned Putting Passengers First programme in the previous year and transfers of responsibilities to other Support functions arising from PPF organisational changes.

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

In £m cash prices unless stated

- (14) Insurance – costs are favourable compared to the regulatory assumption due to savings arising from actuarial reassessment of liabilities pertaining to Network Rail from insurance risks underwritten by Network Rail Insurance Limited, a wholly-owned subsidiary of Network Rail Infrastructure Limited. Other than the actuarial benefits, underlying costs are broadly in line with the regulatory baseline. There were similar benefits last year, which contribute to the favourable control period to date position. Costs are in line with the previous year.
- (15) Opex/ capex Adjustment - Network Rail reports its annual report and accounts using International Accounting Standards as adopted for use in the EU. This means that certain items need to be reported as either opex or capex depending upon the details and characteristics of the transaction. The CP6 regulatory settlement was prepared based on delivering certain outcomes with assumptions made as to whether the solution would be capex or opex in nature. To allow a like-for-like comparison to the regulatory baseline transactions are reported in line with the assumptions in the CP6 Business Plan baseline. This single line acts as a reconciling item to align total opex to the amounts reported in the annual report and accounts. There is no financial performance reported on this item (or the corresponding variance in capital costs). Variances in the level of expenditure compared to the regulatory expectation are expected as it relates to a number of intervention types which may be either opex or capex in nature depending upon the optimal solution. The costs recognised this year are higher than the previous year reflecting the ramping up of R&D activity and other programmes delivered by Technical Authority. This also accounts for the higher cost in the control period to date compared with the regulatory baseline. These higher costs are offset by reduced capital expenditure.
- (16) Group – there are noticeable savings this year compared to the regulatory expectation. As with the previous year, a large part of this arises 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 notable savings include reductions in the performance-related pay following a decision by Network Rail's Remuneration Committee to reduce pay-outs. As this was decision was taken at the end of the year, the benefit is currently showing in the Group category but the benefit will be transferred to the individual Region-managed and Central-managed costs in future years. These savings have been offset by some additional commercial claims, Covid-19 related costs and redundancy costs. Costs are lower than the regulatory baselines for the control period to date. This is mainly due to the reprofiling of investing the Crossrail Supplementary Access Charge, as noted above and in last years' Regulatory Financial Statements along with the aforementioned reductions in performance-related pay for staff. The level of credits reported in Group is higher than the previous year (in other words, net costs are lower). This is mainly due to the benefits from performance-related pay reductions this year as noted above and from some changes in responsibilities arising from the PPF reorganisation.

Wales & Western

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed traction electricity, industry costs and rates					
British transport police costs	1	1	-	-	-
	1	1	-	-	-
Centrally-managed traction electricity, industry costs and rates					
Traction electricity	39	53	14	-	43
Business rates	29	26	(3)	-	26
British transport police costs	10	11	1	1	10
ORR licence fee and railway safety levy	5	4	(1)	-	5
RDG membership costs	-	-	-	-	-
RSSB costs	2	2	-	-	2
Reporters fees	-	-	-	-	-
Other industry costs	-	-	-	-	-
	85	96	11	1	86
Total traction electricity, industry costs and rates	86	97	11	1	86

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed traction electricity, industry costs and rates				
British transport police costs	1	1	-	-
	1	1	-	-
Centrally-managed traction electricity, industry costs and rates				
Traction electricity	82	103	21	1
Business rates	55	51	(4)	-
British transport police costs	20	20	-	1
ORR licence fee and railway safety levy	10	10	-	-
RDG membership costs	-	-	-	-
RSSB costs	4	4	-	-
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
	171	188	17	2
Total traction electricity, industry costs and rates	172	189	17	2

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

In £m cash prices unless stated

Notes:

- (1) Network Rail classifies its operating costs between: Operations (referred to as Network Operations costs in CP5), Maintenance costs, Support costs and Traction electricity, industry costs and rates. This statement focuses on Traction electricity, industry costs and rates. Operations costs are addressed in Statement 3.1, Maintenance costs in Statement 3.2 and Support costs in 3.3.
- (2) Traction electricity, industry costs and rates cover a defined sub-section of Network Rail's expenditure. In previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity).

Comments:

- (1) This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity which has been offset by lower income received from operators (refer to Statement 2). Costs are in line with 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 and in the control period to date 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 lower than the previous year due to lower network traffic, which has been offset by reduced 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 regulatory baseline. Differences between the actual and planned income earned from passing on electricity traction charges to franchised, freight and open access operators is netted off when reporting financial performance on this line.
- (2) Business rates – costs this year were higher than expected which has led to higher expenses in the control period to date and compared to the prior year. 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.
- (3) ORR licence fee and railway safety – costs this year and the control period to date 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.
- (4) 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.
- (5) 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.

