



Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2016

Directors' Review

In £m 2015/16 prices unless stated otherwise

Our record expenditure on the Railway Upgrade Plan continues with every pound of profit reinvested. Driving efficiency and finding new ways to finance this essential work are paramount to deliver a better, affordable railway.

While working to meet challenging targets, we have again lowered our charges to customers while delivering enhancements and enabling more passenger journeys than ever before.

This control period (CP5) runs from April 2014 to March 2019 and was designed to be financially more challenging than Network Rail's previous two five-year regulatory settlements. Although progress has been made, it has proven difficult to keep pace with the targets set out in the Office of Rail and Road's (ORR) determination of charges and outputs for this control period.

Every pound of cash generated through profits is reinvested in the railway

Network Rail is a not-for-dividend company and so reinvests every pound of net cash generated from operating activities in improving the railway. The investment programme consumed all £2.2bn net cash generated from operations and a further £4.4bn drawn down from the Department for Transport (DfT) loan facility.

Hendy review

Over the five years of this control period we expect to invest £34bn in the railway network. This is necessary to help meet the demands of a railway that is experiencing the fastest sustained period of growth since the Victorian era. The Hendy review, published in autumn 2015, created a robust baseline for enhancement expenditure and provided an approach to delivering the CP5 investment programme.

Network Rail continues to deliver significant improvements to the railway network investing £3.5bn in enhancements (2014/15: £3.4bn), beating last year's record enhancements delivery, whilst expenditure on renewals also increased to £3.1bn (2014/15: £3.0bn).

Major projects include Great Western electrification, Thameslink Programme; work on our network for Crossrail, the North West Electrification, the Strategic Freight Network and, in Scotland, improving the network between Edinburgh and Glasgow.

The Hendy review proposed how an additional £1.8bn cash flow could be generated to provide additional cash flows, over and above the DfT loan facility, from disposing of assets and encouraging alternative funding strategies. In addition, the DfT has agreed a further £700m loan facility. Together, these plans will enable the CP5 investment programme, as set out in the Hendy review, to be delivered.

Financial review of the year

This review will focus on the financial performance achieved by Network Rail in 2015/16, and in particular on:

- Overview on efficiency and effectiveness
- Income – amounts received from government, operators and other third parties
- Operating expenditure – the costs of running the railway, including amounts payable to operators under performance regime mechanism
- Capital expenditure – investing in new assets is helping to deliver a network better able to cope with Britain's increasing demand for rail services
- Financing costs – the costs of servicing Network Rail's debt
- Financial framework – the regulatory asset base (RAB) and regulatory net debt

Directors' Review continued

In £m 2015/16 prices unless stated otherwise

Financial Review of the Year

Summary income and expenditure comparison to the PR13 2015/16

		2015-16	
	Actual	PR13	Difference
Income			
Grant Income	4,282	4,216	66
Fixed Income	367	345	22
Variable Income	1,104	1,141	(37)
Other Single Till Income	829	860	(31)
Opex memorandum account	18	0	18
Total Income	6,600	6,562	38
Operating expenditure			
Network operations	538	436	(102)
Support costs	394	471	77
Traction electricity, industry costs and rates	581	619	38
Network maintenance	1,248	1,136	(112)
Schedule 4	257	227	(30)
Schedule 8	106	4	(102)
Total operating expenditure	3,124	2,893	(231)
Capital expenditure			
Renewals	3,077	2,724	(353)
PR13 enhancement expenditure	2,990	3,151	161
Non PR13 enhancement expenditure	223	0	(223)
Total capital expenditure	6,290	5,875	(415)
Other expenditure			
Financing costs	1,400	1,759	359
Total other expenditure	1,400	1,759	359
Total expenditure	10,814	10,527	(287)

Efficiency and effectiveness

As a business we continue to focus hard on cost efficiency and effectiveness, particularly to address the challenges set out in the regulatory settlement. As well as record levels of enhancement activity, expenditure on renewals also continues at very high rates to improve long term asset sustainability and, ultimately, performance of the network. Working on an increasingly congested railway with shorter possession intervals to undertake this essential work raises the bar still further to deliver the desired level of efficiency, and this has been compounded by numerous severe weather incidents. We see encouraging trends in overall asset reliability but this has yet to translate to overall improvements in network performance and the cost effectiveness of renewals activity is proving challenging. Network Rail continues to deploy new technologies to improve productivity and is supplementing this with a lean value improvement programme across all aspects of its business to save money. All areas of centrally managed expenditure are also being scrutinised to deliver cost reductions.

Directors' Review continued

In £m 2015/16 prices unless stated otherwise

Income

This was the second year of CP5. As planned, our charges rose marginally in cash prices in the year. After allowing for general inflation, charges were the lowest in real terms for the last 10 years, despite continued increases in passenger and freight traffic.

This year's income was £6,582m (2014/15: £6,514m). This is as a result of passing on the benefits of increased efficiency and stability through lower charges. Over the same period Great Britain's passenger revenue, 'fare box', has increased and now stands at over £9bn. Network Rail took a further three percent less of the overall fare box last year (over 50 percent less than ten years ago). Income was broadly in line with the assumptions in the determination.

Passenger and freight track access and network grants increased in line with the regulatory determination with lower than expected traction electricity income charged to operators offset by lower electricity costs. Not all Network Rail's income is fixed by the regulatory regime. Network Rail also generated an additional £35m of property revenue compared to the regulator's target, mainly due to extra property sales. Freight income was £22m lower than the regulator assumed due to lower volumes of traffic, particularly in coal haulage. Lower Crossrail finance charge income was offset by savings in financing costs paid by Network Rail.

Operating expenditure

Net operating costs for this year increased by £133m to £3,124m (2014/15: £2,991m) and were £231m higher than the regulator assumed.

Network Operations costs were higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets.

Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.

Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs.

Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. In addition, extra reactive maintenance costs have been incurred this year in response to asset condition.

Performance regime - Network Rail is at risk of reductions in receipts from train operators for worse than expected train performance. When performance drops below the benchmarks, determined by the ORR Network Rail pays compensation to operators. Delays include those for planned engineering work (required to maintain, renew and deliver record levels of enhancements to the network). There are also unplanned delays due to a variety of operational factors, such as the devastating effects of the winter storms, with incidents this year at Lamington on the West Coast main line, the sea wall between Dover and Folkestone, as well other severe weather events. As a result compensation paid to train operators increased by £52m. The total cost of severe weather incidents in the year was over £130m.

Directors' Review continued

In £m 2015/16 prices unless stated otherwise

Capital expenditure - Investment in the railway network

The investment programme delivered in the year has been set against the backdrop of a major review of the cost and deliverability of the enhancement programme, the Hendy review. This review which was published in autumn 2015 set a more robust baseline for the delivery of the CP5 enhancements programme. This has been adopted by ORR as the regulatory base line. This notably included significantly increased cost forecasts with regard to the Great Western Electrification Programme (GWEP) which is commencing its delivery stage and remains in line with its revised forecast.

We invested £6,604m in the network in the year, some £0.7bn more than the regulator assumed, continuing the high levels of delivery seen over the last three years. We spent £3,527m, a record in terms of work delivered, (2014/15: £3,429m) on enhancements increasing the capacity of the network. We have also invested £3,077m (£353m more than the determination), renewing both our railway assets (such as track, signalling and civils) and in information management and asset information technologies. Although this year we achieved our planned expenditure level for renewals, the actual level of efficiencies and work performed was short of target due to a variety of factors including the heavily congested network and adverse weather conditions which create additional financial pressure.

Financing costs

Finance costs of £1,400m were £359m favourable to the determination. A large element of Network Rail's debt (42 per cent at 31 March 2016) is linked to inflation rates which have been lower than the regulator assumed when setting the determination targets.

Financial framework

The railway network

The regulatory asset base (RAB) represents the ORR's calculation of the value of Network Rail's assets. The RAB is a key building block in the Regulator's methodology for determining access charges in the control period since it forms the basis for calculating the level of allowed return.

Subject to certain criteria established by the ORR and set out in the Regulatory Accounting Guidelines (issued in May 2016), each year capital expenditure is added to the RAB and amortisation is deducted. The ORR can make deductions from the RAB in the event that we do not achieve our required outputs, for example not meeting required train performance or missing enhancement milestones, or where the ORR wishes to make a retrospective funding adjustment. These adjustments are determined by the ORR and we have no right of appeal. The valuation of the RAB should be considered provisional until the ORR undertakes an ex-post efficiency review after the end of CP5.

The current value of the RAB is significantly higher than the 2013 Periodic Review assumed which is largely due to higher investment undertaken by Network Rail in CP4 which the regulator did not expect when preparing their determination.

Directors' Review continued

In £m 2015/16 prices unless stated otherwise

Borrowing (note that the figures in this section are expressed in cash prices)

Since becoming a public sector body in September 2014 Network Rail borrows directly from government and no longer issues debt on capital markets. This applies to both the borrowing required for new investment and refinancing of existing debt.

The regulatory settlement provides strong security for future income and the Department for Transport (DfT) loan agreement provides a robust platform to refinance and borrow to invest in the railway network. Network Rail plans to borrow significantly over the remainder of the control period to finance the investment programme. We plan to draw down a further £11.2bn from the agreed DfT loan facility to finance this investment, and a further £5.7bn to refinance maturing debt. As a result, by March 2019 the net debt will increase to around £52bn. As well as the DfT loan facility, we are exploring the potential to sell non-core property assets, and find other ways to attract commercial partners in order to deliver more capital investment that will help increase the capacity of the railway network. During the year ended 31 March 2016 Network Rail borrowed £7.5bn from the DfT. Part of this new debt was used to pay back existing bonds whilst the remainder was used to invest in the railway infrastructure. As a result net debt rose from £36.5bn to £40.2bn.

	2016	2015
	£bn	£bn
Borrowing to Invest	4.4	3.7
Borrowing to refinance	3.1	2.7
DfT loan drawdown	7.5	6.4

Summary

2015/16 has been a year of continued transition for Network Rail, the second year of what is proving to be a challenging control period.

Charges continue to fall in real terms, and all cash generated from operations, alongside additional borrowing is being invested in improving the railway network. This has allowed us to deliver record levels of enhancements designed to reflect increased demand for rail travel, and in doing so progress against the baseline set out in the Hendy Review. We continue to work hard to improve overall levels of asset reliability and network performance through high rates of renewals and maintenance. Nonetheless the levels of outputs set out in the regulatory settlement, including train performance, remain challenging and we are focusing hard to make the most efficient use of the resources at our disposal. To maintain this investment momentum, the regulatory settlement and DfT loan agreement provide strong security for future income and financing and we look to augment this by finding additional cash flows and commercial opportunities. In doing so, we enhance our capability to meet the challenges of providing the railway that Britain needs.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 29th June 2016.

Signed on behalf of the Board of Directors



Mark Carne (Director)



Jeremy Westlake (Director)

Statement of Directors' Responsibilities

The directors are responsible for preparing Regulatory financial statements in accordance with Condition 11 of the Network Licence dated 31 March 1994, as amended.

In preparing those Regulatory financial statements, the directors are required by Condition 11 to:

- prepare the Regulatory financial statements in respect of the financial year ended 31 March 2016 and (save as otherwise provided in Condition 11 or the CP5 Regulatory Accounting Guidelines May 2016) on a consistent basis in respect of each financial year;
- prepare the Regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary Statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
 - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the access review periods specified in the CP5 Regulatory Accounting Guidelines May 2016; (and so that where the presentation of an item in the primary Statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary Statement, a Statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the CP5 Regulatory Accounting Guidelines May 2016 with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial Statements with any corresponding items in annual statutory accounts for the access review periods specified in the CP5 Regulatory Accounting Guidelines May 2016;
- include narrative explaining the material variances from the previous year (where required by CP5 Regulatory Accounting Guidelines May 2016) and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 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 11, 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 3.1 and (where applicable) with Condition 3.2 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 CP5 Regulatory Accounting Guidelines May 2016 and for making judgements and estimates that are reasonable and prudent.

The Board of Directors is also required to approve formally the Regulatory financial statements by signing the Directors' Review of the Regulatory financial statements.

In accordance with the CP5 Regulatory Accounting Guidelines May 2016 the statutory financial statements are submitted to the ORR along with these Regulatory financial statements to enable a comparison. 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 and are submitted for information only.

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

Independent Auditor's report to the Office of Rail and Road (the "Regulator") and Network Rail Infrastructure Limited

I have audited the Regulatory Financial Statements of Network Rail Infrastructure Limited ("the company") for the year ended 31 March 2016 which comprise the following statements (separately for GB, England and Wales, and Scotland and the Routes except where stated otherwise below):

- Statement 1: Summary Regulatory Financial Performance;
- Statement 2a: RAB – Regulatory Financial Position;
- Statement 2b: RAB – Reconciliation of Expenditure;
- Statement 3: Analysis of Enhancement Capital Expenditure;
- Statement 4: Net Debt and Financial Ratios;
- Statement 6a: Analysis of Income;
- Statement 6b: Analysis of Other Single Till Income (excluding Routes);
- Statement 6c: Analysis of Income by Operator (excluding Routes);
- Statement 7a: Analysis of Operating Expenditure;
- Statement 7b: Analysis of Operating Expenditure by Activity (excluding Routes);
- Statement 7d: Overhead Reconciliation (excluding Routes);
- Statement 8a: Summary Analysis of Maintenance Expenditure;
- Statement 8b: Summary Analysis of Maintenance Headcount by Activity (excluding Routes);
- Statement 8c: Analysis of Maintenance Expenditure by Maintenance Delivery Unit (excluding Routes);
- Statement 8d: Analysis of Maintenance Headcount by Maintenance Delivery Unit (excluding Routes);
- Statement 9a: Summary Analysis of Renewals Expenditure;
- Statements 9b: Detailed Analysis of Renewals Expenditure (excluding Routes);
- Statement 10: Other Information;
- A: Reconciliation of RAB to Statutory Railway Network Fixed Asset Valuation;
- B: Reconciliation of Operating and Maintenance Expenditure between Regulatory Financial Statements and Statutory Accounts;
- C: Reconciliation of Regulatory Income to Statutory Turnover;
- D: Reconciliation of Regulatory Debt to Statutory Net Debt;
- E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense.

The financial reporting framework that has been applied in their preparation is Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines issued by the Regulator, and the accounting policies set out in the Statement of Accounting Policies.

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 we 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.

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

Respective responsibilities of the Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Regulatory Financial Statements.

My responsibility is to audit and express an opinion on the Regulatory Financial Statements in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' section below and having regard to the guidance contained in TECH 02/16AAF '*Reporting to Regulators on Regulatory Accounts*' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Financial Statements sufficient to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed and the reasonableness of significant accounting estimates made by the directors. In addition, I read all the financial and non-financial information in the Regulatory Financial Statements to identify material inconsistencies with the audited Regulatory Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If I become aware of any apparent misstatements or inconsistencies we consider the implications for my report.

I have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines 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 Financial Statements is 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).

Opinion on Regulatory Accounts

In my opinion the Regulatory Financial Statements, defined above:

- fairly present in accordance with Condition 11 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 2016 and its financial performance for the year then ended; and
- have been properly prepared in accordance with Condition 11 of the Regulatory Licence, the Regulatory Accounting Guidelines, and the accounting policies.

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

Emphasis of matter - basis of preparation

Without modifying my opinion, I draw attention to the fact that the Regulatory Statements have been prepared in accordance with Condition 11 of the Company's Regulatory Licence, the Regulatory Accounting Guidelines issued by the Regulator, and the accounting policies set out in the statement of accounting policies. The nature, form and content of Regulatory Financial Statements is 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 we 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.

Opinion on other matters prescribed by Condition 11 of the Regulatory Licence

Under the terms of our contract I have assumed responsibility to provide those additional opinions required by Condition 11 in relation to the accounting records. In my opinion:

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

Other matters

My opinion on the Regulatory Financial Statements is separate from my opinion on the statutory financial statements of the Company for the year ended 31 March 2016, 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 our 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)

30 June 2016

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
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 2016, which comprise:

- Statement 5a: Total financial performance;
- Statement 5b: Renewals variance analysis in total financial performance;
- Statement 5c: Enhancement variance analysis in total financial performance;
- Statement 5d: REBS performance;
- Statement 14: Renewals volumes, unit costs and expenditure;

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 11 of the Network Licence. As stated in Clause 2.26 of the Regulatory Accounting Guidelines (RAGs) dated May 2016, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory accounts. This complements the work of the auditors.

Work completed – basis of opinion

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

We have performed where possible, compliance tests to confirm the adequacy of accounting controls and procedures and detailed substantive testing to confirm the accuracy of accounting entries with reference to original underlying data records.

We have also reviewed the extent to which Network Rail is able to demonstrate that its maintenance and renewals activities are robust and sustainable.

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.

A handwritten signature in blue ink, appearing to read 'S J Sanders', with a long horizontal flourish extending to the right.

Stefan J Sanders
Named Independent Reporter
Ove Arup & Partners Ltd
30 June 2016

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 dated 31 March 1994, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 11 of the Licence and the Statements must be prepared in accordance with detailed CP5 Regulatory Accounting Guidelines issued by ORR under Condition 11 in May 2016.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP5 Regulatory Accounting Guidelines ("RAGs") issued by the ORR in May 2016. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2016 which were approved by the Directors on 9 June 2016 with the following 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.

Regulatory Asset Base

The Regulatory Asset Base (RAB) has been calculated in accordance with the RAGs and the RAB roll forward policy set out therein. As in previous years this requires management to make their best assessment of efficiency savings achieved along with other judgements around performance. The judgements reached on efficiency savings continue to be discussed with the Regulator and the reporter and are therefore subject to amendments in future years of the control period. Management have made adjustments to reflect their best estimate of uncertainties identified. Nevertheless, these uncertainties could result in adjustments to the RAB valuation which, as stated in the RAGs, remains provisional until an ex-post assessment at the beginning of the next control period has been completed by the Regulator.

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 30 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2013. The opening RAB at 1 April 2015 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Debt

In accordance with the RAGs Annex D Licence Condition 3, 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.

Capitalised interest

Interest is capitalised into the cost of projects in the statutory accounts in accordance with IAS 16 'Property, Plant & Equipment' and IAS 23 'Borrowing Costs'. In these Regulatory financial statements capitalised interest is excluded from all balances and where appropriate capitalised financing is included in the calculation of the RAB.

Accounting policies continued

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.

Turnover

For Regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts, but does include the access charge supplement. Also, income in the Regulatory financial statements includes profit on the disposal of properties. 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'. For Regulatory financial statements purposes the net income earned by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) is included within income to be consistent with the treatment in the ORR Periodic Review 2013. For statutory purposes Network Rail (High Speed) Limited net income appears within operating costs.

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 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 ten operational routes. The principles of how this information is derived is set out below.

Operational Routes

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

- (a) directly managed - income and expenditure which is managed by the local route leadership team. This is assigned directly to each route. 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 routes. All of these costs/ revenues are included in the route income and expenditure reported in the regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the route-managed works delivery team
- (b) central costs – directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual routes can affect the company wide costs. This covers items where the route 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 expenditure delivered by Network Rail's project delivery team (Infrastructure Projects). These costs can be attributed to the route directly

Accounting policies continued

- (c) central costs – route identifiable - income and expenditure which is the responsibility of central functions where route 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 route

- (d) central costs – allocated by driver – income and expenditure incurred for the whole network or company. Minimal causal link between local 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 and grants income received from governments. In these circumstances costs have to be attributed to routes using an appropriate driver. The driver should represent a proxy for the cause of the cost in each route. Network Rail has supplied a detailed list of to the regulator (as well as the auditors and the reporters) setting out which driver will be used to allocate all central expenses and income in each cost centre/ account code category

Statement 1: Summary regulatory financial performance, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	4,282	4,216	66	8,490	8,396	94	4,208
Fixed Income	367	345	22	812	775	37	445
Variable Income	1,104	1,141	(37)	2,181	2,175	6	1,077
Other Single Till Income	829	860	(31)	1,613	1,668	(55)	784
Opex memorandum account	18	-	18	18	-	18	-
Total Income	6,600	6,562	38	13,114	13,014	100	6,514
Operating expenditure							
Network operations	538	436	(102)	1,032	886	(146)	494
Support costs	394	471	77	815	965	150	421
Traction electricity, industry costs and rates	581	619	38	1,148	1,144	(4)	567
Network maintenance	1,248	1,136	(112)	2,446	2,290	(156)	1,198
Schedule 4	257	227	(30)	458	442	(16)	201
Schedule 8	106	4	(102)	216	8	(208)	110
Total operating expenditure	3,124	2,893	(231)	6,115	5,735	(380)	2,991
Capital expenditure							
Renewals	3,077	2,724	(353)	6,057	5,377	(680)	2,980
PR13 enhancement expenditure	2,990	3,151	161	5,795	6,165	370	2,805
Non PR13 enhancement expenditure	223	-	(223)	368	-	(368)	145
Total capital expenditure	6,290	5,875	(415)	12,220	11,542	(678)	5,930
Other expenditure							
Financing costs	1,400	1,759	359	2,818	3,413	595	1,418
Corporation tax (received)/paid	-	-	-	(4)	4	8	(4)
Total other expenditure	1,400	1,759	359	2,814	3,417	603	1,414
Total expenditure	10,814	10,527	(287)	21,149	20,694	(455)	10,335

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

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher traction electricity charges and higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding these items, income is higher than the determination as a result of extra property income generated which more than offsets lower freight income. This is set out in more detail in Statement 6a. Income is higher than the previous year as extra property income (notably property sales) more than offsets declines in the freight industry.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year due to higher market electricity prices which is mostly recovered through additional income.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.

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

in £m 2015-16 prices unless stated

- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including incidents at Lamington Viaduct in Scotland and Dover in Kent, as well as other numerous landslips. These variances are set out in more detail in Statement 10. Costs are higher than the previous year due to more significant weather events and the delivery of extra renewals activity which required network possessions.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year reflecting additional activities (notably Track and Civils) partly offset by lower investment on projects rolled over from CP4.
- (14) Capital expenditure - PR13 Enhancements expenditure is less than the baseline. These variances are set out in more detail in Statement 3. Investment is higher than the previous year reflecting net extra delivery across a wide range of schemes and programmes with the largest contribution arising from Scotland projects.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. Expenditure is higher than last year with a major contribution from elements of the East West rail programme funded through the investment framework.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4.

Statement 2a: RAB - Regulatory financial position, Great Britain

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	50,657	49,476	1,181
Indexation to 2013-14 prices	2,372	2,317	55
Opening RAB for the year (2014-15 prices)	53,029	51,793	1,236
Indexation for the year	557	544	13
Opening RAB (2015-16 prices)	53,586	52,337	1,249
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,846	2,724	122
PR13 enhancements	2,937	3,090	(153)
Non-PR13 enhancements	222	-	222
Total enhancements	3,159	3,090	69
Amortisation	(2,414)	(2,414)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	57,177	55,737	1,440

RAB Regulatory financial position - cumulative, Great Britain

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	49,140	53,586	49,140
Adjustments for the actual capital expenditure outturn in CP4	1,199	-	1,199
Renewals	2,783	2,846	5,629
PR13 enhancements	2,772	2,937	5,709
Non-PR13 enhancements	112	222	334
Total enhancements	2,884	3,159	6,043
Amortisation	(2,414)	(2,414)	(4,828)
Adjustments for under-delivery of regulatory outputs	(6)	-	(6)
Closing RAB	53,586	57,177	57,177

Statement 2a: RAB - Regulatory financial position, Great Britain – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (May 2016) the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM in England & Wales and Scotland and CaSL in England & Wales) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, Great Britain – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Great Britain

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	2,653	2,724	5,377
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	228	-	228
Capitalised financing on CP4 deferrals	5	10	15
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	2,886	2,734	5,620
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(714)	(619)	(1,333)
Capitalised financing on acceleration / (deferrals) of expenditure	(15)	(45)	(60)
Adjustments for efficient overspend	752	932	1,684
Capitalised financing on efficient overspend	16	53	69
25% retention of efficient overspend	(188)	(233)	(421)
Capitalised financing on efficient overspend 25% retention	(4)	(13)	(17)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	61	40	101
Capitalised financing on efficient overspend through spend to save framework	1	4	5
20% retention of efficient overspend through spend to save framework	(12)	(6)	(18)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	(1)	(1)
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	2,783	2,846	5,629
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(3)	(8)	(11)
Adjustment for 25% retention of efficient overspend	200	239	439
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	-	-	-
Total actual renewals expenditure (see statement 9)	2,980	3,077	6,057

Statement 2b: RAB - reconciliation of expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	2,959	3,090	6,049
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	200	(198)	2
Capitalised financing on CP4 deferrals	4	5	9
Baseline adjustments	-	221	221
Capitalised financing on Baseline adjustments	-	5	5
Adjustments to DfT funding	(157)	-	(157)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(11)
Other adjustments	25	25	50
Capitalised financing on other adjustments	1	2	3
Adjusted PR13 determination (enhancements)	3,028	3,143	6,171
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(366)	(322)	(688)
Capitalised financing on acceleration / (deferrals) of expenditure	(8)	(23)	(31)
Adjustments for efficient overspend	73	20	93
Capitalised financing on efficient overspend	2	4	6
25% retention of efficient overspend	(18)	(5)	(23)
Capitalised financing of 25% efficient overspend	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
agreements	67	159	226
agreements - retention of efficient overspend	(11)	(39)	(50)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	6
Adjustments for efficient overspend through spend to save framework	5	(5)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	1	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,772	2,937	5,709
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	125	213	338
overspend	(15)	-	(15)
Capitalised financing on non-PR13 enhancements expenditure	2	9	11
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	112	222	334
Total enhancements (added to the RAB - see statement 2a)	2,884	3,159	6,043
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	2	1	3
Adjustment for retention of efficient overspend	45	43	88
Other adjustments	19	10	29
Adjustment for retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	479	314	793
Other adjustments	-	-	-
Total actual enhancement expenditure (see statement 3)	3,429	3,527	6,956

Statement 2b: RAB - reconciliation of expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.

Statement 2b: RAB - reconciliation of expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes. Therefore, the amounts included in the previous year have been reversed this year so that there the balance in the control period to date only relates to Scotland programmes (as these were outside of the scope of the Hendy review).
- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes relating to the Scotland route (which continues to use the ECAM principles, with differences to the PR13 allowances also included in this baseline adjustments heading) and programmes with their own protocol (such as Thameslink and Crossrail).
- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.
- (12) Enhancements – Other adjustments – the amount in the year and the control period to date reflect changes in the baseline funding where the determination erroneously reduced both renewals and enhancement baselines for expected track renewals savings arising from the implementation of an enhancement programme.
- (13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the agreed outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5.
- (15) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (17) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.

Statement 2b: RAB - reconciliation of expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (18) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (19) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the element of the overspend that Network Rail retained in 2014/15 which has been reversed in the current year to reflect the latest control period plans for this category of investment.
- (20) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (21) Non-PR13 enhancements – Other adjustments (including discretionary investment) – expenditure this year mainly relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, Great Britain

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	18	26	8	27	27	-
Stations - National Station Improvement Programme (NSIP)	20	8	(12)	30	37	7
Stations - Access for All (AfA)	31	(1)	(32)	60	62	2
Development	38	94	56	99	125	26
Level crossing safety	19	27	8	31	50	19
Passenger journey improvement	6	(58)	(64)	7	8	1
The strategic rail freight network	24	16	(8)	87	89	2
Scottish stations fund	-	7	7	3	15	12
Scottish strategic rail freight investment fund	(1)	7	8	2	13	11
Scottish network improvement fund	11	12	1	13	26	13
Future network development fund	2	2	-	2	4	2
Total funds	168	140	(28)	361	456	95
Committed projects						
Thameslink	471	409	(62)	976	856	(120)
Crossrail	504	523	19	909	964	55
GW electrification (Paddington to Cardiff)	590	609	19	889	860	(29)
Adjustment for DfT funding - GW electrification	-	-	-	(74)	(74)	-
Bridgend to Swansea electrification	8	12	4	13	14	1
East West Rail (committed scheme)	16	130	114	160	165	5
Northern Hub	243	323	80	410	412	2
IEP Programme	56	37	(19)	127	143	16
North Trans Pennine Electrification East	10	(41)	(51)	26	24	(2)
North Trans Pennine Electrification West	(3)	(17)	(14)	-	-	-
NW Electrification	(39)	(99)	(60)	(3)	-	3
Reading station area redevelopment	23	19	(4)	132	137	5
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(83)	(83)	-
Stafford area improvement scheme	86	78	(8)	139	130	(9)
West coast power supply upgrade	57	48	(9)	113	115	2
Edinburgh Glasgow Improvements Programme (EGIP)	-	-	-	9	16	7
Electrification of Springburn to Cumbernauld	-	-	-	-	-	-
Edinburgh Glasgow Improvements Programme (EGIP)	162	62	(100)	217	134	(83)
Edinburgh to Glasgow Electrification	-	-	-	7	39	32
Edinburgh Gateway Station	-	-	-	-	-	-
Edinburgh Glasgow Improvements Programme (EGIP)	10	87	77	30	160	130
Infrastructure Projects	20	18	(2)	184	178	(6)
Border Railway Project	20	18	(2)	184	178	(6)
Total committed projects	2,214	2,198	(16)	4,181	4,190	9
Named schemes						
The Electric Spine:						
MML electrification	50	29	(21)	103	97	(6)
Derby station area remodelling	4	7	3	7	7	-
Electric spine (DfT SoFA amount)	47	70	23	70	78	8
Total Electric Spine	101	106	5	180	182	2
Thames Valley:						
Acton to Willesden electrification (WCML)	1	(5)	(6)	1	2	1
Thames Valley branches	1	-	(1)	1	2	1
Oxford Station area capacity and station enlargement	8	9	1	12	10	(2)
Total Thames Valley	10	4	(6)	14	14	-
Midlands						
Walsall to Rugeley electrification	16	24	8	32	40	8
Total Midlands	16	24	8	32	40	8
Yorkshire						
Huddersfield station capacity improvement	2	-	(2)	2	-	(2)
Total Yorkshire	2	-	(2)	2	-	(2)

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	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Airports & ports:						
Western access to London Heathrow Airport	5	2	(3)	7	8	1
Service Improvements in the Ely Area	1	1	-	1	2	1
Redhill additional platform	4	3	(1)	5	5	-
Total Airports & ports	10	6	(4)	13	15	2
South East						
Waterloo	40	36	(4)	48	37	(11)
Total South East	40	36	(4)	48	37	(11)
West						
Dr Days to Filton Abbey Wood capacity improvements	12	6	(6)	16	12	(4)
Bristol Temple Meads passenger capacity (incl. Digby Wyat	1	(3)	(4)	1	-	(1)
Total West	13	3	(10)	17	12	(5)
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	12	74	62	18	113	95
Rolling programme of electrification (Scotland)	26	37	11	55	49	(6)
Carstairs journey time improvements	(2)	1	3	-	1	1
Highland main line journey time improvements (phase 2)	2	36	34	3	70	67
Motherwell area stabling	-	3	3	-	5	5
Motherwell resignalling enhancements	-	1	1	-	2	2
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland	38	152	114	76	240	164
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(1)	(1)	-	1	1
South London HV traction power upgrade	1	(3)	(4)	2	1	(1)
West Anglia main line capacity increase	5	5	-	7	5	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	3	1	4	4	-
West of England DMU capability works	1	(4)	(5)	1	1	-
East Kent resignalling phase 2	17	23	6	42	54	12
Stevenage and Gordon Hill turnbacks	2	2	-	3	3	-
Reading, Ascot to London Waterloo train lengthening	3	2	(1)	4	3	(1)
Uckfield line train lengthening	13	12	(1)	14	13	(1)
MML long distance high speed services train lengthening	1	-	(1)	2	3	1
Route gauge Clearance for different EMUs	2	(1)	(3)	4	2	(2)
Bradford Mill Lane capacity	1	1	-	1	1	-
Leeds station capacity	-	(3)	(3)	-	-	-
Chiltern Main Line Train Lengthening	8	11	3	14	12	(2)
North West train lengthening	-	(3)	(3)	-	-	-
New Cross Grid	1	(12)	(13)	3	3	-
Anglia traction power supply upgrade	4	-	(4)	7	7	-
Sussex traction power supply upgrade	4	-	(4)	5	5	-
Wessex traction power supply upgrade	9	17	8	14	21	7
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	7	5	(2)	10	11	1
LNE routes traction power supply upgrade	-	(16)	(16)	-	1	1
Total HLOS capacity metric schemes:	81	38	(43)	138	152	14
Third party funded						
Welsh Valley lines electrification	-	(8)	(8)	2	2	-
Total Third Party funded	-	(8)	(8)	2	2	-

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	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
CP4 Project Rollovers						
Birmingham New St Gateway	58	140	82	158	209	51
Bromsgrove Elec - Midlands Improvements Programme	8	9	1	15	14	(1)
Redditch Branch Enhancement	-	1	1	17	17	-
Kent power supply upgrade (CP4)	16	28	12	54	54	-
Barry - Cardiff Queen Street corridor	2	-	(2)	13	13	-
Capacity relief to the ECML	-	(7)	(7)	73	74	1
North Doncaster Chord	-	(2)	(2)	-	-	-
East Coast mainline overhead electrification	-	(2)	(2)	-	-	-
DC Regeneration	-	-	-	1	1	-
Package 4, Gravesend Train Lengthening	-	-	-	-	-	-
Package 7,10 Car Park West Suburban Railway	-	4	4	15	15	-
Wessex Automatic Selective Door Opening	1	2	1	2	2	-
Battersea Park Station Planform Lengthening	-	(1)	(1)	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	2	(2)	(4)	23	16	(7)
Westerleigh Junction - Barnt Green linespeed increase	-	-	-	-	-	-
Station Security	-	(2)	(2)	-	-	-
Other CP4 Rollover	6	6	-	6	6	-
Total CP4 rollovers	93	174	81	382	427	45
Other projects						
Seven day railway projects	27	37	10	44	49	5
ERTMS Cab fitment	10	18	8	19	26	7
R&D allowance	5	6	1	8	16	8
Depots and stabling	44	71	27	62	71	9
Income generating property schemes	118	178	60	216	228	12
Other income generating investment framework schemes	-	(32)	(32)	-	8	8
Total other projects	204	278	74	349	398	49
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	2,990	3,151	161	5,795	6,165	370
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	24	-	(24)
NHub Huyton & Roby	(21)	-	21	-	-	-
DNOs clearance work	3	-	(3)	12	-	(12)
OCSLNE SCPF Newcastle Station	-	-	-	19	-	(19)
Tram Train Project	(5)	-	5	-	-	-
NW Electrification	79	-	(79)	79	-	(79)
Borders New Railway	10	-	(10)	10	-	(10)
Other government sponsored schemes	13	-	(13)	23	-	(23)
Total Government sponsored schemes	79	-	(79)	167	-	(167)
Network Rail spend to save schemes						
Mountfield	4	-	(4)	30	-	(30)
Other spend to save schemes	1	-	(1)	1	-	(1)
Total Network Rail spend to save schemes	5	-	(5)	31	-	(31)
East West Rail (committed scheme)	131	-	(131)	131	-	(131)
Other	(2)	-	2	9	-	(9)
Total Schemes promoted by third parties	129	-	(129)	140	-	(140)
Discretionary Investment	10	-	(10)	30	-	(30)
Total non PR13 enhancement expenditure	223	-	(223)	368	-	(368)
Total Network Rail funded enhancements (see Statement 1)	3,213	3,151	(62)	6,163	6,165	2
Third Party PAYG	314	-	(314)	793	-	(793)
Total enhancements (see statement 2b)	3,527	3,151	(376)	6,956	6,165	(791)

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Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those relating to the Scotland route and programmes with their own protocol (such as Thameslink and Crossrail). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.
- (2) The baseline for projects that are not subject to the Hendy review, such as Scotland enhancements programmes, have been updated to reflect the latest level of funding agreed with the regulator. This will incorporate changes arising through the ECAM (Enhancements Cost Adjustment Mechanism) process or from other agreed funding alterations.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £3,213m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,527m less the PAYG schemes funded by third parties (£314m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.