Wales & Western

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

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Schedule 4					
Performance element income	0	0	0	0	0
Performance element costs	28	30	2	(4)	36
Access charge supplement Income	(25)	(22)	3	-	(25)
Net (income)/cost	3	8	5	(4)	11
Schedule 8					
Performance element income	(43)	-	43	43	(29)
Performance element costs	-	5	5	5	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(43)	5	48	48	(29)
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	3	6	3	3	-
Access charge supplement Income	(6)	(6)	-	-	(5)
Net (income)/cost	(3)	-	3	3	(5)
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(3)	1	4	4	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(3)	1	4	4	1
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	31	36	5	(1)	36
Access charge supplement Income	(31)	(28)	3	-	(30)
Net (income)/cost	-	8	8	(1)	6
Schedule 8					
Performance element income	(43)	-	43	43	(29)
Performance element costs	(3)	6	9	9	1
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(46)	6	52	52	(28)
Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	
Regionally-managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	64	56	(8)	(16)	-
Access charge supplement Income	(50)	(44)	6	-	-
Net (income)/cost	14	12	(2)	(16)	
Schedule 8					
Performance element income	(72)	-	72	72	-
Performance element costs	-	6	6	5	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(72)	6	78	77	
Centrally managed					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	3	11	8	9	-
Access charge supplement Income	(11)	(12)	(1)	-	-
Net (income)/cost	(8)	(1)	7	9	
Schedule 8					
Performance element income	-	-	-	-	-
Performance element costs	(2)	2	4	4	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(2)	2	4	4	
Total					
Schedule 4					
Performance element income	-	-	-	-	-
Performance element costs	67	67	-	(7)	-
Access charge supplement Income	(61)	(56)	5	-	-
Net (income)/cost	6	11	5	(7)	
Schedule 8					
Performance element income	(72)	-	72	72	-
Performance element costs	(2)	8	10	9	-
Access charge supplement Income	-	-	-	-	-
Net (income)/cost	(74)	8	82	81	

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

In £m cash prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.

Comments:

- (1) Overall Schedule 4 costs are lower than the regulatory baseline this year, mainly due to fewer large disruptive events. Schedule 4 allowances are provided for disruptive possessions to undertake renewals and maintenance works. There was decreased activity on this class of renewals this year meaning that the financial underperformance has been recognised. Despite few disturbances caused by adverse weather, such as the summer heat and storms in February, costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. This narrative holds true for the control period to date position, which is also lower than the regulatory baseline.
- (2) Overall Schedule 8 costs are favourable to the regulatory baseline this year due to the exceptional levels of train performance. Covid-19 has resulted in fewer passengers and fewer services causing record levels of punctuality. This has resulted in the highly favourable Control Period to date position too.

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

In £m cash prices unless stated

Regionally-managed schedule 4 and schedule 8 income and costs

- (1) The variance compared to the previous year is due to assumptions around the level of disruptive possessions required to deliver the necessary renewals and maintenance work planned for each year at the start of the control period. This year, the performance element costs are lower, however financial underperformance was recognised. This underperformance relates to the lower activity in Plain Line renewals compared to the regulatory expectation. The control period to date cost is higher 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 in FY20 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 FY20.
- (2) Schedule 8 experienced an exceptional year this year. Covid-19 lead to reduced passenger numbers and fewer train services being ran which contributed to record levels of train performance. The regulatory baseline expected a net outflow to operators, but instead there was a huge inflow. Under the terms of the train operator contracts in place in 2020/21, most of this cost was borne by DfT. The exceptional achievement this year, allied to outperformance in 2019/20 has resulted in a highly favourable control period to date position

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 – Access charge supplement income is broadly in line with the regulatory baseline for both this year and the control period to date. 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. Performance element costs this year are favourable to regulatory baseline mainly due to fewer significant weather events. Reduced passenger numbers this year also resulted in the lower compensation payable for major events. The control period to date shows a favourable position which includes the benefit of successful resolution of commercial claims in 2019/20. Costs appear higher than the prior year due to the aforementioned settlement of commercial claims.
- (3) Schedule 8 – this year benefits from favourable settlement of commercial claims. The underlying result is favourable to the regulatory baseline and the prior year due to less impactful weather events this year. The outperformance this year creates the favourable control period to date result.

Wales & Western

Statement 3.6: Analysis of renewals expenditure

£m, Cash prices

2020-21	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance	2019-20 Actual
Regionally-managed					
Track					
PL Replace Full	41	34	(7)	-	33
PL Replace Partial	50	31	(19)	-	28
PL High Output	27	32	5	-	33
PL Refurbishment	3	6	3	-	3
PL Track Slab Track	-	-	-	-	-
Switches & Crossing - Replace	33	23	(10)	-	27
Switches & Crossing - Other	9	3	(6)	-	4
Off Track	8	10	2	-	8
Track Other	2	-	(2)	-	11
	173	139	(34)	(24)	147
Signalling					
Signalling Full	16	25	9	0	13
Signalling Partial	3	10	7	0	9
Signalling Refurb	50	60	10	0	26
Level crossings	15	20	5	0	6
Minor works	17	20	3	0	21
Other	0	0	0	0	-
	101	135	34	(13)	75
Civils					
Underbridges	39	33	(6)	-	27
Overbridges	5	14	9	-	9
Major structures	6	5	(1)	-	1
Tunnels	4	9	5	-	5
Minor works	9	8	(1)	-	12
Other	10	10	-	-	6
	73	79	6	(6)	60
Earthworks					
Earthworks - Embankments	21	14	(7)	-	18
Earthworks - Soil Cuttings	8	7	(1)	-	12
Earthworks - Rock Cuttings	6	8	2	-	14
Earthworks - Other	1	3	2	-	-
	36	32	(4)	1	44
Buildings					
Managed stations	11	22	11	-	3
Franchised stations	18	24	6	-	17
Light maint depots	2	4	2	-	1
Depot plant	3	1	(2)	-	-
Lineside buildings	3	3	-	-	1
MDU buildings	2	12	10	-	6
Other	-	-	-	-	-
	39	66	27	2	28
Electrical power and fixed plant					
AC distribution	2	-	(2)	-	3
Overhead Line	4	3	(1)	-	5
DC distribution	-	-	-	-	-
Conductor rail	-	-	-	-	-
Signalling Power Supplies	2	10	8	-	9
Other	18	1	(17)	-	2
Fixed plant	7	9	2	-	17
	33	23	(10)	(5)	36
Drainage					
Drainage (Track)	9	4	(5)	-	9
Drainage (Earthworks)	1	4	3	-	1
Drainage (Resilience)	1	-	(1)	-	-
	11	8	(3)	1	10
Property					
Property	10	4	(6)	-	-
	10	4	(6)	-	-
Total Regionally-managed renewals expenditure					
	476	486	10	(44)	400