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- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was slightly lower than the determination in this year and is much lower for the control period to date. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses. Part of this fund is in Scotland where the Hendy baseline did not apply. The same pattern follows in Scotland that there is an underspend in the year and control period to date.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
 - (h) Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. There has been minimal expenditure on this fund in the year and control period to date. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (i) Scottish strategic Rail Freight Investment Fund - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. There has been minimal expenditure on this fund in the year and control period to date. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (j) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was on target with the determination but is below target for the control period to date. Work has been re-profiled to later years of the control period.
 - (k) Future network development fund – this fund is to finance or support the development of proposals for strategic interventions to improve the capacity and capability of the Scottish network in CP6 and beyond. As expected, expenditure to date has been less than the regulator assumed with a ramp up of work planned as CP6 draw nearer and plans become sharper.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and control period to date is higher than the determination which is mostly due to underperformance. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) 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. Expenditure is less than the regulator's determination in the year and control period to date due to re-profiling of work to future years. However this was offset by negative financial performance in the year (reported in Statement 5a) as the total programme is now expected to cost more than the baseline. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (c) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is slightly higher than the baseline due to acceleration of activity into the current year. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).

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- (d) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (e) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably lower than the baseline in the year due to a reclassification of spend to 'Non PR-13'. This is partially off-set by financial underperformance on this programme (refer to Statement 5a) due to increases in the expected final costs of the programme which have arisen after the baseline was revised as part of the aforementioned Hendy review.
- (f) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Although costs in the control period to date are broadly consistent the baseline the project is now expected to cost more than the baseline included in the Hendy review. Therefore, negative FPM has been recognised in the current year (refer to Statement 5a).
- (g) IEP Programme - the outputs of this includes an infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is slightly lower than the baseline as activity has been re-profiling into future years. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
- (h) North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is broadly in line with the baseline.
- (i) North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is broadly in line with the baseline. The credit balance recognised in the current year is due to a reclassification of investment reported in 2014/15 into North Trans Pennine Electrification East.
- (j) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The credit balance reported in the current year represents a change in funding agreed with DfT and many of the programme costs are now included in the Government Sponsored Schemes section of this statement. The credit position on the control period to date represents reclassifications relating to expenditure undertaken on this programme in previous control periods to the Government Sponsored Schemes category.
- (k) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. As this programme nears completion the expected costs for delivering the whole programme have decreased, as tight cost control has allowed the release of project contingencies. As a result, there is a saving against baseline and recognition of financial outperformance (see Statement 5a).
- (l) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (m) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. The programme has spent slightly more than the baseline but this is due to work being brought forward from later in the control period.
- (n) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Costs are in line with the baseline. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).

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- (o) Edinburgh Glasgow Improvements Programme - 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. Network Rail's internal targets assumed a different profile of programme deliver to that in the PR13, so there is a small overspend compared to the regulator's allowance in the year but an underspend in the control period to date. However financial underperformance has been recognised this year due to increases in the expected final costs of the programme (refer to Statement 5a). Consequently, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (p) Border Railway Project - This project will provide a new rail route between Newcraighall and Tweedbank with 7 new stations to permit operation of a half hourly passenger service. There has been a slight overspend in the year and control period to date which is consistent with increases in the anticipated final costs of the programme compared to the baseline so some minor financial underperformance has been recognised this year (refer to Statement 5a).
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is slightly higher than the baseline for the control period to date as activity has progressed more swiftly than expected.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the control period to date is consistent with the baseline.
 - (c) Electric Spine – this fund is used to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is slightly lower than the baseline as elements of the programme have been deferred into future years.
 - (d) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (e) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to complement the GW Electrification programme in the Western route. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (f) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along on the Oxford Corridor. Expenditure is very slightly higher than the baseline.
 - (g) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years.
 - (h) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Work at this stage in the control period is slightly ahead of plan. Activity on this project is expected to ramp up over the later years of the control period.
 - (i) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.

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- (j) Service Improvements in the Ely Area - this project is to develop a scheme which improves capacity in the Ely area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. Progress on this project is in line with the Hendy review expectations.
- (k) Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations.
- (l) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. There has been an update to the anticipated project costs since the baselines were re-set as part of the aforementioned Hendy review which has been partially offset by deferral of activity into later years. Consequently, financial underperformance has been acknowledged this year (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (m) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is slightly higher than the baseline due to work being brought forward from future years.
- (n) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first two years of the control period.
- (o) Aberdeen to Inverness journey time improvements and other enhancements - This project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure in the year was and the control period to date much lower than the regulator's assumption but was close to what Network Rail planned as the plan is to deliver this later on in the five year cycle.
- (p) Rolling programme of electrification (Scotland) - This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been lower than the regulator assumed for the year but slightly higher for control period to date. Financial underperformance has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (q) Carstairs journey time improvements – This project will deliver infrastructure enhancements to permit W12 freight gauge traffic to operate between Temple Hirst Junction and Carstairs improving overall network availability. There has been no expenditure in the control period to date.
- (r) Highland main line journey time improvements (phase 2) - This project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. In line with Network Rail's internal plan there was minimal activity on this programme in the first two years of the control period.
- (s) Motherwell area stabling - this project will electrify the remaining 'back of Shops' sidings to permit the stabling of additional EMUs at Motherwell required by the electrification with a longer term target to consolidate all stabling at Motherwell on one site with appropriate cleaning and servicing facilities. In line with Network Rail's own internal plan, there has been limited activity on this project in the early years of the control period compared to the regulatory assumption included in the final determination.
- (t) Motherwell resignalling enhancements – this project is designed to improve the signalling layout and capacity on the down Shotts Line between Carfin and Holytown Junction; and Midcalder Jn which is now linked to the Shotts three-aspect project. In line with Network Rail's own internal plan, there has been limited activity on this project in the early years of the control period compared to the regulatory assumption included in the final determination.
- (u) Edinburgh South Suburban Electrification - in line with Network Rail's own internal plan and the regulatory assumption, there has been limited activity on this project in the early years of the control period.

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- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Leeds and Sheffield Capacity – This project Provides additional capacity at Leeds Station and a programme of platform extensions to allow longer trains to operate on a number of routes in West and South Yorkshire into Leeds and Sheffield. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period.
 - (b) South London HV traction power upgrade - The key aim of this project is 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, Sussex and Kent Routes. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period. Following the Hendy review completion of the first stage of the project will now happen in control period 6.
 - (c) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure was very slightly higher than the baseline.
 - (a) Bow Junction upgrade with Chelmsford & Wickford turnbacks – Overcrowding on the Chelmsford and Southend Victoria routes is reduced by optimising capacity released on the Electric Lines into Liverpool Street following diversion of most peak suburban services through the Crossrail tunnel from 2019. The project comprises performance improvements, upgrade of Bow Junction and provision of turnbacks in the Chelmsford and Wickford areas. Expenditure in the control period to date is consistent with the baseline arising from the Hendy review.
 - (b) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Hendy review baselines there was minimal activity on this programme in the first two years of the control period.
 - (c) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure was lower than the baseline due to re-scheduling of work in the project since the Hendy Review.
 - (d) Stevenage and Gordon Hill turnbacks - this project was planned to deliver the capacity metric into Moorgate and King's Cross providing for efficient use of suburban rolling stock by allowing services to turnback at Stevenage and Gordon Hill hence providing efficient resourcing for peak capacity on Inner Suburban services into King's Cross and Moorgate. As part of the Hendy review the Gordon Hill turnback has been deferred until descoped and will be considered as part of the funding requirements for CP6. Expenditure was consistent with the baseline included in the Hendy Review.
 - (e) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure was broadly consistent with the baseline included in the Hendy Review for the control period to date.
 - (f) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure is on target with the baseline.
 - (g) MML long distance high speed services train lengthening - The project will relieve overcrowding by enabling the introduction of longer trains on the MML. In line with the baselines in the Hendy review there was minimal activity on this programme in the first two years of the control period. The project has been pushed towards the end of the control period following the outcome of the Hendy Review.
 - (h) Route gauge Clearance for different EMUs – expenditure is slightly higher than the revised baseline which was agreed as part of the Hendy review due to acceleration of activity from future years.

Statement 3: Analysis of enhancement capital expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (i) Bradford Mill Lane capacity – this programme is designed to provide parallel moves at Bradford interchange to/from Leeds and Halifax to support improvements in the North Yorkshire area. There has been minimal activity on this project in the opening years of this control period, in line with the expectation in the baseline agreed following the Hendy review.
 - (j) Leeds station capacity – This project enhances capacity in the Leeds area. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
 - (k) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are slightly higher than target as work has been accelerated from future years.
 - (l) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
 - (m) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure was consistent with the baseline over the first two years of the control period.
 - (n) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure was on target with the baseline.
 - (o) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic Thameslink Programme. Expenditure was on target with the baseline.
 - (p) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure is lower than the baseline due to delays in project delivery that have arisen since the baseline was agreed following the Hendy review.
 - (q) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.
 - (r) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is broadly on target with the baseline.
 - (s) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. . In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
- (9) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.

Statement 3: Analysis of enhancement capital expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

(10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:

- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but this has been treated as neutral when assessing financial performance.
- (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. This project was re-scheduled following the Hendy Review so has had its commissioning pushed back to later in the control period. However financial underperformance has been recognised (refer to Statement 5a) due to the increased costs following the delay. As a result of this financial underperformance, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (c) Redditch Branch Enhancement - This project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (d) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure was on target with the revised baseline for the control period to date.
- (e) Barry - Cardiff Queen Street corridor – This project will deliver an increase in south Wales's valley line services from 12 trains per hour to 16 trains per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (f) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was in line with the baseline and the programme is largely completed.
- (g) North Doncaster Chord - The scheme was planned to allow an increase in passenger and freight services on the East Coast Main Line (ECML) by removing a significant number of existing freight services between Joan Croft junction and Hambleton South junction and re-routing these via a more direct route. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
- (h) East Coast mainline overhead electrification - The key output is a reduction of delay minutes to support delivery of the route performance as part of CP4/5 Long Term Performance Plan (LTPP). The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
- (i) DC generation - To complete the scheme that enables DC regenerative braking to be introduced on all DC electrified routes in Wessex. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (j) Package 4, Gravesend Train Lengthening – This project will facilitate the operational plan assumed with train operators to deliver the CP4 HLOS capacity metric by supporting 12 car operations on specific services between Gillingham and Gravesend. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.

Statement 3: Analysis of enhancement capital expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (k) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (l) Wessex Automatic Selective Door Opening – This project aims to provide the necessary infrastructure to facilitate the operational plan assumed with train operators to deliver CP4 HLOS capacity metrics. The project will facilitate operation of 10 car suburban trains on the Wessex Windsor Line network. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (m) Battersea Park Station Platform Lengthening – This project was planned to increase capacity at the station. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (n) Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure on this element of the programmes in line with the Hendy baseline and is substantially complete.
 - (o) East Croydon Passenger Capacity Scheme - Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (p) MML Linespeed Improvements – this project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (q) Westerleigh Junction - Barnt Green linespeed increase - This enhancement will provide a linespeed increase to 100mph for the majority of the route, resulting in increased performance robustness. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (r) Station Security – This programme planned to deliver enhanced vehicle access control arrangements across key franchised stations. As part of the Hendy review, the phasing of this project was amended. Expenditure in the control period to date is in line with this new phasing.
 - (s) Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure is in line with the baseline agreed following the Hendy review.
- (11) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is below target due to reprofiling of activity into future years.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was rephased from the current control period to CP6. Therefore the expenditure is below the regulator's determination for the year and control period to date.

Statement 3: Analysis of enhancement capital expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. The expenditure for the control period is below the target as work has been reprofiled until later years of the control period.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail have to make based on the cash constraints facing the business this control period.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline. The remaining baseline in the control period to date refers to the Scotland element of the regulatory fund. The Hendy review only extended to England & Wales schemes and so the Scotland enhancements allowance remain in line with the regulatory determination.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was NW Electrification which included the reclassification of expenditure included in the PR13 funded element of the NW Electrification programme into the Government sponsored category. Similarly, last year, Northern Hub Huyton & Roby was included as a Government sponsored scheme not, as agreed with the DfT, this expenditure now forms part of the PR13-funded scope under the Northern Hub programme. Also, the Tram Train Pilot expenditure undertaken in 2014/15 has now been cash funded this year, thus reducing the Government sponsored expenditure but increasing PAYG.
 - (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in previous years and so there is limited cost this year. Also, there were no other similarly large schemes undertaken this year by Network Rail and so the investment in this category is lower than the previous year.
 - (c) Schemes promoted by third parties – the item in this category which accounts for the vast majority of the expenditure was East West Rail Phase 1. This was re-classified from the PR13 expenditure discussed above. The expenditure on this scheme is much higher than anything else in the control period to date.
 - (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and in the prior year to CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). The extra costs on Manchester Victoria results in financial underperformance (refer to Statement 5).
 - (e) PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Significant programmes in this category in the current year include: Crossrail, and North-South Wales Journey Time Reduction. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Great Britain

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	36,505	36,393	(112)			
Adjustment for opening control period debt	-	(575)	(575)			
Opening net debt	36,505	35,818	(687)	32,300	31,667	(633)
Income						
Grant income	(4,282)	(4,216)	66	(8,446)	(8,353)	93
Fixed charges	(367)	(345)	22	(807)	(770)	37
Variable charges	(1,104)	(1,141)	(37)	(2,170)	(2,164)	6
Other single till income	(829)	(860)	(31)	(1,605)	(1,660)	(55)
Total income	(6,582)	(6,562)	20	(13,028)	(12,947)	81
Expenditure						
Network operations	538	436	(102)	1,027	881	(146)
Support costs	394	471	77	811	960	149
Traction electricity, industry costs and rates	581	619	38	1,142	1,139	(3)
Network maintenance	1,248	1,136	(112)	2,434	2,279	(155)
Schedule 4	257	227	(30)	456	440	(16)
Schedule 8	106	4	(102)	215	8	(207)
Renewals	3,077	2,724	(353)	6,026	5,349	(677)
PR13 enhancement	2,990	3,090	100	5,766	6,018	252
Non-PR13 enhancement	223	-	(223)	366	-	(366)
Total expenditure	9,414	8,707	(707)	18,243	17,074	(1,169)
Financing						
Interest expenditure on nominal debt - FIM covered	345	558	213	843	1,089	246
Interest expenditure on index linked debt - FIM covered	239	263	24	479	511	32
Expenditure on the FIM	326	412	86	687	787	100
Interest expenditure on government borrowing	275	-	(275)	367	-	(367)
Interest on cash balances held by Network Rail	(9)	(16)	(7)	(20)	(26)	(6)
Total interest costs	1,176	1,217	41	2,356	2,361	5
Accretion on index linked debt - FIM covered	224	542	318	447	1,052	605
Total financing costs	1,400	1,759	359	2,803	3,413	610
Corporation tax	-	-	-	(4)	4	8
Other	(559)	-	559	(136)	511	647
Movement in net debt	3,673	3,904	231	7,878	8,055	177
Closing net debt	40,178	39,722	(456)	40,178	39,722	(456)

B) Analysis of the movement in Network Rail's net debt

(£m, nominal prices)	2015-16 £m	2014-15 £m
Increase in net debt	3,673	4,205
Represented by:		
New debt issued		
Market issued debt	-	-
Borrowing from government	7,500	6,450
Accretion on index linked debt	224	223
Debt repaid	(3,070)	(2,378)
Decrease in net cash balances	(961)	246
Other	(20)	(336)
Increase in net debt	3,673	4,205

Statement 4: Net debt and financial ratios, Great Britain - continued

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	As at 31 March 2015-16		As at 31 March 2014-15	
	£m	% of total borrowing	£m	% of total borrowing
Market issued debt				
Nominal borrowings (GBP)	5,642	13%	7,497	20%
Nominal borrowings (Foreign currency)	4,727	11%	5,942	16%
Total nominal borrowings	10,369	25%	13,439	36%
Index linked borrowings (GBP)	17,608	42%	17,405	47%
Borrowing from government	13,950	33%	6,450	17%
Total regulatory borrowings	41,927	100%	37,294	100%
Uncleared cash items	-		-	
Obligations under finance lease	-		-	
Net cash balances	(1,750)		(789)	
Regulatory net debt as at 31 March 2016	40,178		36,505	

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.93	0.89	1.03
FFO/interest	2.95	2.94	3.01
Net debt/RAB (gearing)	68.8%	70.3%	71.3%
FFO/debt	9.6%	8.6%	9.2%
RCF/debt	6.3%	5.7%	6.2%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

E) Debt Maturity

(£m, nominal prices)	2015	2016
On demand or within one year	2,280	655
Due within one to two years	2,393	3,159
Due within two to five years	8,151	13,893
Due in more than five years	23,681	22,470
Total debt	36,505	40,177

Statement 4: Net debt and financial ratios, Great Britain – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt has increased by £3.7bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.2bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt. However, these have been more than offset by lower than expected interest costs, favourable working capital movements and extra income meaning that the difference in debt at the start of the control period of £0.5bn has been reduced to £0.2bn by the end of 2015/16.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Great Britain – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these type of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
 - b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
 - c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
 - d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
 - e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.
- (12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The reduction in debt this year as a result of these movements more than offsets the increases in debt that occurred in 2014/15. The control period to date movement is significantly different to the regulator's assumption which anticipated £0.5bn of working capital decreases in the control period.
- (13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Great Britain – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Network maintenance costs partly offset by savings in Support costs and interest cost savings. The slight decline in this ratio compared to the previous year is a net combination of factors which have contributed to higher operating costs partly offset by higher income and lower interest expense. These variances are addressed in more detail in other statements of these Regulatory financial statements.