Statement 3.6: Analysis of renewals expenditure - continued

Track					
Track Other	-	-	-	-	-
	-	-	-	-	-
Telecoms	-	-	-	-	-
Operational communications	-	1	1	-	1
Network	2	1	(1)	-	-
SISS	2	1	(1)	-	1
Projects and other	1	-	(1)	-	1
Non-route capital expenditure	10	9	(1)	-	12
	15	12	(3)	(1)	15
Wheeled plant and machinery					
High output	5	5	-	-	3
Incident response	-	-	-	-	-
Infrastructure monitoring	1	2	1	-	-
Intervention	2	5	3	-	1
Materials delivery	-	6	6	-	2
On track plant	-	-	-	-	-
Seasonal	1	1	-	-	1
Other	1	1	-	-	1
	10	20	10	-	8
Route Services					
Business Improvement	12	3	(9)	-	16
IT Renewals	6	12	6	-	6
Asset Information	1	2	1	-	1
Other	1	-	(1)	-	-
	20	17	(3)	-	23
STE Renewals					
Intelligent infrastructure	8	6	(2)	-	4
Faster Isolations	13	5	(8)	-	7
Centrally Managed Signalling Costs	1	1	-	-	-
Research and development	7	6	(1)	-	4
Integrated Management System (Incl. BCR)	-	2	2	-	-
Other National SCADA Programmes	2	3	1	-	3
Small plant	1	1	-	-	1
Other	10	2	(8)	-	3
	42	26	(16)	-	22
Property					
Property	8	-	(8)	-	3
	8	-	(8)	-	3
Other renewals					
ETCS	3	8	5	-	2
Digital Railway	1	(2)	(3)	-	-
Civils - Insurance Fund	2	5	3	-	-
Buildings - Insurance Fund	-	2	2	-	-
OPEX/CAPEX Adjustment	(20)	(12)	8	-	(16)
Phasing overlay	-	(28)	(28)	-	-
System Operator	2	2	-	-	1
Other renewals	(4)	1	5	6	3
	(16)	(24)	(8)	6	(10)
Total centrally-managed renewals expenditure	79	51	(28)	5	61
TOTAL RENEWALS EXPENDITURE	555	537	(18)	(39)	461

Statement 3.6: Analysis of renewals expenditure - continued

Cumulative	Actual	Regulatory baseline	Variance	Of which financial out / (under) performance
Regionally-managed				
Track				
PL Replace Full	74	66	(8)	-
PL Replace Partial	78	56	(22)	-
PL High Output	60	68	8	-
PL Refurbishment	6	17	11	-
PL Track Slab Track	-	-	-	-
Switches & Crossing - Replace	60	44	(16)	-
Switches & Crossing - Other	13	7	(6)	-
Off Track	16	18	2	-
Track Other	13	1	(12)	-
	320	277	(43)	(32)
Signalling				
Signalling Full	29	33	4	-
Signalling Partial	12	25	13	-
Signalling Refurb	76	98	22	-
Level crossings	21	27	6	-
Minor works	38	34	(4)	-
Other	-	-	-	-
	176	217	41	(16)
Civils				
Underbridges	66	65	(1)	-
Overbridges	14	22	8	-
Major structures	7	6	(1)	-
Tunnels	9	13	4	-
Minor works	21	14	(7)	-
Other	16	17	1	-
	133	137	4	(2)
Earthworks				
Earthworks - Embankments	39	30	(9)	-
Earthworks - Soil Cuttings	20	19	(1)	-
Earthworks - Rock Cuttings	20	17	(3)	-
Earthworks - Other	1	3	2	-
	80	69	(11)	3
Buildings				
Managed stations	14	25	11	-
Franchised stations	35	41	6	-
Light maint depots	3	5	2	-
Depot plant	3	1	(2)	-
Lineside buildings	4	5	1	-
MDU buildings	8	19	11	-
Other	-	-	-	-
	67	96	29	(1)
Electrical power and fixed plant				
AC distribution	5	7	2	-
Overhead Line	8	7	(1)	-
DC distribution	-	-	-	-
Conductor rail	-	-	-	-
Signalling Power Supplies	11	21	10	-
Other	20	1	(19)	-
Fixed plant	24	17	(7)	-
	68	53	(15)	(8)
Drainage				
Drainage (Track)	18	8	(10)	-
Drainage (Earthworks)	2	7	5	-
Drainage (Resilience)	1	-	(1)	-
	21	15	(6)	3
Property				
Property	10	5	(5)	-
	10	5	(5)	-
Total Regionally-managed renewals expenditure	875	869	(6)	(53)

Statement 3.6: Analysis of renewals expenditure - continued

Track				
Track Other	-	-	-	-
	-	-	-	-
Telecoms	-	-	-	-
Operational communications	1	2	1	-
Network	2	2	-	-
SISS	3	2	(1)	-
Projects and other	2	1	(1)	-
Non-route capital expenditure	22	19	(3)	-
	30	26	(4)	(1)
Wheeled plant and machinery				
High output	8	12	4	-
Incident response	-	-	-	-
Infrastructure monitoring	1	3	2	-
Intervention	3	7	4	-
Materials delivery	2	12	10	-
On track plant	-	-	-	-
Seasonal	2	-	(2)	-
Other	2	1	(1)	-
	18	35	17	-
Route Services				
Business Improvement	28	17	(11)	-
IT Renewals	12	15	3	-
Asset Information	2	2	-	-
Other	1	1	-	-
	43	35	(8)	-
STE Renewals				
Intelligent infrastructure	12	10	(2)	-
Faster Isolations	20	9	(11)	-
Centrally Managed Signalling Costs	1	3	2	-
Research and development	11	9	(2)	-
Integrated Management System (Incl. BCR)	-	3	3	-
Other National SCADA Programmes	5	8	3	-
Small plant	2	2	-	-
Other	13	5	(8)	-
	64	49	(15)	-
Property				
Property	11	2	(9)	-
	11	2	(9)	-
Other renewals				
ETCS	5	15	10	-
Digital Railway	1	(2)	(3)	-
Civils - Insurance Fund	2	9	7	2
Buildings - Insurance Fund	-	5	5	-
OPEX/CAPEX Adjustment	(36)	(27)	9	-
Phasing overlay	-	(28)	(28)	-
System Operator	3	3	-	-
Other renewals	(1)	1	2	8
	(26)	(24)	2	10
Total centrally-managed renewals expenditure	140	123	(17)	9
TOTAL RENEWALS EXPENDITURE	1,015	992	(23)	(44)

Statement 3.6: Analysis of renewals expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) Network Rail report expenditure at asset level (such as Track) and at the next level of detail in the accounting hierarchy: Key Cost Line (such as PL replace full).
- (2) Financial performance is reported at asset level rather than Key Cost Line.
- (3) The baseline in this statement has been restated due the Putting Passenger First and other internal reorganisations. The prior year numbers have not been restated.

Comments:

- (1) Overall, Renewals expenditure is higher than the regulatory baseline and last year's outturn. Although there are numerous variances, including the acceleration of jobs from future years, other significant causes for this increase include: financial underperformance within the Track portfolio and catchup from last year's slippage in STE managed projects. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery within the Track and Signalling portfolio,

Regionally-managed renewals

- (1) Total Regionally-managed renewals were slightly lower than the regulatory assumption. Additional activity in Track has been offset by slippage experienced in in the buildings and signalling portfolio. Control period to date spend is slightly higher than the baseline, due to the acceleration of schemes in FY20 to ensure funding was utilised. Net financial underperformance has been reported across the portfolio this year and control period to date. This underperformance is due to multitude of factors, but primarily relates to delivery, within the Track and Signalling portfolio.
- (2) Track – overall, costs in the year were higher than the regulatory baseline and last years outturn. Extra activity included non-planned re-padding and new works at Aberleri. Control period to date spend is higher than the regulatory baseline due to the aforementioned reasons plus the additional Plain Line full, Plain Line partial and Switches & Crossings delivered in FY20. Financial underperformance was recognised in FY21. High output volume was lost at Barry due to plant failure and poor ground conditions, whilst in Western, High output lost volume as a result of insufficient train operators available and lack of OTM availability. Covid-19 also led to additional welfare costs, higher labour costs to ensure social distancing restrictions were adhered to, extra vehicle costs, additional PPE requirements and project prolongation costs.

Financial underperformance has been reported for the control period to date. As well as the reasons provided above for FY21, FY20 had underperformance due to 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 favourable settlement of commercial claims.

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

In £m cash prices unless stated

- (3) Signalling – major programmes this year include the continuation of ETCS, signalling renewals at Westbury and Level crossings at Tram Inn, Llandovery and Llandrindod. Overall, expenditure was less than expected mainly due to rephasing of works on major re signalling programmes, such as the Port Talbot West Phase 2. The programme has revised both its design and delivery mechanism, moving towards a Low-Cost Digital ready signalling system and amended contractor programme to suit. As well as the aforementioned underspend, the control period to date position is lower than the regulatory baseline. 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. Financial underperformance has been recognised this year and control period to date. This is primarily due to commercial and delivery challenges. Contractor tendered prices received have been higher than anticipated for key schemes such as Tondy resignalling and Port Talbot phase 2, which a significant contributor to the financial underperformance experienced.
- (4) Civils – expenditure in the year was lower than the regulatory baseline, primarily due to slippage in the overbridges portfolio. Financial underperformance has been recognised this year due to scope inefficiency. Original interventions planned on the London street programme required further asset condition investigations, which have led to the scale of work increasing significantly. There has also been a reduction in volumes delivered, across a few sites, which have led to financial underperformance. Control period to date, financial underperformance has been recognised due to the aforementioned reasons. This has offset the Financial outperformance delivered in FY20, 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.
- (5) Earthworks – investment this year and for the control period to date is higher than the regulatory baseline expected which was due to accelerated delivery. The extra investment included accelerating schemes at Little Haglow and Bargoed to utilise available resources. Marginal financial outperformance has been reported this year and control period to date. This was achieved through better workbank packaging, favourable tender prices at Kelston Park and acquiring longer possessions at Llandudno Junction to facilitate more productive workings arrangements.
- (6) Buildings – investment this year is significantly lower than the regulatory baseline. This relates to re- profiling of the Bristol Temple Meads programme and the MDU portfolio, including the Shrewsbury MDU upgrade. Spend is higher than last year's outturn, which is in line with the regulatory baseline. Financial outperformance has been reported this year, largely relating to the asbestos Management scheme. Additional volume was delivered at an efficient rate which included removing entire walls, ceilings, and roof panels.
- (7) Electrical power and fixed plant – investment is higher than the regulatory baseline, both for this year and the control period to date. The increase in spend relates to extra activity on reducing risk and some minor financial underperformance has been reported this year and control period to date. This includes needing to retender the Scada programme due to underperformance of the original contractor in FY21, and additional contractor costs on signalling cable projects owing to design delays and difficulties acquiring the required access, in FY20.
- (8) Property – investments is higher than the regulatory baseline, both for this year and the control period to date. This increase in spend related to extra unplanned activity.