(17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines May 2016, in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio. The ratio is higher than the previous year. The size of the increase is in line with the regulator's assumptions and is expected to continue for the rest of the control period as both components of the calculation are increasing at the same absolute value.

Statement 4: Net debt and financial ratios, Great Britain – continued

in £m nominal unless otherwise stated

- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction. The decline in the ratio in 2015/16 compared with the previous year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8.
- (19) Debt maturity – section E) of this statement is included in the Regulatory financial statements for the first time this year. This table shows that most of Network Rail's debt is repayable in more than five years. As an infrastructure it makes sense to have a stable view of cashflows and so such long-dated arrangements significantly reduce exposure to short-term financial markets, which are subject to greater turbulence. The amount, in both absolute and proportionate terms, of debt items with a maturity of more than five years has decreased compared to the previous year. This is because the DfT borrowings (which will come to represent a higher percentage of debt as the control period progresses) are all repayable within the control period. This accounts for the noticeable increase in the debt within the two to five years category this year. Debt due within one year is lower than the previous year as a lower value of bond instruments are due to mature in 2016/17. In addition, Network Rail had more cash assets at the end of this year compared to the previous year (as shown in section C) of this statement).

Statement 5a: Total financial performance, Great Britain

in £m 2015-16 prices unless stated

2015-16

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	4,282	4,216	66	66	-	-	-	-
Fixed Income	367	345	22	21	-	-	1	1
Variable Income	822	807	15	-	-	-	15	15
Other Single Till Income	829	860	(31)	(55)	-	-	24	24
Opex memorandum account	18	-	18	7	-	-	11	11
Total Income	6,318	6,228	90	39	-	-	51	51
Expenditure								
Network operations	538	436	(102)	-	-	-	(102)	(102)
Support costs	394	471	77	15	-	-	62	62
Industry costs and rates	272	257	(15)	(3)	-	-	(12)	(12)
Traction electricity	26	25	(1)	-	-	-	(1)	(1)
Reporter's fees	1	3	2	-	2	-	-	-
Network maintenance	1,248	1,136	(112)	-	(8)	-	(104)	(104)
Schedule 4 costs	257	227	(30)	-	34	-	(64)	(64)
Schedule 8 costs	106	4	(102)	-	-	-	(102)	(102)
Renewals	3,077	2,724	(353)	-	579	-	(932)	(233)
PR13 Enhancements	2,990	3,151	161	-	340	-	(179)	(44)
Non PR13 Enhancements	223	-	(223)	-	(223)	-	-	-
Financing Costs	1,400	1,759	359	359	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	10,532	10,193	(339)	371	724	-	(1,434)	(600)
Total:			(249)	410	724	-	(1,383)	(549)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(549)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(101)
Under-delivery of train performance requirements (CaSL)								(28)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(129)
Total financial out / (under) performance to be recognised								(678)

Statement 5a: Total financial performance, Great Britain - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E- F	Financial out / (under) performance H = G or H = G*25%
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	8,490	8,396	94	94	-	-	-	-
Fixed Income	812	775	37	37	-	-	-	-
Variable Income	1,621	1,599	22	-	-	-	22	22
Other Single Till Income	1,613	1,668	(55)	(87)	-	-	32	32
Opex memorandum account	18	-	18	(3)	-	-	21	21
Total Income	12,554	12,438	116	41	-	-	75	75
Expenditure								
Network operations	1,032	886	(146)	-	-	-	(146)	(146)
Support costs	815	965	150	38	-	-	112	112
Industry costs and rates	543	518	(25)	(3)	-	-	(22)	(22)
Traction electricity	43	44	1	-	-	-	1	1
Reporter's fees	2	6	4	-	4	-	-	-
Network maintenance	2,446	2,290	(156)	-	28	-	(184)	(184)
Schedule 4 costs	458	442	(16)	-	42	-	(58)	(58)
Schedule 8 costs	216	8	(208)	-	-	-	(208)	(208)
Renewals	6,057	5,377	(680)	-	1,004	-	(1,684)	(421)
PR13 Enhancements	5,795	6,165	370	-	684	-	(314)	(72)
Non PR13 Enhancements	368	-	(368)	-	(349)	-	(19)	(19)
Financing Costs	2,818	3,413	595	595	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(4)	4	8	-	8	-	-	-
Total Expenditure	20,589	20,118	(471)	630	1,421	-	(2,522)	(1,017)
Total:			(355)	671	1,421	-	(2,447)	(942)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(942)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(172)
Under-delivery of train performance requirements (CaSL)								(49)
Missed Enhancement milestones								(6)
Total adjustment for under-delivery outputs								(227)
Total financial out / (under) performance to be recognised								(1,169)

Statement 5a: Total financial performance, Great Britain - continued

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
			Variance not included in total financial performance			Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13		Actual	Adjusted PR13	
Adjustments for external traction electricity income	(282)	(334)	52	(560)	(576)	16
Total variance not included in total	(282)	(334)	52	(560)	(576)	16
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	-	50	(50)	-	81	(81)
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	2	(2)
Total variance not included in total	-	51	(51)	-	83	(83)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	12	-	12	12	-	12
Spend to save adjustment	3	-	3	3	-	3
Release of CP4 long distance financial penalty provision	-	-	-	23	-	23
Total variance not included in total	15	-	15	38	-	38
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	282	334	(52)	560	576	(16)
Total variance not included in total	282	334	(52)	560	576	(16)

Statement 5a: Total financial performance, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures of financial performance used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance. Fixed income also includes amounts payable or receivable under alliancing agreements. An alliancing arrangement was in place in the Wessex route to incentivise collaborative working to deliver mutual benefits. Any alliancing payments (or receipts) fall within the scope of FPM and so the impact of this is included in the FPM calculation. The marginal outperformance reported this year negates the marginal underperformance reported in 2014/15.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand, continuing the trend of the previous year. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of additional property sales and rental income compared to the regulator's expectations partly offset by a substantial decrease in the freight traffic (largely driven by demand for coal transportation).

Statement 5a: Total financial performance, Great Britain – continued

in £m 2015-16 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate as well as expectations about efficiencies that could be achieved this control period. The regulator's determination assumed that Network Rail would exit the control period with a lower cost base. However, as efficiencies that were expected to occur in the final years of CP4 did not materialise, Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for this control period was always going to be unlikely. In addition, Network Operations costs in 2014/15 were much higher than the regulator's expectations, meaning that financial underperformance in 2015/16 was highly probable. In addition, this year Network Rail had additional costs relating to higher signaller costs as assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher due to extra investment in projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, there are also extra costs due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (7) Support costs – costs are lower than the PR13 assumption largely as a net result of non-recurring transactions, including contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes, lower re-organisation costs, reduction in performance related pay to senior staff, favourable settlement of commercial claims as well as from some efficiencies achieved throughout the various functions that comprise Support costs. Not all of the favourable variance to the PR13 allowance has been classified as financial outperformance. During the year, Network Rail recognised some income received from agreeing restructuring to restructuring of financing arrangements. However, as this change in financing results in higher interest expenses (which are excluded from the scope of FPM) this benefit has also been excluded. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the prior year not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a release of some for the provision. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this was not been counted as financial outperformance. Similarly, when the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual.

Statement 5a: Total financial performance, Great Britain – continued

in £m 2015-16 prices unless stated

- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. Once more, these net costs are broadly in line with the regulatory assumption.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved with ORR. Underlying Network maintenance costs are notably higher than the determination this year. This is a continuation of the trend witnessed in the first year of the control period when negative FPM was reported. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. In addition, following a decision made by the Office for National Statistics Network Rail is now included within the accounts of the government which has led to changes in the way the company is financed, resulting in cash constraints this control period. Consequently, renewals expenditure plans have been revised resulting in lower levels of activity which, in turn, has necessitated more maintenance activity to keep the assets at the required condition. Financial underperformance in the control period is driven by a combination of the above factors and from the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas in 2014/15 to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs financial outperformance in 2014/15.
- (12) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). This financial underperformance includes the impact of weather events damaging the network, necessitating possessions to undertake the required remediation works. This includes significant incidents at Lamington viaduct in Scotland and Dover sea wall at Kent which both led to lengthy possessions.
- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. This is largely due to worse than expected schedule 8 costs last year reflecting train performance in 2014/15. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. The determination assumed PPM (industry measure of passenger train lateness) of 92.1 per cent in England & Wales in 2015/16 compared to actual PPM of 88.9 per cent. Consequently, schedule 8 compensation payments to operators have been higher than ORR assumed.

Statement 5a: Total financial performance, Great Britain – continued

in £m 2015-16 prices unless stated

- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.
- (18) Corporation tax – no Corporation tax payments (or receipts) have been made this year. Whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in 2014/15 will remain throughout the control period. Given this uncertainty, no FPM has been recognised so far this control period and the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality targets for both England & Wales and Scotland were missed in 2015/16, continuing the trend from the first year of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.1 per cent was missed by and £0.25m (cash prices) for every 0.1 per cent that Scotland PPM target of 92.0 per cent was missed by. The ORR's target for England & Wales PPM was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in 2014/15 and ever more traffic on the network.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for 2014/15. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output was missed by. The regulator's target of 2.2 per cent was considerably lower than Network Rail's own Business Plan for 2015/16.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there were no missed outputs this year which impacted customer outputs.

Statement 5b: Total financial performance - renewals variance analysis, Great Britain

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(274)	42	(316)	(79)		(73)	(6)	-
Signalling	145	425	(280)	(70)		(74)	4	-
Civils	(146)	70	(216)	(54)		(32)	(22)	-
Buildings	(33)	23	(56)	(14)		(11)	(3)	-
Electrical power and fixed plant	80	128	(48)	(12)		(3)	(9)	-
Telecoms	43	51	(8)	(2)		(1)	(1)	-
Wheeled plant and machinery	28	28	-	-		-	-	-
IT	(41)	(41)	-	-		-	-	-
Property	15	15	-	-		-	-	-
Other renewals	(170)	(162)	(8)	(2)		3	(5)	-
Total	(353)	579	(932)	(233)		(191)	(42)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(415)	249	(664)	(166)		(157)	(9)	-
Signalling	278	710	(432)	(108)		(103)	(5)	-
Civils	(201)	103	(304)	(76)		(43)	(33)	-
Buildings	(48)	32	(80)	(20)		(11)	(9)	-
Electrical power and fixed plant	205	293	(88)	(22)		(5)	(17)	-
Telecoms	59	75	(16)	(4)		(1)	(3)	-
Wheeled plant and machinery	121	121	-	-		-	-	-
IT	(112)	(112)	-	-		-	-	-
Property	14	18	(4)	(1)		-	(1)	-
Other renewals	(581)	(485)	(96)	(24)		(2)	(22)	-
Total	(680)	1,004	(1,684)	(421)		(322)	(99)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. More than one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes (notably Switches and Crossings) as set out in Statement 14. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. Assumptions of contractor efficiencies in the business plan have not materialised with performance issues and commercial claims exacerbating the shortfalls.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.
- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. In addition, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. Extra scope on certain jobs (such as Manchester and Liverpool stations) have added to costs.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic. In addition, a number of small overspends have materialised across a number of projects. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven costs higher.
- (7) Telecoms – financial underperformance has been reported this year, continuing the trend from the previous year. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved.

Statement 5b: Total financial performance - renewals variance analysis, Great Britain – continued

in £m 2015-16 prices unless stated

- (8) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof).

Statement 5c: Total financial performance - enhancement variance analysis, Great Britain

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(62)	2	-	(64)	(7)
GW electrification (Paddington to Cardiff)	19	3	-	16	4
East West Rail (committed scheme)	114	134	-	(20)	(5)
IEP Programme	(19)	(23)	-	4	1
Reading station area redevelopment	(4)	(16)	-	12	3
West coast power supply upgrade (EGIP)	(9)	(29)	-	20	5
Rolling programme of electrification (Scotland)	(23)	9	-	(32)	(8)
Birmingham New St Gateway	11	27	-	(16)	(4)
Package 7,10 Car Park West Suburban Railway	82	62	-	20	5
MML linespeed improvements	4	-	-	4	1
Manchester Victoria	(4)	-	-	(4)	(1)
Swindon Kemble Redoubling	(11)	-	-	(11)	(11)
Crossrail	-	(11)	-	11	11
Northern Hub	19	114	-	(95)	(32)
Waterloo	80	100	-	(20)	(5)
Other Enhancements	(4)	-	-	(4)	(1)
Other Enhancements	(255)	(255)	-	-	-
Total	(62)	117	-	(179)	(44)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(120)	11	-	(131)	(18)
GW electrification (Paddington to Cardiff)	(29)	(29)	-	-	-
East West Rail (committed scheme)	5	29	-	(24)	(6)
IEP Programme	16	16	-	-	-
Reading station area redevelopment	5	(7)	-	12	3
West coast power supply upgrade (EGIP)	2	2	-	-	-
Rolling programme of electrification (Scotland)	86	118	-	(32)	(8)
Birmingham New St Gateway	(6)	10	-	(16)	(4)
Package 7,10 Car Park West Suburban Railway	51	51	-	-	-
MML linespeed improvements	-	-	-	-	-
Manchester Victoria	(7)	1	-	(8)	(2)
Swindon Kemble Redoubling	(19)	-	-	(19)	(19)
Crossrail	(24)	(24)	-	-	-
Northern Hub	55	150	-	(95)	(32)
Sussex traction power supply upgrade	2	22	-	(20)	(5)
Waterloo	-	-	-	-	-
Other Enhancements	(11)	(7)	-	(4)	(1)
Other Enhancements	(4)	(8)	-	4	1
Total	2	335	-	(333)	(91)

Statement 5c: Total financial performance - enhancement variance analysis, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes relating to the Scotland route and programmes with their own protocol (such as Thameslink and Crossrail).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (2) GW electrification – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (3) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the current year. The reason for the increased costs since Hendy include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.
- (4) IEP programme – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (5) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies.

Statement 5c: Total financial performance - enhancement variance analysis, Great Britain – continued

in £m 2015-16 prices unless stated

- (6) West coast power supply upgrade – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (7) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting in a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs and supplementary design costs.
- (8) Rolling programme of electrification (Scotland) – underperformance has been recognised in the year due to higher programme costs arising from several structures which were originally proposed for demolition and removal that have had to be retained due to beneficiary rights and rights of way. This was augmented by unplanned changes in wire heights in stations which had to be increased to meet interoperability regulation requirements.
- (9) Birmingham New St Gateway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (10) Package 7, 10 Car Park West Suburban Railway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (11) MML linespeed improvements – some minor underperformance has been recognised this year as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (12) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This has led to negative FPM being declared in both years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance has been classified as financial underperformance.
- (13) Swindon Kemble Redoubling – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (14) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspends.

Statement 5c: Total financial performance - enhancement variance analysis, Great Britain – continued

in £m 2015-16 prices unless stated

- (15) Northern Hub – underperformance has been recognised this year following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving more costly than the expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues.
- (16) Waterloo – programme costs are expected to be higher than the expectation set out in the Hendy report. This is mostly due to additional costs across significant parts of the programme such as Waterloo International conversion, Platform 1-4 upgrade and Rail Systems. The project is still relatively near the start of its lifecycle so there is still much uncertainty about the expected final costs with many risks and opportunities present at this time.
- (17) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 6a: Analysis of income, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	4,282	4,216	66	8,490	8,396	94	4,208
Franchised track access income							
Fixed charges	367	345	22	812	775	37	445
Variable charges							
Variable usage charge	170	170	-	339	337	2	169
Traction electricity charges	282	334	(52)	560	576	(16)	278
Electrification asset usage charge	15	14	1	30	29	1	15
Capacity charge	420	409	11	832	817	15	412
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	217	214	3	420	416	4	203
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,104	1,141	(37)	2,181	2,175	6	1,077
Total franchised track access income	1,471	1,486	(15)	2,993	2,950	43	1,522
Total franchised track access and grant income	5,753	5,702	51	11,483	11,346	137	5,730
Other single till income							
Property income	348	313	35	634	606	28	286
Freight income	61	83	(22)	136	160	(24)	75
Open access income	29	28	1	56	54	2	27
Stations income	259	252	7	519	503	16	260
Facility and financing charges	51	107	(56)	105	189	(84)	54
Depots Income	66	63	3	132	127	5	66
Other income	15	14	1	31	29	2	16
Total other single till income	829	860	(31)	1,613	1,668	(55)	784
Total income	6,582	6,562	20	13,096	13,014	82	6,514

Statement 6a: Analysis of income, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is largely offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators which is largely in line with the prior year. The control period to date variance reflects the inflation differences noted above and the continued provision of additional services, notably in London North West route. Fixed charges are lower than last year but as the amount received is contractual as discussed above and is set in the determination prior year comparisons are not particularly useful. The decrease from last year is largely offset by increased government grant receipts.

Statement 6a: Analysis of income, Great Britain – continued

in £m 2015-16 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are slightly higher than the previous year largely due to the increases in wholesale electricity prices. This increase has been partly offset by unfavourable settlement of commercial claims. As the regulator assumed a high increase in prices the current year there is now an adverse variance in the control period to date. Again, this is largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge - this is higher than the determination which is a combination the increases in charges arising from differences in inflation assumptions (refer to comments above) and because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The control period favourable variance is also due to these factors. There have also been more trains that last year and thus an increase in income compared to 2014/15.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as set out in the above comments). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail would incur if profiling of capital projects work over the control period occurred in line with the regulator's assumptions. Schedule 4 Income is higher than last year as expected by the regulator's determination.
- (7) Property income – this is higher than the determination due to increased property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The main reason for the increase in sales is the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Property income is noticeably higher than the previous year due to extra sales and extra rental income. Property rental income has increased significantly compared to 2014/15 as Network Rail has managed to offer desirable rental properties and station units to retailers. Rental yields on much of the property portfolio has increased compared to the previous year which has been helped by some new facilities generating extra income (such as the revamped Birmingham New Street station, Manchester Victoria station and inclusion of a mezzanine level at London Euston). Also, freight rental income has more than doubled compared to the previous year as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped.
- (8) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulted in around a 50 per cent decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.
- (9) Stations income – this is favourable to the regulator's assumption in the year and control period to date with the main contributor being Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).

Statement 6a: Analysis of income, Great Britain – continued

in £m 2015-16 prices unless stated

- (10) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. This is consistent with the situation last year resulting in a large adverse variance against the determination in the control period to date (but also a large saving in interest costs incurred as reported in Statement 4).
- (11) Depots income - income is slightly higher than the regulator's assumption in the year and control period to date. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

Statement 6b: Analysis of other single till income, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property income							
Property rental	274	307	(33)	526	595	(69)	252
Property sales	74	38	36	108	74	34	34
Adjustment for commercial opex	-	(32)	32	-	(63)	63	-
Total property income	348	313	35	634	606	28	286
Freight income							
Freight variable usage charge	48	60	(12)	106	118	(12)	58
Freight traction electricity charges	5	10	(5)	11	17	(6)	6
Freight electrification asset usage charge	-	1	(1)	-	1	(1)	-
Freight capacity charge	4	5	(1)	7	10	(3)	3
Freight only line charge	2	4	(2)	6	8	(2)	4
Freight specific charge	-	-	-	-	-	-	-
Freight other income	1	-	1	2	-	2	1
Freight coal spillage charge	1	3	(2)	4	6	(2)	3
Total freight income	61	83	(22)	136	160	(24)	75
Open access income							
Variable usage charge income	6	2	4	9	4	5	3
Open access capacity charge	2	1	1	3	3	-	1
Open access traction electricity charges	2	5	(3)	6	9	(3)	4
Fixed contractual contribution	19	20	(1)	38	38	-	19
Open access other income	-	-	-	-	-	-	-
Total open access income	29	28	1	56	54	2	27
Stations income							
Managed stations income							
Long term charge	34	34	-	69	67	2	35
Qualifying expenditure	58	45	13	114	90	24	56
Total managed stations income	92	79	13	183	157	26	91
Franchised stations income							
Long term charge	122	126	(4)	247	252	(5)	125
Stations lease income	45	47	(2)	89	94	(5)	44
Total franchised stations income	167	173	(6)	336	346	(10)	169
Total stations income	259	252	7	519	503	16	260
Facility and financing charges							
Facility charges	51	56	(5)	105	106	(1)	54
Crossrail finance charge	-	50	(50)	-	81	(81)	-
Welsh Valleys finance charge	-	1	(1)	-	2	(2)	-
Total facility and financing charges	51	107	(56)	105	189	(84)	54
Depots income	66	63	3	132	127	5	66
Other	15	14	1	31	29	2	16
Total other single till income	829	860	(31)	1,613	1,668	(55)	784

Statement 6b: Analysis of other single till income, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property-related activity but also from other areas such as freight and open access. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation for both current year and the control period to date. Property rental income has increased significantly compared to 2014/15 which is in line with the regulator's expectation as Network Rail has managed to offer desirable rental properties and station units to retailers. Rental yields on much of the property portfolio has increased compared to the previous year which has been helped by some new facilities generating extra income (such as the revamped Birmingham New Street station, Manchester Victoria station and inclusion of a mezzanine level at London Euston). Also, freight rental income has more than doubled compared to the previous year as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped.
- (2) Property sales – income is higher than the regulator's determination and the prior year which is mostly due to the sale of Network Rail's interests in the Grand Central shopping complex in Birmingham, as reported in the media. As noted in last year's Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Due to the large benefit of Grand Central, the sales income is much higher than the determination for the control period to date. However, there is no indication that this favourable variance will remain throughout the rest of the control period.
- (3) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulting in around a 50 per cent decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. These amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.
- (4) Open access income – overall income in this area is consistent with the regulator's assumption and the prior year. However, underlying performance has improved (as shown by higher Variable usage charge income) which has been offset by lower than expected traction electricity charges. The amounts Network Rail can charge for this are largely driven by the market price of electricity meaning that although Network Rail receives lower income, it also incurs lower costs (shown in traction electricity costs in Statement 7a).
- (5) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The main contributor to this is the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations after the targets in the regulator's determination were set. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). This change is also largely responsible for the favourable control period to date position compared to the regulator's expectations.

Statement 6b: Analysis of other single till income, Great Britain – continued

in £m 2015-16 prices unless stated

- (6) Franchised stations – long term charge – income in the year was slightly lower than the regulatory target due to the transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which has not foreseen in the determination. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these tasks. This is augmented by the transfer of status of Reading and Bristol stations to Managed stations. The slight decrease compared to 2014/15 is also mostly due to the transfer of stations in Anglia.
- (7) Franchised stations – Stations Lease Income – income slightly lower than the regulatory target due to the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (8) Facility charges – these are lower than the regulator assumed in its' determination as Network Rail has undertaken less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower. Facility charge income is slightly lower than the previous year which included a favourable settlement of a commercial contract which provided a boost to the 2014/15 results.
- (9) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. There is consistent with the situation last year resulting in a large adverse variance against the determination in the control period to date (but also a large saving in interest costs incurred as reported in Statement 4).
- (10) Depots – income is slightly higher than the regulator's assumptions in both the current year and the control period to date which has been helped by the extra income earned following development of Reading depot.
- (11) In line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges.

Statement 6c: Analysis of income by operator, Great Britain

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Arrive Trains Wales			
Variable Usage Charges	3.1	3.3	6.4
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	3.9	4.1	8.0
Fixed Charges	18.4	14.1	32.5
Station Facility Charge	-	-	-
Station Long Term Charges	10.0	10.2	20.2
Station QX	0.4	0.4	0.8
Other Charges	1.6	1.5	3.1
Total income	37.4	33.6	71.0

	2014-15	2015-16	CP5 Total
C2C			
Variable Usage Charges	1.7	1.9	3.6
Traction Electricity Charges	6.4	7.3	13.7
Electrification Asset Usage Charges	0.4	0.5	0.9
Capacity Charges	2.3	2.5	4.8
Fixed Charges	4.8	3.7	8.5
Station Facility Charge	-	-	-
Station Long Term Charges	2.6	-	2.6
Station QX	-	-	-
Other Charges	1.2	1.3	2.5
Total income	19.4	17.2	36.6

	2014-15	2015-16	CP5 Total
Chiltern			
Variable Usage Charges	2.1	2.2	4.3
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	1.6	1.7	3.3
Fixed Charges	4.7	3.8	8.5
Station Facility Charge	-	-	-
Station Long Term Charges	3.7	3.8	7.5
Station QX	-	-	-
Other Charges	11.2	13.8	25.0
Total income	23.3	25.3	48.6

	2014-15	2015-16	CP5 Total
Cross Country			
Variable Usage Charges	10.4	10.6	21.0
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	23.8	24.3	48.1
Fixed Charges	22.1	16.8	38.9
Station Facility Charge	-	-	-
Station Long Term Charges	1.7	1.8	3.5
Station QX	3.2	3.7	6.9
Other Charges	-	-	-
Total income	61.2	57.2	118.4

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
East Coast Main Line Rail			
Variable Usage Charges	19.2	-	19.2
Traction Electricity Charges	18.7	-	18.7
Electrification Asset Usage Charges	1.6	-	1.6
Capacity Charges	35.3	-	35.3
Fixed Charges	24.8	-	24.8
Station Facility Charge	-	-	-
Station Long Term Charges	7.6	-	7.6
Station QX	3.0	-	3.0
Other Charges	2.5	-	2.5
Total income	112.7	-	112.7

	2014-15	2015-16	CP5 Total
Virgin East Coast			
Variable Usage Charges	1.8	20.0	21.8
Traction Electricity Charges	1.7	20.1	21.8
Electrification Asset Usage Charges	0.1	1.7	1.8
Capacity Charges	3.4	39.2	42.6
Fixed Charges	2.3	20.8	23.1
Station Facility Charge	-	-	-
Station Long Term Charges	0.7	7.5	8.2
Station QX	0.3	3.0	3.3
Other Charges	0.2	2.9	3.1
Total income	10.5	115.2	125.7

	2014-15	2015-16	CP5 Total
East Midlands			
Variable Usage Charges	7.5	7.6	15.1
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	17.2	17.6	34.8
Fixed Charges	15.1	11.4	26.5
Station Facility Charge	1.4	4.2	5.6
Station Long Term Charges	5.5	6.7	12.2
Station QX	0.3	0.3	0.6
Other Charges	6.6	6.6	13.2
Total income	53.6	54.4	108.0

	2014-15	2015-16	CP5 Total
First Capital Connect			
Variable Usage Charges	3.1	-	3.1
Traction Electricity Charges	9.4	-	9.4
Electrification Asset Usage Charges	0.7	-	0.7
Capacity Charges	17.0	-	17.0
Fixed Charges	9.4	-	9.4
Station Facility Charge	0.4	-	0.4
Station Long Term Charges	4.6	-	4.6
Station QX	2.0	-	2.0
Other Charges	1.0	-	1.0
Total income	47.6	-	47.6

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Govia Thameslink Railway			
Variable Usage Charges	4.3	12.1	16.4
Traction Electricity Charges	17.1	49.3	66.4
Electrification Asset Usage Charges	0.9	2.2	3.1
Capacity Charges	23.9	66.5	90.4
Fixed Charges	11.3	25.6	36.9
Station Facility Charge	0.5	2.8	3.3
Station Long Term Charges	5.3	22.9	28.2
Station QX	1.9	7.4	9.3
Other Charges	2.9	3.1	6.0
Total income	68.1	191.9	260.0

	2014-15	2015-16	CP5 Total
First Great Western			
Variable Usage Charges	18.9	19.1	38.0
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	46.9	48.8	95.7
Fixed Charges	31.4	23.3	54.7
Station Facility Charge	1.9	2.0	3.9
Station Long Term Charges	16.5	16.6	33.1
Station QX	7.8	7.8	15.6
Other Charges	25.6	21.9	47.5
Total income	149.0	139.5	288.5

	2014-15	2015-16	CP5 Total
Greater Anglia			
Variable Usage Charges	10.6	9.8	20.4
Traction Electricity Charges	31.3	25.1	56.4
Electrification Asset Usage Charges	2.2	1.9	4.1
Capacity Charges	17.5	14.2	31.7
Fixed Charges	26.3	17.5	43.8
Station Facility Charge	1.1	1.3	2.4
Station Long Term Charges	3.6	2.3	5.9
Station QX	2.8	2.0	4.8
Other Charges	2.8	4.3	7.1
Total income	98.2	78.4	176.6

	2014-15	2015-16	CP5 Total
London Midland			
Variable Usage Charges	6.0	6.5	12.5
Traction Electricity Charges	13.8	15.6	29.4
Electrification Asset Usage Charges	0.9	1.0	1.9
Capacity Charges	34.1	34.2	68.3
Fixed Charges	18.3	13.9	32.2
Station Facility Charge	0.3	0.3	0.6
Station Long Term Charges	10.6	10.9	21.5
Station QX	4.7	5.9	10.6
Other Charges	3.3	3.3	6.6
Total income	92.0	91.6	183.6

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
London Overground			
Variable Usage Charges	0.8	1.2	2.0
Traction Electricity Charges	4.0	6.9	10.9
Electrification Asset Usage Charges	0.1	0.3	0.4
Capacity Charges	2.3	2.9	5.2
Fixed Charges	3.6	3.8	7.4
Station Facility Charge	-	-	-
Station Long Term Charges	3.5	4.2	7.7
Station QX	0.4	1.0	1.4
Other Charges	0.6	0.6	1.2
Total income	15.3	20.9	36.2

	2014-15	2015-16	CP5 Total
Merseyrail			
Variable Usage Charges	0.8	0.8	1.6
Traction Electricity Charges	5.5	5.5	11.0
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	0.5	0.5	1.0
Fixed Charges	3.2	2.4	5.6
Station Facility Charge	-	-	-
Station Long Term Charges	7.7	7.7	15.4
Station QX	-	-	-
Other Charges	0.6	0.8	1.4
Total income	18.4	17.8	36.2

	2014-15	2015-16	CP5 Total
MTR Crossrail			
Variable Usage Charges	-	0.6	0.6
Traction Electricity Charges	-	3.3	3.3
Electrification Asset Usage Charges	-	0.2	0.2
Capacity Charges	-	2.8	2.8
Fixed Charges	-	1.6	1.6
Station Facility Charge	-	-	-
Station Long Term Charges	-	0.8	0.8
Station QX	-	0.6	0.6
Other Charges	-	-	-
Total income	-	9.9	9.9

	2014-15	2015-16	CP5 Total
Northern			
Variable Usage Charges	4.3	4.8	9.1
Traction Electricity Charges	4.4	6.2	10.6
Electrification Asset Usage Charges	0.2	0.3	0.5
Capacity Charges	8.2	8.3	16.5
Fixed Charges	25.0	19.2	44.2
Station Facility Charge	-	-	-
Station Long Term Charges	16.1	16.2	32.3
Station QX	3.0	3.0	6.0
Other Charges	5.2	5.1	10.3
Total income	66.4	63.1	129.5

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Scotrail			
Variable Usage Charges	8.5	7.7	16.2
Traction Electricity Charges	11.9	12.8	24.7
Electrification Asset Usage Charges	0.9	0.8	1.7
Capacity Charges	9.9	9.8	19.7
Fixed Charges	93.4	86.4	179.8
Station Facility Charge	0.6	0.8	1.4
Station Long Term Charges	16.0	14.3	30.3
Station QX	3.6	0.8	4.4
Other Charges	6.4	6.1	12.5
Total income	151.2	139.5	290.7

	2014-15	2015-16	CP5 Total
Caledonian Sleeper			
Variable Usage Charges	-	0.4	0.4
Traction Electricity Charges	-	0.1	0.1
Electrification Asset Usage Charges	-	-	-
Capacity Charges	-	0.2	0.2
Fixed Charges	-	1.0	1.0
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	-	-	-
Total income	-	1.7	1.7

	2014-15	2015-16	CP5 Total
South Eastern			
Variable Usage Charges	8.4	9.6	18.0
Traction Electricity Charges	32.3	34.4	66.7
Electrification Asset Usage Charges	1.0	1.1	2.1
Capacity Charges	16.0	16.8	32.8
Fixed Charges	23.2	17.7	40.9
Station Facility Charge	0.1	0.1	0.2
Station Long Term Charges	23.7	23.2	46.9
Station QX	5.7	5.5	11.2
Other Charges	7.4	7.2	14.6
Total income	117.8	115.6	233.4

	2014-15	2015-16	CP5 Total
South West Trains			
Variable Usage Charges	11.9	12.0	23.9
Traction Electricity Charges	36.8	38.9	75.7
Electrification Asset Usage Charges	1.1	1.1	2.2
Capacity Charges	25.5	25.8	51.3
Fixed Charges	24.6	18.8	43.4
Station Facility Charge	10.4	7.2	17.6
Station Long Term Charges	27.7	29.1	56.8
Station QX	4.2	4.9	9.1
Other Charges	7.6	10.3	17.9
Total income	149.8	148.1	297.9

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Southern			
Variable Usage Charges	8.7	3.6	12.3
Traction Electricity Charges	28.1	11.6	39.7
Electrification Asset Usage Charges	1.0	0.4	1.4
Capacity Charges	41.4	17.0	58.4
Fixed Charges	18.1	4.3	22.4
Station Facility Charge	2.2	0.9	3.1
Station Long Term Charges	21.4	6.8	28.2
Station QX	3.1	1.1	4.2
Other Charges	1.6	0.5	2.1
Total income	125.6	46.2	171.8

	2014-15	2015-16	CP5 Total
Transpennine			
Variable Usage Charges	4.7	4.8	9.5
Traction Electricity Charges	2.1	2.2	4.3
Electrification Asset Usage Charges	0.2	0.2	0.4
Capacity Charges	10.9	11.1	22.0
Fixed Charges	11.0	9.1	20.1
Station Facility Charge	-	-	-
Station Long Term Charges	3.6	3.7	7.3
Station QX	1.5	1.8	3.3
Other Charges	0.1	0.1	0.2
Total income	34.1	33.0	67.1

	2014-15	2015-16	CP5 Total
Virgin West Coast			
Variable Usage Charges	31.6	30.6	62.2
Traction Electricity Charges	37.9	41.2	79.1
Electrification Asset Usage Charges	3.1	3.1	6.2
Capacity Charges	70.6	70.9	141.5
Fixed Charges	42.2	32.1	74.3
Station Facility Charge	8.6	8.7	17.3
Station Long Term Charges	11.1	11.3	22.4
Station QX	6.0	6.2	12.2
Other Charges	1.4	1.4	2.8
Total income	212.5	205.5	418.0