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

In £m cash prices unless stated

Centrally-managed renewals

- (1) Aggregate Centrally-managed renewals expenditure is over the regulatory baseline this year, with higher spend on STE programmes being slightly offset by underspend in 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 higher than the previous year, primarily due Network Rail group holding a phasing overlay in the business plan to account for anticipated slippage of the renewals portfolio and STE programmes increasing the rate of delivery from last year's outturn. Centrally managed renewals control period to date spend is higher than the regulatory baseline, due to the aforementioned reasons
- (2) Track – no costs were incurred 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. Last year 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 this year and for the control period to date is higher than the regulatory baseline due to acceleration of non-route capital expenditure.
- (4) Wheeled plant & machinery – expenditure is lower than the regulatory baseline and higher than 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 broadly in line with the regulatory baseline but higher than last year's outturn. This is due to reprofiling of activity into later years of the control period, including renewing high output ballast cleaner system fleet.
 - b. Infrastructure monitoring – costs were lower than the regulatory baseline and slightly higher than last year's spend. The spend control period to date is 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 but higher than last year's outturn. This is 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 for this year and the control period to date, and lower than last year's outturn. The primary cause of the underspend for the control period to date is due to the cancellation of constructing a new concrete sleeper factory.

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

In £m cash prices unless stated

- e. 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 but lower than last year's outturn. Last year significant investment to major programmes included 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. Whilst this spend has continued into this year, it has slowed down in line with what was assumed in the regulatory baseline. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. All expenditure in the previous control period was reported against the IT renewals heading, with the extra categories added for CP6.
- (6) STE renewals – overall STE expenditure is significantly higher 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 higher than the regulatory expectation this year. Due to the lack of definable outputs, spend last year was lower than the baseline. However, this year delivery has progressed at pace and have been able to accelerate spend in this category. This fund is outside the scope of financial performance, as agreed with the regulator.
 - b. Faster isolations – costs are higher than the regulatory baseline and higher than last year's outturn. Although last year there were fewer schemes being identified and progressed due to delays in design and tendering processes, the programme delivery has accelerated this year. Due to the lack of definable outputs, this fund is outside the scope of financial performance.
 - c. Research & Development – progress on this fund has been ahead of schedule, with more of the CP6 programme being delivered in the current year compared to the baseline expectation and last year's outturn. No financial performance is reported for this category of investment given the inherent inability to accurately set a meaningful baseline for outputs and costs. Increased investment in solutions to improve the rail industry for passengers is the primary cause for the additional expenditure on this line item.
 - d. Integrated Management System – there has been minimal activity on this programme this control period. No financial outperformance has been recognised this year as the outputs have not been delivered.
 - e. Other national SCADA programmes – investment is lower than the regulatory baseline and last year's outturn, due to further 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, Wales & Western – continued

In £m cash prices unless stated

- f. Other – Investment is significantly higher than the regulatory baseline. The primary reason for this is the creation of the Work force safety fund. Post the Margam tragedy in 2019, Network Rail drew down from the risk fund, to invest heavily in workforce safety schemes [to protect our people], which were not included in the regulatory baseline.
- (7) Property – expenditure is higher than the regulatory baseline this year and control period to date, 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.
- (8) Other – investments are higher than the regulatory baseline due to the centrally-managed phasing overlay being partially offset by the Opex/Capex adjustment. Notable items in the Other category include:
- a. ETCS – expenditure is lower than the regulatory baseline but higher than last year's outturn. Control period to date spend is lower than the regulatory baseline due to delays in the project and a favourable settlement of commercial claims. No financial outperformance has been recognised as the overall programme costs are in line with the regulatory baseline.
 - 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 control period to date 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. Spend is higher than last year, due to an element of the Stonehaven derailment renewals costs being borne by the civils insurance fund
 - 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.
 - 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). The adjustment is higher this year, as more schemes that are OPEX in nature have been delivered.

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

In £m cash prices unless stated

- e. System Operator – expenditure this year is in line with the regulatory baseline but higher than last year's outturn
- f. Other renewals – expenditure in the previous control period 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 control period to date is primarily due to the savings made through reduced pay-outs under performance-related pay schemes. The savings have been attributed to one central project.

Wales & Western

Statement 3.7: Analysis of enhancements expenditure

	2020-21			Cumulative		
	Actual	Portfolio Board Baseline	Financial out / (under) performance for the year	Actual	Portfolio Board Baseline	Financial out / (under) performance for the control period to date
DfT funded schemes						
Great Western Electrification	36	29	1	213	239	(53)
Oxford Corridor Capacity Phase 2	3	21	-	8	37	-
Reading Independent Feeder (Power Supply)	-	37	-	10	61	-
Bristol East Junction	35	41	(2)	42	53	(2)
South West Rail Resilience Programme	27	7	-	45	50	-
Access for All	1	7	-	3	8	-
Western Rail Access to Heathrow	6	27	-	14	37	-
Crossrail	18	49	(9)	62	84	(42)
Dr Days to Filton Abbey Wood Capacity	-	(3)	-	9	7	-
Portfolio Contingency (including T-12)	-	-	-	1	3	2
Depots & Stabling Fund	-	1	-	-	1	-
Thames Valley EMU Capability	1	-	-	10	5	-
IEP Western Capability	6	1	-	15	14	-
West of England Plat Length	3	-	-	3	5	-
Access to Assets	1	6	-	5	18	-
GWML W10-W12 Gauge Enhancement	6	7	-	10	8	-
Okehampton Line Works	7	13	-	7	13	-
Crumlin River Bridge	4	5	1	4	5	1
W009 West of England DMU Capability	1	10	-	6	12	-
Other	(8)	92	2	(4)	98	-
Total	147	350	(7)	484	781	(94)
Other Capital Expenditure	78	-	-	129	-	-
Other third party funded schemes						
HS2	85	-	-	85	-	-
Other third Party	(25)	-	-	30	-	-
Total	60	-	-	115	-	-
Total enhancements	285	350	(7)	728	781	(94)
Total enhancements less Other third party funded schemes	225	350	(7)	613	781	(94)

Statement 3.7: Analysis of enhancement expenditure, Wales & Western

In £m cash prices unless stated

Notes:

- (1) 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.
- (2) Expenditure, both actual and projected, only relates to activity in the current control period. Similarly, financial out/ under performance only relates to amounts to be recognised in the current control period.
- (3) Financial performance is measured by comparing the total expected costs of the programme to the baseline funding and the associated outputs. For the majority of the schemes, the funding and outputs are set by government (Department for Transport). These organisations play an active role in specifying, remitting and monitoring the progress of projects in terms of delivery of outputs, timescales and costs.
- (4) Financial performance is only measured on programmes where the scope, outputs and budget have agreed with funders (DfT).
- (5) Other capital expenditure relates to miscellaneous capital works that do not naturally fall within the definition of Renewals or Enhancements and has no regulatory baseline.

Comments:

- (1) 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). 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 (PAYG) refer to schemes funded by grants received from various bodies rather by the core Network Rail funder of DfT.
- (3) Enhancement expenditure in the year paid for by the core Network Rail funders DfT was £225m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£285m) less the PAYGO schemes funded by third parties (£60m).

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

In £m cash prices unless stated

- (4) Department for Transport funded schemes – Expenditure this year is lower than the regulatory baseline. This mainly related to impact of Covid-19, 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 - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Progress this year has been greater than the baseline. Cumulative financial underperformance has resulted from increase in total anticipated final cost due to programme delays, various costs pressures and substantiation of disputed costs.
 - b. Oxford Corridor Capacity Phase 2 – The project will rebuild and reconfigure the west side of Oxford station increase capacity and improved passenger facilities to accommodate additional services planned for 2024. The design works are slower than anticipated this year and have been rephased into future years, working to submission in June 2021 of a Transport and Works Act Order (TWAo) to the DfT for land purchase.
 - c. Reading Independent Feeder (Power Supply) – Reading Independent Feeder (RIF) will provide an additional high-voltage power supply from the National Grid to the Great Western Main Line (GWML). This project will improve reliability of passenger services and support the electric timetable, as well as providing greater flexibility for maintenance regimes. Slower progress has been made on this project this year as work has been reprofiled into future years of the control period, awaiting finalisation of funding decisions.
 - d. Bristol East Junction – This project will deliver upgrade work to Bristol East Junction, which serves Bristol Temple Meads station. Progress this year has been slower than anticipated, minimising disruption to passenger service.
 - e. South West Rail Resilience Programme – This programme aims to provide a resilient railway for the south-west of England, between Dawlish Warren and Teignmouth, which is subject to coastal and geotechnical encroachment. This programme is to deliver a robust level of resilience for the next 100 years, considering climate change including sea level rise reducing the probability of railway closure. Project has accelerated delivery this year, following procurement of contracts to enable offshore piling works.
 - f. Access for All – The Access for All (AFA) Programme aims to provides an obstacle free, accessible route to and between platforms across the network. Slower progress has been made on this programme this year. The under investment has been reprofiled into the future years in Network Rail's latest Business plan.
 - g. Western Rail Access to Heathrow – Project provides new rail link from the Great Western Main Line to Heathrow Airport. Progress has been slower this year compared to the baseline. DfT decided to pause the submission of the Development Consent Order (DCO) until winter 2022, reprofiling works into future years.
 - h. Welsh Valley Lines Electrification – This project is electrification of the Valley Lines in South Wales.

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

In £m cash prices unless stated

- i. Crossrail – This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Underspend in year and adverse financial performance is a result of increases in the total anticipated final cost to achieve final completion and hand over of the new stations built in central London. Covid-19 had caused a temporary pause in construction and slowdown impacting on Schedule delays into future years.
 - j. Okehampton Line Works – This project is in partnership with Great Western Railway (GWR) and Devon County Council to reopen the Dartmoor Line from Okehampton to Exeter. Slower progress than anticipated reflects latest delivery plan and staged approval of authority / funding from HMT. The project is part of the Department for Transport's 'Restoring your Railway' initiative and is expected to re-open the line end of 2021.
 - k. Other – this category covers a number of smaller projects, including CP5 close out projects, Small Operational Enhancement Fund (SOEF), which have incurred a small amount of financial outperformance.
- (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 is Gipsy Patch Bridge.
- (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.