	2014-15	2015-16	CP5 Total
Consolidated Non-Franchised Train Operators			
Variable Usage Charges	2.5	4.5	7.0
Traction Electricity Charges	3.1	1.3	4.4
Electrification Asset Usage Charges	-	-	-
Capacity Charges	1.3	1.6	2.9
Fixed Charges	18.9	18.8	37.7
Station Facility Charge	-	-	-
Station Long Term Charges	1.5	1.2	2.7
Station QX	0.7	(0.2)	0.5
Other Charges	0.2	0.2	0.4
Total Turnover	28.2	27.4	55.6

Statement 6c: Analysis of income by operator, Great Britain - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Consolidated Charter Train Operators			
Variable Usage Charges	0.9	0.6	1.5
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	-	-	-
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	-	-	-
Total Turnover	0.9	0.6	1.5

	2014-15	2015-16	CP5 Total
Consolidated Freight Operating Companies			
Variable Usage Charges	57.7	48.7	106.4
Traction Electricity Charges	6.5	5.1	11.6
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	3.4	3.7	7.1
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	8.7	3.8	12.5
Total Turnover	76.4	61.4	137.8

6c: Analysis of income by operator, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. Therefore, income for First Capital Connect is significantly lower this year compared to last and, conversely, income for Govia Thameslink Railway is significantly higher this year compared to last.
- (5) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, income for East Coast Main Line Rail is significantly lower this year compared to last and, conversely, income for Virgin East Coast is significantly higher this year compared to last.
- (6) In 2015/16 MTR Crossrail started to operate services this year and so are shown in Statement 6c in the Regulatory financial statements for the first time this year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator compared to the previous year.
- (7) In 2015/16 Caledonian Sleeper started to operate services as a new franchise from 31 March 2015 and so are shown in Statement 6c in the Regulatory financial statements for the first time this year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.
- (8) During the year a number of stations were transferred to C2C on a long-term lease. Therefore, the station income paid by this operator to Network Rail has decreased compared to the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	260	234	(26)	513	474	(39)	253
Signalling shift managers	18	14	(4)	37	28	(9)	19
Local operations managers	19	15	(4)	41	31	(10)	22
Controllers	35	31	(4)	69	62	(7)	34
Electrical control room operators	13	10	(3)	25	21	(4)	12
Total signaller expenditure	345	304	(41)	685	616	(69)	340
Non-signaller expenditure							
Mobile operations managers	34	31	(3)	69	63	(6)	35
Managed stations	59	39	(20)	109	79	(30)	50
Performance	21	14	(7)	37	29	(8)	16
Customer relationship executives	8	7	(1)	13	14	1	5
Route enhancement managers	-	-	-	5	-	(5)	5
Weather	12	19	7	27	39	12	15
Other	27	14	(13)	60	29	(31)	33
Operations delivery	4	-	(4)	6	-	(6)	2
HQ - Operations services	1	-	(1)	2	-	(2)	1
HQ - Performance and planning	4	-	(4)	5	-	(5)	1
HQ - Stations and customer services	1	-	(1)	1	-	(1)	-
HQ - Other	52	29	(23)	84	59	(25)	32
Other operating income	(30)	(21)	9	(71)	(42)	29	(41)
Total non-signaller expenditure	193	132	(61)	347	270	(77)	154
Total network operations expenditure	538	436	(102)	1,032	886	(146)	494
Support costs							
Core support costs							
Human resources	36	62	26	77	125	48	41
Information management	62	62	-	130	127	(3)	68
Government and corporate affairs	12	19	7	27	38	11	15
Group strategy	7	11	4	16	23	7	9
Finance	19	28	9	37	58	21	18
Business services	13	14	1	28	29	1	15
Accommodation	81	76	(5)	164	152	(12)	83
Utilities	40	44	4	83	87	4	43
Insurance	57	49	(8)	106	100	(6)	49
Legal and inquiry	8	6	(2)	15	12	(3)	7
Safety and sustainable development	24	9	(15)	48	19	(29)	24
Strategic sourcing	7	10	3	14	20	6	7
Business change	2	4	2	4	7	3	2
Other corporate functions	38	3	(35)	74	7	(67)	36
Core support costs	406	397	(9)	823	804	(19)	417
Other support costs							
Asset management services	39	43	4	74	87	13	35
Network rail telecoms	44	38	(6)	94	86	(8)	50
National delivery service	-	4	4	-	9	9	-
Infrastructure Projects	(28)	-	28	(47)	-	47	(19)
Commercial property	(10)	(3)	7	(14)	(7)	7	(4)
Group costs	(57)	(8)	49	(115)	(14)	101	(58)
Total other support costs	(12)	74	86	(8)	161	169	4
Total support costs	394	471	77	815	965	150	421
Traction electricity, industry costs and rates							
Traction electricity	308	359	51	603	620	17	295
Business rates	160	157	(3)	318	314	(4)	158
British transport police costs	82	72	(10)	166	147	(19)	84
RSSB costs	8	9	1	19	18	(1)	11
ORR licence fee and railway safety levy	17	17	-	34	35	1	17
Reporters fees	1	3	2	2	6	4	1
Other industry costs	5	2	(3)	6	4	(2)	1
Total traction electricity, industry costs and rates	581	619	38	1,148	1,144	(4)	567
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,513	1,526	13	2,995	2,995	-	1,482

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 25 per cent higher than the regulator’s assumptions. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are lower than the previous year following further devolution of responsibilities to routes and other business areas and other efficiencies made through continuing cost control. Further breakdown of HR costs can be found in Statement 7b.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Great Britain – continued

in £m 2015-16 prices unless stated

- (6) Information Management – costs are higher than the determination. Information Management costs incurred centrally and are allocated to the operational routes on the basis of headcount. At a network wide level the costs are in line with the determination meaning that the higher costs recognised in London North West is due to a proportionately higher increase in the headcount in this route compared to the other routes. The reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.
- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through reductions in headcount and consultancy costs as many discretionary projects have been cancelled. The improvements in cost compared to the previous year are largely due to the same factors, with delays in headcount to replace staff exiting the business.
- (9) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent. The slight increase compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (10) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent compared to the CP4 exit position but costs have actually increased slightly. This was mostly due to new office space being acquired in London in 2014/15 which is also driving the adverse variance in the control period. Costs are slightly lower than the previous year following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (11) Utilities – costs are lower than the determination and the prior year because of lower prices paid for water, gas and electricity mainly due to favourable market conditions.
- (12) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (13) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Great Britain – continued

in £m 2015-16 prices unless stated

- (14) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business.
- (15) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (16) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are higher than the previous year mainly due to additional activity being undertaken to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (17) Network Rail telecoms – costs for the year and the control period to date are higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers. The reduction in costs compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/ GSM-R which have not recurred.
- (18) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position to be achieved by 2017/18.
- (19) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.
- (20) Commercial Property – net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow) as well as overall price increases (reflecting market demand). In addition, extra revenue has been earned from stations, including the revamped Manchester Victoria station.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Great Britain – continued

in £m 2015-16 prices unless stated

- (21) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would receive credits of c. £31m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £26m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements, recognition of income received from agreeing restructuring to restructuring of financing arrangements and the favourable settlement of commercial claims. The net credit position in Group is in line with the prior year but, as expected, the composition of this amount is different. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (22) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year with the exception of traction electricity costs. This group of costs is lower than the determination mostly due to lower Traction electricity costs which are driven by market rates which is partly offset by higher Business rates and British Transport Police costs.
- (23) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are slightly lower than the regulator assumed, again with this saving being largely offset by lower traction electricity income received. Costs are higher than the previous year reflecting market prices for electricity.
- (24) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in Scotland through the Opex memorandum account mechanism (refer to Statement 10).
- (25) British Transport Police costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (26) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of costs Network Rail is required to pay under this mechanism has increased compared to the regulator's expectation which is causing an adverse variance in the current year and the control period to date.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Great Britain

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	238	279	281
Operations and customer services non-signalling	-	-	-
MOMS	25	34	35
Control	41	47	47
Planning & Performance Staff Costs	30	32	38
Managed Stations Staff Costs	17	18	19
Operations Management Staff Costs	23	24	26
Other	115	60	92
Total operations & customer services costs	489	494	538
Total Network Operations	489	494	538
Support			
Human resources			
Functional support	30	15	15
Training (inc Westwood)	21	11	9
Graduates	2	-	2
Apprenticeships	7	9	9
Other	4	6	1
Total human resources	64	41	36
Information management			
Support	8	6	1
Projects	2	1	1
Licences	-	-	-
Business operations	51	61	60
Other	-	-	-
Total information management	61	68	62
Finance	18	18	19
Business Change	4	2	2
Contracts & Procurement	9	-	-
Strategic Sourcing (National Supply Chain)	-	7	7
Planning & development	14	9	7
Safety & compliance	15	-	-
Other corporate services	54	16	17
Commercial property	104	79	71
Infrastructure Projects	(58)	(19)	(28)
Route Services	13	19	19
Asset management & Engineering/Asset heads	144	-	-
National delivery service	3	-	-
Private party	-	-	-
Utilities	-	43	40
Network Rail Telecoms	-	50	44
Digital Railway	-	17	22
Safety Technical & Engineering	-	42	41
Government & Corporate Affairs	-	15	12
Business Services	-	15	13
Route Asset Management	-	1	2
Legal and inquiry	-	7	8
Group/central			
Pensions	1	-	-
Insurance	37	49	57
Redundancy/reorganisation costs	70	17	11
Staff incentives/Bonus reduction	5	(25)	(7)
Accommodation & Support Recharges	(3)	(28)	(27)
Commercial claims settlements	-	-	(30)
ORR financial penalty	80	(23)	-
Other	2	1	(4)
Total group/central costs	192	(9)	-
Total support	637	421	394
Total network operations and support costs	1,126	915	932

Statement 7b: Analysis of network operations expenditure and support costs by activity, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) 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 rest of the business areas. Support costs are lower than the previous year (generation of net efficiencies across a range of functions more than offsetting reduced impact of one-off Group items this year compared to last).
- (4) Network Operations – staff costs are largely in line with the previous year. The slight increase reflects settlement of pay awards at a higher rate than inflation and higher average headcount throughout the year partly caused by the requirement to provide adequate staffing for the new ROCs (Route Operating Centres).
- (5) Network Operations – other costs have noticeably increased since the previous year which includes extra consultancy and training costs for the implementation of new working practices in the year, such as LEAN and visualisation. These initiatives are expected to generate significant operational improvements and efficiencies across the company (not just in Network Operations costs) but will require some investment to introduce them successfully. Costs are also higher following redevelopment of stations (notably Birmingham New Street and London Euston) which will generate extra property income, but also some additional costs to run the enlarged premises. Also, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the overall industry there is an associated increase in costs.
- (6) Human Resources – as reported in last year’s Regulatory financial statements costs are decreasing year-on-year, largely as a result of devolution of responsibilities to routes and other business areas in order to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. This year has seen a continuation of this trend and hence further decreases in Human Resources costs.
- (7) Information Management – cost reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.
- (8) Finance – the slight increase in costs compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (9) Property – net costs are lower in the current year due to a combination of additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow) as well as overall price increases (reflecting market demand) and a reduction in accommodation costs following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (10) Infrastructure Projects - in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Great Britain – continued

in £m 2015-16 prices unless stated

- (11)Route services – as part of the move towards a devolved organisation, responsibility for certain central activities, such as Human Resources and Finance have transferred to the routes with the objective of allowing them to make more informed decisions and only acquire the services they feel are necessary. The extra costs this year compared to last reflect the continuing journey of this devolution trajectory.
- (12)Utilities - costs are slightly lower than the previous year as a result of improved utility procurement strategies and favourable movements in market prices.
- (13)Telecoms – cost savings compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/ GSM-R which have not recurred.
- (14)Digital railway – as planned, costs are higher than last year as activity in this area increases. Digital Railway is a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (15)Government & corporate affairs - the improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance (resulting in extra costs in that department) but also to some minor efficiencies
- (16)Group – Insurance – costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (17)Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this reorganisation initiative there was also substantial costs in 2014/15 too. This year costs were lower due to fewer restructures. As part of the pay and conditions negotiations with trade unions in Summer 2015, it was agreed that there would be no compulsory redundancies for union members in 2015/16 which limited the opportunity for reorganisations in the current year.
- (18)Group – staff incentives – in 2014/15 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. This year, the credit balance relates to lower expected payouts for long-term incentive plans to be made following performance compared to corporate targets. The planned costs of these schemes are included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets is recognised in Group.
- (19)Group – commercial claims settlements – during the year Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance.
- (20)Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15 the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

Statement 7c: Insurance reconciliation, Great Britain

in £m 2015-16 prices unless stated

Risk	Market based insurance			Self insurance			Total	
	Underlying cost	Claims paid	Market premiums	Underlying cost	Claims recognised by the captive	Captive premiums	Other	Total cost
	A			B			C	D
Property	0	0	3	68	45	12	0	48
Business interruption	0	0	4	68	37	12	0	41
Terrorism	0	0	11	0	0	0	0	11
Employer's liability	0	0	1	2	2	6	0	3
Public & products liability	0	0	6	8	7	10	0	13
Motor	0	0	1	2	2	3	0	3
Construction all risks	0	0	1	1	1	1	0	2
Other cover	2	0	11	1	1	4	0	12
Investment return	0	0	0	0	0	0	2	2
Total	2	0	38	150	95	48	2	135

Total insurance recognised in:

Schedule 4 & 8	0	0	0	68	37	12	0	37
Operations	0	0	0	0	0	0	0	0
Support costs	2	0	38	82	58	36	2	98
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	2	0	38	150	95	48	2	135

B) Analysis of Network Rail Insurance Limited, Great Britain

Profit/(loss) derived from:	2015-16	Cumulative	2014-15
Operations	(51)	(77)	(26)
Investment revenues	2	3	1
Finance costs	0	0	0
Profit/(loss) before tax	(49)	(74)	(25)
Tax	0	0	0
Profit/(loss) attributable to shareholders	(49)	(74)	(25)

Statement 7c: Insurance reconciliation, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) Losses incurred by Network Rail Insurance Limited (unaudited) were higher than the previous year. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. There were a number of significant incidents this year which resulted in higher costs recognised in Network Rail Insurance Limited, such as those at Lamington viaduct, Dover seawall and Eden Brows. In addition, there are actuarial assessments made. In the previous year there were fewer large incidents (the only significant item was Harbury tunnel landslip) and so lower costs.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	260	0	0	260	234	0	0	234	(26)	0	0	(26)
Signalling shift managers	19	(1)	0	18	14	0	0	14	(5)	1	0	(4)
Local operations managers	20	(1)	0	19	15	0	0	15	(5)	1	0	(4)
Controllers	37	(2)	0	35	31	0	0	31	(6)	2	0	(4)
Electrical control room operators	14	(1)	0	13	10	0	0	10	(4)	1	0	(3)
Total signaller expenditure	350	(5)	0	345	304	0	0	304	(46)	5	0	(41)
Non-signaller expenditure												
Mobile operations managers	35	(1)	0	34	31	0	0	31	(4)	1	0	(3)
Managed stations	59	0	0	59	39	0	0	39	(20)	0	0	(20)
Performance	21	0	0	21	14	0	0	14	(7)	0	0	(7)
Customer relationship executives	9	(1)	0	8	7	0	0	7	(2)	1	0	(1)
Route enhancement managers	8	(8)	0	0	0	0	0	0	(8)	8	0	0
Weather	20	(8)	0	12	19	0	0	19	(1)	8	0	7
Other	75	(48)	0	27	14	0	0	14	(61)	48	0	(13)
Operations delivery	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	14	(10)	0	4	0	0	0	0	(14)	10	0	(4)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	68	(16)	0	52	29	0	0	29	(39)	16	0	(23)
Other operating income	0	0	(30)	(30)	0	0	(21)	(21)	0	0	9	9
Total non-signaller expenditure	315	(92)	(30)	193	153	0	(20)	132	(162)	92	9	(61)
Total network operations	665	(97)	(30)	538	457	0	(20)	436	(208)	97	9	(102)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	44	(6)	(2)	36	64	0	(2)	62	20	6	0	26
Information management	94	(29)	(3)	62	66	0	(4)	62	(28)	29	(1)	0
Government and corporate affairs	14	(2)	0	12	19	0	0	19	5	2	0	7
Group strategy	16	(8)	(1)	7	11	0	0	11	(5)	8	1	4
Finance	19	0	0	19	28	0	0	28	9	0	0	9
Business services	13	0	0	13	15	0	(1)	14	2	0	(1)	1
Accommodation	83	(2)	0	81	76	0	0	76	(7)	2	0	(5)
Utilities	59	0	(19)	40	44	0	0	44	(15)	0	19	4
Insurance	57	0	0	57	49	0	0	49	(8)	0	0	(8)
Legal and inquiry	8	0	0	8	6	0	0	6	(2)	0	0	(2)
Safety and sustainable developmen	39	(11)	(4)	24	9	0	0	9	(30)	11	4	(15)
Strategic sourcing	7	0	0	7	23	0	(13)	10	16	0	(13)	3
Business change	2	0	0	2	4	0	0	4	2	0	0	2
Other corporate functions	89	(2)	(49)	38	3	0	0	3	(86)	2	49	(35)
Core support costs	544	(60)	(78)	406	417	0	(20)	397	(127)	60	58	(9)
Other support costs												
Asset management services	81	(34)	(8)	39	64	0	(21)	43	(17)	34	(13)	4
Network Rail telecoms	70	(20)	(6)	44	38	0	0	38	(32)	20	6	(6)
National delivery service	0	0	0	0	29	0	(25)	4	29	0	(25)	4
Infrastructure projects	396	(412)	(12)	(28)	0	0	0	0	(396)	412	12	28
Commercial property	41	(13)	(38)	(10)	29	0	(32)	(3)	(12)	13	6	7
Group costs	(29)	0	(28)	(57)	(2)	0	(6)	(8)	27	0	22	49
Total other support costs	559	(479)	(92)	(12)	158	0	(84)	74	(401)	479	8	86
Total support costs	1,103	(539)	(170)	394	575	0	(104)	471	(528)	539	66	77