Wales & Western

Statement 3.8: Analysis of renewals unit costs

Cash prices

		FY21			FY20			
Unit		AFC	AFV	Unit Costs	AFC	AFV	Unit Costs	
Track	PL Replace Full	km	36	23	1,565	36	20	1,800
	PL Replace Partial	km	63	100	630	38	59	644
	PL High Output	km	44	37	1,189	33	31	1,065
	PL Refurbishment	km	3	59	51	3	56	54
	PL Track Slab Track	km	-	-	-	-	-	-
	Switches & Crossing - Replace	point ends	24	51	471	18	42	429
	Switches & Crossing - Other	point ends	5	36	139	4	38	105
	Off Track	km/No.	10	188	53	8	156	51
	Track Other		-	-	-	-	-	-
Total		185	-	-	140	-	-	
Signalling	Signalling Full	SEU	-	-	-	52	5	10,400
	Signalling Partial	SEU	1	3	333	227	80	2,838
	Signalling Refurb	SEU	80	120	667	-	-	-
	Level crossings	No.	41	83	494	23	20	1,150
	Minor works		-	-	-	-	-	-
	Other		-	-	-	-	-	-
Total		122	-	-	302	-	-	
Civils	Underbridges	m2	59	20,903	3	49	15,579	3
	Overbridges (incl BG3)	m2	7	3,191	2	10	2,185	5
	Major Structures		-	-	-	-	-	-
	Tunnels	m2	3	3,039	1	9	17,159	1
	Culverts	m2	3	985	3	4	1,013	4
	Footbridges	m2	1	130	8	1	243	4
	Coastal & Estuarial Defences	m2	3	14,810	0	2	12,750	0
	Retaining Walls	m2	4	3,332	1	3	7,034	0
	Structures Other	m2	-	-	-	-	-	-
Other		-	-	-	-	-	-	
Total		80	-	-	78	-	-	
Earthworks	Earthworks - Embankments	No.	26	856	30	15	553	27
	Earthworks - Soil Cuttings	No.	14	1,030	14	15	693	22
	Earthworks - Rock Cuttings	No.	15	612	25	17	317	54
	Earthworks - Other	No.	2	38	53	-	3	-
	Drainage - Earthworks	m	1	4,867	0	2	15,024	0
	Drainage - Other	m	15	68,920	0	9	30,605	0
TOTAL		73	-	-	58	-	-	
Buildings	Buildings (MS)	m2	-	-	-	-	-	-
	Platforms (MS)	m2	-	-	-	-	-	-
	Canopies (MS)	m2	-	-	-	-	-	-
	Train sheds (MS)	m2	-	-	-	-	-	-
	Footbridges (MS)	m2	-	-	-	-	-	-
	Other (MS)	m2	-	1	-	-	-	-
	Buildings (FS)	m2	1	2,518	0	-	400	-
	Platforms (FS)	m2	2	970	2	4	2,128	2
	Canopies (FS)	m2	5	7,439	1	4	8,626	0
	Train sheds (FS)	m2	-	-	-	-	-	-
	Footbridges (FS)	m2	2	255	8	4	1,186	3
	Lifts & Escalators (FS)	m2	-	-	-	-	-	-
	Other (FS)	m2	18	120,927	0	19	112,982	0
	Light Maintenance Depots	m2	4	39,214	0	-	-	-
	Depot Plant	m2	-	-	-	-	-	-
	Lineside Buildings	m2	2	1,335	1	-	33	-
	MDU Buildings	m2	2	10,481	0	1	8,557	0
	NDS Depot	m2	-	-	-	-	-	-
	Other	m2	-	-	-	-	-	-
	Total		36	-	-	32	-	-

Statement 3.8: Analysis of renewals unit costs - continued

Electrical Power & Fixed Plant	Wiring	Wire runs	-	-	-	-	-	-
	mid-life refurbishment	Wire runs	-	-	-	-	-	-
	structure renewals	No.	-	-	-	-	-	-
	other OLE		-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-
	conductor rail	km	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-
	HV Cables AC	No.	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-
	Booster Transformers AC	No.	-	-	-	-	-	-
	Other AC	No.	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-
	Transformer Rectifiers DC	No.	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-
	FSP	No.	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-
	UPS (#)	No.	2	41	49	2	37	54
	Generator (#)	No.	-	-	-	-	-	-
	Auxiliary Transformer (#)	No.	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-
	Signalling Power Cables	km	22	109	202	1	9	111
	Signalling Supply Points	point end	-	3	-	-	-	-
	NSCD / Track Feeder Switch (#)		-	-	-	-	-	-
	Total		24	-	-	3	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-
	CCTV	No.	-	-	-	1	158	6
	Other Surveillance	No.	-	-	-	-	-	-
	PABX Concentrator	No.	-	-	-	-	-	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-
	DOO Mirrors	No.	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-
	HMI Small	No.	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-
	Radio		-	-	-	-	-	-
	Power		-	-	-	-	11	-
	Other comms		-	-	-	-	-	-
	Network		-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-
	Other		-	-	-	-	-	-
	Total		-	-	-	1	-	-