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	516	(3)	0	513	474	0	0	474	(42)	3	0	(39)
Signalling shift managers	38	(1)	0	37	28	0	0	28	(10)	1	0	(9)
Local operations managers	43	(2)	0	41	31	0	0	31	(12)	2	0	(10)
Controllers	76	(7)	0	69	62	0	0	62	(14)	7	0	(7)
Electrical control room operators	27	(2)	0	25	21	0	0	21	(6)	2	0	(4)
Total signaller expenditure	700	(15)	0	685	616	0	0	616	(84)	15	0	(69)
Non-signaller expenditure												
Mobile operations managers	71	(2)	0	69	63	0	0	63	(8)	2	0	(6)
Managed stations	109	0	0	109	79	0	0	79	(30)	0	0	(30)
Performance	38	(1)	0	37	29	0	0	29	(9)	1	0	(8)
Customer relationship executives	17	(4)	0	13	14	0	0	14	(3)	4	0	1
Route enhancement managers	22	(17)	0	5	0	0	0	0	(22)	17	0	(5)
Weather	35	(8)	0	27	39	0	0	39	4	8	0	12
Other	125	(65)	0	60	29	0	0	29	(96)	65	0	(31)
Operations delivery	61	(55)	0	6	0	0	0	0	(61)	55	0	(6)
HQ - Operations services	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Performance and planning	18	(13)	0	5	0	0	0	0	(18)	13	0	(5)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	104	(20)	0	84	59	0	0	59	(45)	20	0	(25)
Other operating income	1	0	(72)	(71)	0	0	(42)	(42)	(1)	0	30	29
Total non-signaller expenditure	604	(185)	(72)	347	312	0	(20)	270	(292)	185	30	(77)
Total network operations	1,304	(200)	(72)	1,032	928	0	(20)	886	(376)	200	30	(146)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	94	(11)	(6)	77	127	0	(2)	125	33	11	4	48
Information management	190	(54)	(6)	130	131	0	(4)	127	(59)	54	2	(3)
Government and corporate affairs	30	(3)	0	27	38	0	0	38	8	3	0	11
Group strategy	35	(17)	(2)	16	23	0	0	23	(12)	17	2	7
Finance	37	0	0	37	58	0	0	58	21	0	0	21
Business services	30	(2)	0	28	30	0	(1)	29	0	2	(1)	1
Accommodation	166	(2)	0	164	152	0	0	152	(14)	2	0	(12)
Utilities	118	(2)	(33)	83	87	0	0	87	(31)	2	33	4
Insurance	106	0	0	106	100	0	0	100	(6)	0	0	(6)
Legal and inquiry	15	0	0	15	12	0	0	12	(3)	0	0	(3)
Safety and sustainable developmen	69	(17)	(4)	48	19	0	0	19	(50)	17	4	(29)
Strategic sourcing	14	0	0	14	33	0	(13)	20	19	0	(13)	6
Business change	4	0	0	4	7	0	0	7	3	0	0	3
Other corporate functions	361	(190)	(97)	74	7	0	0	7	(354)	190	97	(67)
Core support costs	1,269	(298)	(148)	823	824	0	(20)	804	(445)	298	128	(19)
Other support costs							0	0				
Asset management services	146	(62)	(10)	74	108	0	(21)	87	(38)	62	(11)	13
Network Rail telecoms	148	(40)	(14)	94	86	0	0	86	(62)	40	14	(8)
National delivery service	0	0	0	0	34	0	(25)	9	34	0	(25)	9
Infrastructure projects	738	(769)	(16)	(47)	0	0	0	0	(738)	769	16	47
Commercial property	86	(31)	(69)	(14)	25	0	(32)	(7)	(61)	31	37	7
Group costs	(14)	0	(101)	(115)	(8)	0	(6)	(14)	6	0	95	101
Total other support costs	1,104	(902)	(210)	(8)	245	0	(84)	161	(859)	902	126	169
Total support costs	2,373	(1,200)	(358)	815	1,069	0	(104)	965	(1,304)	1,200	254	150

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 25 per cent higher than the regulator’s assumptions. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are lower than the previous year following further devolution of responsibilities to routes and other business areas and other efficiencies made through continuing cost control. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are in line with the determination and lower than the previous year. The reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through reductions in headcount and consultancy costs as many discretionary projects have been cancelled. The improvements in cost compared to the previous year are largely due to the same factors, with delays in headcount to replace staff exiting the business.
- (9) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent. The slight increase compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (10) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent compared to the CP4 exit position but costs have actually increased slightly. This was mostly due to new office space being acquired in London in 2014/15 which is also driving the adverse variance in the control period. Costs are slightly lower than the previous year following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (11) Utilities – costs are lower than the determination and the prior year because of lower prices paid for water, gas and electricity mainly due to favourable market conditions.
- (12) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (13) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.
- (14) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (15) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (16) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are higher than the previous year mainly due to additional activity being undertaken to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (17) Network Rail telecoms – costs for the year and the control period to date are higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers. The reduction in costs compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/GSM-R which have not recurred.
- (18) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position to be achieved by 2017/18.
- (19) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.
- (20) Commercial Property – net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath and Glasgow) as well as overall price increases (reflecting market demand). In addition, extra revenue has been earned from stations, including the revamped Manchester Victoria station.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

(21) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would receive credits of c. £31m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £26m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements, recognition of income received from agreeing restructuring to restructuring of financing arrangements and the favourable settlement of commercial claims. The net credit position in Group is in line with the prior year but, as expected, the composition of this amount is different. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.

Statement 8a: Summary analysis of network maintenance expenditure, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	527	432	(95)	1,034	874	(160)	507
Signalling	188	158	(30)	380	320	(60)	192
Civils	168	149	(19)	286	300	14	118
Buildings	36	55	19	71	104	33	35
Electrical power and fixed plant	88	97	9	181	192	11	93
Telecoms	23	21	(2)	44	43	(1)	21
Other network operations	185	156	(29)	393	319	(74)	208
Asset management services	54	36	(18)	92	72	(20)	38
National Delivery Service	(9)	45	54	(14)	91	105	(5)
Property	9	5	(4)	21	11	(10)	12
Group	(21)	(18)	3	(42)	(36)	6	(21)
Total network maintenance	1,248	1,136	(112)	2,446	2,290	(156)	1,198

Statement 8a: Summary analysis of network maintenance expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are higher than the previous year which includes the impact of extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability. These have been offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (2) Track – costs are higher than the determination mainly as a result of a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost based across the control period to date and is expected to continue for the remainder of CP5. In order to improve local accountability and cost control, a number of responsibilities have transferred from Other network operations to Track this year. Whilst there is no overall impact of this change on Maintenance expenses there are higher costs in the Track category (offset by savings in Other network operations) Costs are slightly higher than the previous year partly offset by the savings shown in the above table in National Delivery Services but also due to extra work being undertaken to safeguard safety and performance in the face of ever-increasing network traffic.
- (3) Signalling – as with the previous year, costs are higher than the determination. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs. Furthermore, the challenging efficiency targets in the determination have proven unachievable. Maintenance costs in this area are in line with the previous year, with some modest efficiencies delivered.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. These extra costs have been partly offset by a transfer of some activities and costs to Asset Management Services (which has contributed to the increased costs in that area). Costs in the control period to date are lower than the determination assumption which is due to significantly less reactive maintenance required in the first year of the control period. The increase in costs compared to the previous year are due to a combination of increased reactive maintenance and inspection costs partly offset by a movement of some responsibilities to Asset Management Services.

Statement 8a: Summary analysis of network maintenance expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (5) Buildings – all 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. Expenditure in the current (and previous) year in this area is less than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Reactive maintenance variances also account for the lower control period to date position. Overall, reactive maintenance expenditure is higher than the previous year, but the amount relating to Buildings has remained largely consistent.
- (6) Electrical power and fixed plant – some efficiencies have been made in this category, with the savings generated across almost all of Network Rail's operational routes. This has been achieved through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. Costs have marginally improved compared to the previous year due to a combination of these minor efficiencies across the whole organisation. In addition, the responsibilities for some activities have moved the route Asset management services teams which have increased costs in that category.
- (7) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A total of £37m was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving. Despite this, costs are still higher than the regulator's assumption this year. About one-third of this is due to the trailing costs of the tidy railway and vegetation management programmes referenced above. The remaining extra costs relate to investment in opex projects to improve performance and efficiencies and additional local activity as part of the move towards a devolved, more accountable railway resulting in increased capabilities and responsibilities of the local asset management teams. The lower costs this year compared to last is augmented by a transfer of responsibilities to Track to improve local accountability and decision-making.
- (8) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils (which has led to a reduction in costs in that category), transfer of activity from Electrical power and fixed plant (which has led to a reduction in costs in that category), additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. The same factors are responsible for the extra spend in the control period to date and the increase in costs compared to the previous year.
- (9) National Delivery Services – as noted above, and in previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail. The amounts recovered were higher than the previous year for the same reason.
- (10) Property – costs in the current year are slightly higher than the regulatory assumption mostly due to the inclusion of some additional provisions for remediation of some of Network Rail's rental estate. This, combined with extra costs recognised last year due to a tenant being declared bankrupt leaving Network Rail to bear the decontamination costs of clearing the site, has resulted in higher expenditure than the determination allowance for the control period to date. Costs are lower than the previous year due to the non-recurring cost reported in 2014/15 for the aforementioned site remediation which was higher than the one-off incidents in the current year.
- (11) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (outright capital purchase or leasing from a third party) may mean that the level of notional income recognised will decrease in future years of the control period.

Statement 8b: Summary analysis of network maintenance headcount, Great Britain

	2014-15	2015-16
Track	8,133	8,143
Signalling	3,268	3,262
Civils	261	247
Buildings	155	169
Electrical power and fixed plant	1,516	1,521
Telecoms	488	522
Other network operations	1,631	1,790
Asset management services	-	-
National delivery service	743	1,081
Property	-	-
Group	-	-
Other maintenance	-	-
Total network maintenance headcount	16,195	16,735

Statement 8b: Summary analysis of network maintenance headcount, Great Britain – continued

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Maintenance headcount attributed to network operations has increased slightly compared with the previous year. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduce reliance on overtime or external contractors.
- (3) Other network operations – headcount increase includes recruitment to the OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset. In addition, the number of staff involved in delivering minor capital works has increased. This solution allows the routes greater discretion and flexibility over certain types of works that they want to undertake on their routes.
- (4) National Delivery Service - increase in headcount compared to the last year was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change.

Statement 8c: Analysis of network maintenance expenditure by MDU, Great Britain

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Ashford	23	22	45
Bedford	18	18	36
Bletchley	28	28	56
Bristol	19	18	37
Brighton	24	25	49
Carlisle	23	23	46
Clapham	25	24	49
Cardiff	30	30	60
Croydon	23	24	47
Derby	21	22	43
Doncaster	18	17	35
Eastleigh	22	21	43
Edinburgh	21	22	43
Glasgow	15	15	30
Hitchin	22	23	45
Ipswich	26	25	51
Leeds	17	18	35
Liverpool	22	23	45
London Bridge	22	23	45
London Euston	27	24	51
Manchester	29	28	57
Motherwell	27	26	53
Newcastle	21	24	45
Orpington	19	20	39
Perth	14	14	28
Plymouth	15	15	30
Preston	16	15	31
Reading	16	17	33
Romford	33	30	63
Saltley	23	25	48
Sandwell & Dudley	19	21	40
Sheffield	15	15	30
Shrewsbury	15	16	31
Stafford	20	21	41
Swindon	15	17	32
Tottenham	32	30	62
Warrington	20	19	39
Woking	28	24	52
York	19	21	40
Centrally managed			
Structures examinations	70	86	156
Major items of maintenance plant	6	5	11
HQ managed activities	65	34	99
Other	215	280	495
Total network maintenance	1,198	1,248	2,446

Statement 8c: Analysis of network maintenance expenditure by MDU, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Maintenance costs are higher than the previous year which includes the impact of extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability. These have been offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (2) Overall depots costs are in line with the previous year although there are movements within each depot which reflects the workbank requirements of that area in that year, the level of staff activity associated with capital projects as well as individual circumstances and challenges facing each unique area in either the current or previous year.
- (3) Structures examinations – costs are higher than the previous year due to extra work undertaken this year to assess the condition of structures to determine whether intervention is necessary. This includes additional costs recognised this year in relation to contractor disputes in this area. In addition, in the previous year some of this activity was the responsibility of central route teams and so reported within HQ Managed activities. Specialist teams and cost centres have been created to better understand and monitor the direct costs of Structures examinations this year.
- (4) HQ managed activities – costs are noticeably lower than the previous year. In 2014/15, Network Rail's Board took the decision to long-term incentive payments to senior staff. These savings, and more, were instead reinvested into two major maintenance programmes, Tidy Railway and Vegetation Management, which were designed to generate long-term improvements in train performance. Expenditure on these projects was significantly less in the current year which accounts for the fall in costs in this category compared to the previous year. In addition, as noted above certain responsibilities transferred to the Structures examinations category this year.
- (5) Other – costs in this category are higher than 2014/15 largely due to additional reactive maintenance work required this year. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8d: Analysis of network maintenance headcount by MDU, Great Britain

	2014-15			2015-16		
	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305
Bedford	300	-	300	301	-	301
Bletchley	364	1	365	390	1	391
Bristol	366	1	367	378	1	379
Brighton	358	1	359	329	-	329
Carlisle	373	-	373	378	-	378
Clapham	300	-	300	317	-	317
Cardiff	416	1	417	423	1	424
Croydon	295	-	295	275	2	277
Derby	460	1	461	495	-	495
Doncaster	292	-	292	291	-	291
Eastleigh	298	2	300	315	1	316
Edinburgh	327	-	327	348	-	348
Glasgow	250	-	250	253	-	253
Hitchin	342	1	343	358	1	359
Ipswich	405	-	405	420	-	420
Leeds	309	2	311	309	1	310
Liverpool	346	-	346	353	-	353
London Bridge	294	1	295	285	-	285
London Euston	322	-	322	315	-	315
Manchester	447	3	450	447	1	448
Motherwell	402	-	402	413	-	413
Newcastle	383	-	383	382	-	382
Orpington	260	-	260	247	-	247
Perth	216	-	216	221	-	221
Plymouth	314	1	315	333	-	333
Preston	271	2	273	273	-	273
Reading	331	5	336	350	6	356
Romford	426	4	430	448	2	450
Saltley	328	-	328	348	-	348
Sandwell & Dudley	304	3	307	312	4	316
Sheffield	317	1	318	312	-	312
Shrewsbury	259	-	259	270	-	270
Stafford	325	2	327	322	1	323
Swindon	256	2	258	306	1	307
Tottenham	428	1	429	452	1	453
Warrington	343	-	343	341	-	341
Woking	380	2	382	390	6	396
York	372	2	374	381	2	383
Centrally managed						
Route HQ	2,172	142	2,314	2,093	142	2,235
Other HQ	623	119	742	959	122	1,081
Total network maintenance	15,894	301	16,195	16,437	297	16,734

Statement 8d: Analysis of network maintenance headcount by MDU, Great Britain – continued

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result of a change in responsibilities between Route HQ and individual depots. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduced reliance on overtime and external contractors.
- (3) The remainder of the increase is in the local delivery units. This is a combination of increases in certain depots partly offset by decreases in others which reflects the differing workbanks and staffing strategies of each individual depot. The most notable increase was in Swindon where staff levels in 2014/15 were lower than organisational requirements. To reduce reliance on contractors and overtime, the depot increased its headcount this year.
- (4) Route HQ – the net reduction in headcount is largely due to the transfer of responsibilities to the local depots to allow greater local autonomy and flexibility to help improve decision making and so train performance. This is offset by increases for recruitment to the OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset.
- (5) Other HQ – the noticeably increase compared to the previous year is due to extra staff recruited into the National Delivery Services function. This was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change.

Statement 9a: Summary analysis of renewals expenditure, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	984	710	(274)	1,880	1,465	(415)	896
Signalling	647	792	145	1,298	1,576	278	651
Civils	622	476	(146)	1,179	978	(201)	557
Buildings	221	188	(33)	406	358	(48)	185
Electrical power and fixed plant	144	224	80	270	475	205	126
Telecoms	53	96	43	135	194	59	82
Wheeled plant and machinery	90	118	28	162	283	121	72
Information technology	127	86	(41)	288	176	(112)	161
Property	15	30	15	39	53	14	24
Other renewals	174	4	(170)	400	(181)	(581)	226
Total renewals expenditure	3,077	2,724	(353)	6,057	5,377	(680)	2,980

Statement 9a: Summary analysis of renewals expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity which have been more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year as reported in Statement 5. The higher like-for-like costs has been partly offset by deferral of activities until later in the control period (or into future control periods) as Network Rail seeks to utilise the financial resources available in the most effective way possible. Investment is slightly higher than the previous year reflecting extra Track and Civils works partly offset by decreased expenditure on projects rolled over from CP4.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the first year of the control period, a trend which has continued in to the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the last years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Expenditure was higher than the previous year with the highest contributions arising from Conventional work (where volumes increased by about one-fifth (as shown in Statement 14)) and extra Off track works (which included extra investment on Drainage activity).
- (3) Signalling – expenditure was lower than the determination expected. However, this was due to higher underlying costs being more than offset by deferral of activity into later in the control period and beyond. Key schemes that were deferred include Norwich to Yarmouth and Lowestoft (due to change in scope), Cambridge (delay to the level crossings contract award) and Feltham (which has been deferred to CP6 due to funding constraints). Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects such as Swindon and East Kent, where further contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in that year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs. Efficiencies assumed by the regulator have also proven to be elusive. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year which includes the impact of the extra remedial works required following weather events and an increased in the level of volumes delivered this year (which is shown in Statement 14). Delivery in 2014/15 was impacted by delays in implementing new contractor frameworks for CP5.