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

In £m cash prices unless stated

Notes:

- (1) No PR18 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (December 2019), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2020/21 (or 2019/20 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 2019/20 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2020/21, 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 - The High Output volumes delivered in the year are slightly higher than the volumes delivered in the prior year. Surprisingly there has been an increase in the unit cost in the year. This will be down to the large fixed costs that is associated with High Output and volumes being delivered being less than expected. In Plain Line Replace Full there was a decrease in the unit cost compared to 2019-20. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There was an increase in the unit cost for both Switches & Crossings Replace and Other in the year. Significant projects at Cardiff West, Exmouth Junction and Uffington helped to drive up the unit cost in the year.
- (3) Signalling – There has been a decrease in the unit cost for Signalling Partial in the year. However, there was only one project in each year which means the same size is too small to do any useful analysis. The Bristol project in 2019-20 was a complicated multiyear project that finished last year. There has also been a decrease in the unit cost for Level Crossings in the year. In the prior year there were particularly expensive projects in Porthmadog and Carmarthenshire which dragged up the unit cost

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

In £m cash 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 – There has been a decrease in the unit cost of both Soil Cuttings and Rock Cuttings in the year. There has been a decrease in the proportion of full renewals in the current year with a higher proportion of less expensive refurb and maintain taking place instead.
- (6) Buildings – There has been a large increase in the unit cost for Franchised Stations Footbridges in the year. This has been due to expensive projects at Newtown and Whitland in the year which have dragged up the unit cost.
- (7) Electrical Power and Fixed Plant – There has been a decrease in the unit cost on UPS in the year. There has been only one project spanning both years with the overall forecast volumes increasing in the year and this driving down the unit cost. However, there has been an increase in the unit cost of Signalling Power cables in the year. There was only one project taking place in this category in 2019-20 making any variance analysis meaningless due to the tiny sample size
- (8) Telecoms – There hasn't been any significant change in the unit costs in this asset in the current year compared to the previous year

Wales & Western**Statement 4: Regulatory financial position**

Cash prices

Regulatory asset base (RAB)

	£m
Opening RAB (2019-20 Actual prices)	13,121
Indexation to 2020-21 prices	13,160
RAB additions	
Renewals expenditure	555
Enhancements expenditure	-
Less amortisation	(555)
Property Sales	(3)
Closing RAB	13,157

Net debt

	£m
Opening net debt	10,235
Income	(1,434)
Expenditure	1,142
Financing Costs - Government borrowing	180
Financing Costs - index linked debt	106
Financing Costs - Other	38
Corporation tax	6
Working capital	(34)
Closing net debt	10,239

Statement 4: Regulatory financial position, Wales & Western

In £m cash prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals 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 during the year.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (December 2019) the RAB is inflated each year using the in-year November CPI. The Opening RAB assumption in the table is reported in 2019/20 prices and is inflated by the November 2020 CPI (0.3 per cent).
- (3) Renewals – renewals added to the RAB was over £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 Wales & Western and how it has moved this 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 Wales & Western has slightly increased.
- (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, Wales & Western – continued

In £m cash 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 principal value of the debt each year rather than paid to the issuer. At the point of the debt maturing the full amount is repaid. These bonds currently have a maturity schedule between 2026 and 2052. As Network Rail does not have to repay the accreting element of the debt in the current year, it does receive a corresponding grant from DfT. Under the financial framework in place for this control period, as nominal bonds and other third-party borrowings become due, they are replaced through further debt issuances made by DfT. This means that the value of the overall debt doesn't materially move (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. This year there have also been some benefits from working capital movements, reflecting increased creditors and decreased debtors.

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 2021

	£m
RAB valuation at 31 March 2021 (Statement 4)	72,689
Investment properties (including assets held for resale)	(212)
Adjustment for cash flow differences the CP6 Business Plan compared to Periodic Review 2018	(475)
Other	(4)
Property, plant and equipment per NRL statutory accounts at 31 March 2021	71,998

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

Year ended 31 March 2021

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2021 per the regulatory Statements (Statement 1)	2,515	1,892	4,407
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets	1,957		1,957
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	164		164
IFRS16 Leases adjustment	(90)		(90)
Other	(2)		(2)
	2,029	-	2,029
Operating and maintenance expenditure for year ended 31 March 2021 per NRL statutory accounts	4,544	1,892	6,436

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2021

	£m	£m
Regulatory income for year ended 31 March 2021 (Statement 1)		9,601
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	59	
Income from property sales and other asset divestments	(42)	
Other	-	
	-	17
Turnover per NRL statutory accounts for year ended 31 March 2021		9,618

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2021

	£m	£m
Regulatory debt at 31 March 2021 (Statement 4)		53,592
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	584	
IFRS 16 Leases adjustment	386	
Foreign exchange differences	117	
		1,087
Net debt per NRL statutory accounts at 31 March 2021		54,679

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

Year ended 31 March 2021

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2021 (Statement 1)		5,530
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	409	
Other	(11)	
		398
Capital expenditure per NRL statutory accounts for the year ended 31 March 2021		5,928

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

Year ended 31 March 2021

	£m	£m
Total financing costs for the year ended 31 March 2021 (Statement 1)		1,696
Differences between regulatory interest expense and statutory interest expense		
Net finance costs relating to defined pension schemes assets and liabilities	44	
Investment revenue disclosed separately in statutory accounts	1	
		45
Interest expense per NRL statutory accounts for the year ended 31 March 2021		1,741