Statement 9a: Summary analysis of renewals expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (5) Buildings – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year mainly due to extra investment at Franchised stations, partly due to the additional scope noted above and partly due to delays in introducing contractor framework agreements at the start of CP5.
- (6) Electrical power and fixed plant – costs were lower than the regulator assumed which was due to deferrals of activity being partly offset by higher like-for-like costs. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appear to have been over optimistic. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven cost increases. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferrals in the year includes a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Also, delays in the Great Eastern Overhead line programme has reduced expenditure with this programme now scheduled for next control period. Investment has increased compared to the previous year mainly due to some extra Fixed Plant acquisitions, but, as noted above, this still remains lower than the regulator assumed.
- (7) Telecoms – expenditure in the year was noticeably below the determination. There has been some re-profiling of work to later in the control period. The major underspends in year relate to the West Coast Main Line programme which after project review, has been re profiled to future control periods and FTN and NOC (National Operating Centre) slippages due to prolonged testing and contractor disputes. These underspends are expected to negate overspends in the final three years of the control period where delivery on key schemes is expected to ramp up. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year which included greater investment in FTNx projects which are now coming to completion which would have been reported within Non-route capital expenditure.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention and On track plant items than the regulator expected which was partly offset by higher expenditure on Materials delivery equipment and High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.

Statement 9a: Summary analysis of renewals expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Property – costs are lower than the regulator’s assumption and the prior year due to less expenditure on corporate offices and accommodation. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which helps explain why costs are lower than the previous year which included unforeseen costs for the redevelopment of the offices in Scotland and extra costs for London offices following relocation of staff.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. More than £60m has been spent on these schemes this control period (the expenditure is included in the CP4 Rollover category so it doesn’t appear as though Asset information strategy is overspending compared to the regulator’s targets). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources which have now been successfully resolved. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption and lower costs than in 2014/15.
 - c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year’s Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year’s expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - d. Small plant – expenditure is less than the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail’s policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.

Statement 9a: Summary analysis of renewals expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Great Britain

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	338	239	(99)	640	494	(146)
High output renewal	203	96	(107)	413	211	(202)
Plain line refurbishment	67	29	(38)	125	58	(67)
S&C renewal	178	154	(24)	378	338	(40)
S&C refurbishment	51	42	(9)	81	80	(1)
Track non-volume	47	80	33	76	142	66
Off track	100	70	(30)	167	142	(25)
Total track	984	710	(274)	1,880	1,465	(415)
Signalling						
Full conventional resignalling	293	231	(62)	577	494	(83)
Modular resignalling	17	51	34	28	91	63
ERTMS resignalling	12	14	2	28	21	(7)
Partial conventional resignalling	94	195	101	189	366	177
Targeted component renewal	3	21	18	7	62	55
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	18	11	(7)	39	22	(17)
Operating strategy other capital expenditure	42	57	15	120	125	5
Level crossings	43	97	54	94	159	65
Minor works	113	77	(36)	196	159	(37)
Centrally managed costs	11	38	27	19	77	58
Other	1	-	-	1	-	-
Total signalling	647	792	145	1,298	1,576	278
Civils						
Underbridges	230	207	(23)	409	435	26
Overbridges	66	34	(32)	122	69	(53)
Bridgeguard 3	14	-	(14)	22	-	(22)
Major structures	17	16	(1)	66	34	(32)
Tunnels	32	29	(3)	53	59	6
Other assets	77	48	(29)	136	93	(43)
Structures other	13	36	23	42	73	31
Earthworks	168	106	(62)	328	215	(113)
Other	5	-	(5)	1	-	-
Total civils	622	476	(146)	1,179	978	(201)
Buildings						
Managed stations	22	55	33	47	86	39
Franchised stations	149	104	(45)	265	212	(53)
Light maint depots	24	8	(16)	35	17	(18)
Depot plant	4	10	6	7	19	12
Lineside buildings	16	3	(13)	31	9	(22)
MDU buildings	6	6	-	19	12	(7)
NDS depots	-	2	2	2	3	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	221	188	(33)	406	358	(48)

Statement 9b: Detailed analysis of renewals expenditure, Great Britain - continued

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	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	15	13	3	27	24
Overhead Line	25	41	16	63	78	15
DC distribution	39	44	5	63	96	33
Conductor rail	14	12	(2)	21	26	5
SCADA	-	10	10	-	39	39
Energy efficiency	-	2	2	5	5	-
System capability / capacity	6	11	5	8	22	14
Other electrical power	7	16	9	20	32	12
Fixed plant	51	73	22	87	150	63
Total electrical power and plant	144	224	80	270	475	205
Telecoms						
Operational communications	9	8	(1)	12	17	5
Network	9	14	5	14	28	14
SISS	6	32	26	12	60	48
Projects and other	7	25	18	17	42	25
Non-route capital expenditure	22	17	(5)	80	47	(33)
Total telecoms	53	96	43	135	194	59
Wheeled plant and machinery						
High output	41	12	(29)	64	95	31
Incident response	-	1	1	-	5	5
Infrastructure monitoring	4	4	-	7	8	1
Intervention	11	54	43	18	84	66
Materials delivery	13	3	(10)	35	3	(32)
On track plant	11	24	13	16	28	12
Seasonal	2	3	1	4	34	30
Locomotives	-	-	-	-	-	-
Fleet support plant	-	7	7	-	13	13
Road vehicles	8	10	2	18	13	(5)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	90	118	28	162	283	121
Information Technology						
IM delivered renewals	119	78	(41)	262	158	(104)
Traffic management	8	8	-	26	18	(8)
Total Information technology	127	86	(41)	288	176	(112)
Property						
MDUs/offices	8	23	15	24	39	15
Commercial estate	7	7	-	15	14	(1)
Corporate services	-	-	-	-	-	-
Total property	15	30	15	39	53	14
Other renewals						
Asset information strategy	73	51	(22)	76	113	37
Intelligent infrastructure	8	15	7	21	31	10
Faster isolations	10	36	26	19	71	52
LOWS	2	2	-	2	4	2
Small plant	1	11	10	5	22	17
Research and development	-	-	-	-	-	-
Phasing overlay	-	(111)	(111)	-	(422)	(422)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	77	-	(77)	274	-	(274)
Other	3	-	(3)	3	-	(3)
West Coast	-	-	-	-	-	-
Total other renewals	174	4	(170)	400	(181)	(581)
Total renewals	3,077	2,724	(353)	6,057	5,377	(680)

Statement 9b: Detailed analysis of renewals expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity which have been more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year as reported in Statement 5. The higher like-for-like costs has been partly offset by deferral of activities until later in the control period (or into future control periods) as Network Rail seeks to utilise the financial resources available in the most effective way possible. Investment is slightly higher than the previous year reflecting extra Track and Civils works partly offset by decreased expenditure on projects rolled over from CP4.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the first year of the control period, a trend which has continued in to the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the last years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Expenditure was higher than the previous year with the highest contributions arising from Conventional work (where volumes increased by about one-fifth (as shown in Statement 14)) and extra Off track works (which included extra investment on Drainage activity).
- (3) Signalling – expenditure was lower than the determination expected. However, this was due to higher underlying costs being more than offset by deferral of activity into later in the control period and beyond. Key schemes that were deferred include Norwich to Yarmouth and Lowestoft (due to change in scope), Cambridge (delay to the level crossings contract award) and Feltham (which has been deferred to CP6 due to funding constraints). Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects such as Swindon and East Kent, where further contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in that year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs. Efficiencies assumed by the regulator have also proven to be elusive. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year which includes the impact of the extra remedial works required following weather events and an increased in the level of volumes delivered this year (which is shown in Statement 14). Delivery in 2014/15 was impacted by delays in implementing new contractor frameworks for CP5.

Statement 9b: Detailed analysis of renewals expenditure, Great Britain – continued

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- (5) Buildings – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year mainly due to extra investment at Franchised stations, partly due to the additional scope noted above and partly due to delays in introducing contractor framework agreements at the start of CP5.
- (6) Electrical power and fixed plant – costs were lower than the regulator assumed which was due to deferrals of activity being partly offset by higher like-for-like costs. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appear to have been over optimistic. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven cost increases. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferrals in the year includes a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Also, delays in the Great Eastern Overhead line programme has reduced expenditure with this programme now scheduled for next control period. Investment has increased compared to the previous year mainly due to some extra Fixed Plant acquisitions, but, as noted above, this still remains lower than the regulator assumed.
- (7) Telecoms – expenditure in the year was noticeably below the determination. There has been some re-profiling of work to later in the control period. The major underspends in year relate to the West Coast Main Line programme which after project review, has been re profiled to future control periods and FTN and NOC (National Operating Centre) slippages due to prolonged testing and contractor disputes. These underspends are expected to negate overspends in the final three years of the control period where delivery on key schemes is expected to ramp up. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year which included greater investment in FTNx projects which are now coming to completion which would have been reported within Non-route capital expenditure.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention and On track plant items than the regulator expected which was partly offset by higher expenditure on Materials delivery equipment and High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.

Statement 9b: Detailed analysis of renewals expenditure, Great Britain – continued

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- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Property – costs are lower than the regulator’s assumption and the prior year due to less expenditure on corporate offices and accommodation. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which helps explain why costs are lower than the previous year which included unforeseen costs for the redevelopment of the offices in Scotland and extra costs for London offices following relocation of staff.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. More than £60m has been spent on these schemes this control period (the expenditure is included in the CP4 Rollover category so it doesn’t appear as though Asset information strategy is overspending compared to the regulator’s targets). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources which have now been successfully resolved. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption and lower costs than in 2014/15.
 - c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year’s Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year’s expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - d. Small plant – expenditure is less than the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail’s policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.

Statement 9b: Detailed analysis of renewals expenditure, Great Britain – continued

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- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 10: Other information, Great Britain

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	257	227	(30)	458	442	(16)	201
Access charge supplement Income	(217)	(214)	3	(420)	(416)	4	(203)
Net (income)/cost	40	13	(27)	38	26	(12)	(2)
Schedule 8							
Performance element income	(6)	-	6	(30)	-	30	(24)
Performance element costs	112	4	(108)	246	8	(238)	134
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	106	4	(102)	216	8	(208)	110

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	11	21	10
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	3	4	1
RSSB Costs	-	2	2
ORR licence fee and railway safety levy	-	(1)	(1)
Reporters fees	-	(2)	(2)
Other industry costs	-	(1)	(1)
Network Rail HS1	4	4	-
Difference in CP4 opex memo	-	(9)	(9)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	18	18	-

Statement 10: Other information, Great Britain - continued

in £m 2015-16 prices unless stated

C) Network Rail's compliance with the limits set in the licence

	Annual 2015/16	Annual Limit	Cumulative to 2015/16	Cumulative limit
Licence condition				
Turnover (per annum)	27	181		
Investment (any point in time)			194	268
Specific Consents				
Property development			8	50
Property			280	280

D) Net income / (costs) from alliances:

	2015-16	Cumulative	2014-15
Payment from South West Trains	1	2	1
Total alliance income	1	2	1
Payment to South West Trains	-	(2)	(2)
Total alliance costs	-	(2)	(2)
Net alliance income / (cost)	1	-	(1)

E) Workforce information

(Headcount)	Male				Female				Total
	Permanent		Temporary		Permanent		Temporary		
	Full time	Part time	Full time	Part time	Full time	Part time	Full time	Part time	
66 and over	207	19	1	-	14	3	-	-	244
61-65	1,376	15	1	-	95	3	3	-	1,493
56-60	3,389	8	11	-	277	7	3	-	3,695
51-55	4,819	4	13	-	513	11	8	-	5,368
46-50	5,100	2	14	1	690	16	13	-	5,836
41-45	4,322	3	16	-	800	41	9	-	5,191
36-40	3,175	6	18	-	815	57	17	-	4,088
31-35	3,278	2	31	-	950	52	9	-	4,322
26-30	3,143	1	46	-	749	14	29	-	3,982
21-25	1,818	-	96	1	407	7	34	1	2,364
20 and under	400	-	22	-	36	-	13	-	471
Total staff employed (Headcount)	31,027	60	269	2	5,346	211	138	1	37,054
of which:									
train drivers	-	-	-	-	-	-	-	-	-
apprentices	533	-	19	-	25	-	7	-	584
Agency staff / Contingent Labour / Consultants	-	-	1,312	4	-	-	279	-	1,595
of which apprentices	-	-	20	-	-	-	-	-	20

Statement 10: Other information, Great Britain - continued

in £m 2015-16 prices unless stated

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	8	3	11	8	3	11
Executive director / director	50	8	58	50	8	58
Bands 1	282	59	341	282	59	341
Bands 2	1,049	248	1,297	1,048	245	1,293
Bands 3	2,726	824	3,550	2,719	815	3,534
Bands 4	3,598	1,263	4,861	3,590	1,248	4,838
Signallers	4,104	276	4,380	4,104	276	4,380
Electrical control operators	148	1	149	148	1	149
Maintenance	14,789	225	15,014	14,782	220	15,002
Controllers	346	38	384	346	38	384
Bands 5-8	3,347	2,662	6,009	3,340	2,590	5,930
Other	911	89	1,000	911	89	1,000
Total permanent staff	31,358	5,696	37,054	31,328	5,592	36,920
Agency staff / Contingent Labour / Consultants	1,316	279	1,595	1,316	279	1,595
Total staff (FTE)	32,674	5,975	38,649	32,644	5,871	38,515

(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	-	-	-	-	-	2	-	-	2
Executive director / director	11	1	1	-	1	2	15	-	-	15
Bands 1	36	3	4	-	4	5	52	-	-	52
Bands 2	93	7	5	-	10	11	126	-	-	126
Bands 3	181	6	6	1	18	19	231	-	-	231
Bands 4	183	6	3	2	16	18	228	-	-	228
Signallers	140	9	1	51	14	21	236	-	-	236
Electrical control operators	7	-	-	4	1	1	13	-	-	13
Maintenance	448	39	5	146	40	59	739	-	-	739
Controllers	18	1	-	6	2	3	30	-	-	30
Bands 5-8	134	5	2	5	10	13	168	-	-	168
Other	37	2	-	14	4	6	62	-	-	62
Total Paybill	1,289	80	28	228	119	158	1,901	-	-	1,901
Agency staff / Contingent Labour / Consultants	-	-	-	-	-	-	-	78	-	78
Total Staff Costs	1,289	80	28	228	119	158	1,901	78	-	1,979

Statement 10: Other information, Great Britain - continued

in £m 2015-16 prices unless stated

F) Staff costs information

	Male	Female	Total
Salary	1,109	180	1,289
Allowances	74	6	80
Performance related bonus	23	4	27
Overtime	223	5	228
Employer pension contribution	103	16	119
Employer NI contribution	139	19	158
Total Paybill	1,671	230	1,901
Agency staff / Contingent Labour / Consultants			78
Total Staff Costs	1,671	230	1,979

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	756,495	19
director	-	N/A
Median remuneration of workforce	40,489	1

Remuneration ranged from £0 to £756,495 (2014-15 £0-£1,060,036)

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.

G) Reporter information

	2015-16	2014-15
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

Statement 10: Other information, Great Britain – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income rather than the physical transfer of cash or cash equivalents.

Comments:

- (1) Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including incidents at Lamington Viaduct in Scotland and Dover in Kent, as well as other numerous landslips. As noted in Statement 7, there were a number of high-profile storms in 2013/14 which adversely affected the railway infrastructure. As a result Network Rail is unable to obtain the same level of insurance cover for the funding including in the determination. Therefore, less insurance was purchased meaning that, ceteris paribus, schedule 4 costs will be higher than the regulator assumed in CP5. Schedule 4 costs are also driven by the amount of renewals activity undertaken in a particular year as possession of the railway (and hence compensation payments) are required to deliver the work. Compared to the assumptions in the Schedule 4 model used to create the determination, there is a lower level of volumes delivered for the key renewals categories that generate the majority of possessions costs (such as Track - Plain line and Track - Switches & crossings). In addition, there has been some negative financial performance recognised for Schedule 4 costs this year (refer to Statement 5), suggesting that possessions have been more expensive than the regulator assumed. The regulatory allowances are based on a series assumptions which supposes that the possessions required to deliver renewals works are standard in nature. The financial underperformance is also impacted by the disruptive weather events noted above. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (such as Track - Plain line and Track - Switches & crossings, Signalling - Full and partial conventional resignalling and electrification works), and the impact of weather events upon the network. The Access charge supplement income is in line with the determination. This is expected as this is largely a contractually obliged payment made by operators. The minor variance is largely due to differences in the inflation used in the actual contracts and the inflation used to uplift the regulatory determination. This is explained in more detail in Statement 6. Increases in the Access charge supplement compared to last year are in proportion to the regulatory expectation.

Statement 10: Other information, Great Britain – continued

in £m 2015-16 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2015/16. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the control period due to infrastructure failures, fatalities and severe weather related incidents, continuing the trend witnessed in the previous year. Given the 2014/15 Schedule 8 costs, achieving the regulatory target this year was extremely unlikely. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. Each year the regulator's targets for Schedule 8 delay minutes get harder. Despite this, net performance costs are slightly lower than the prior year due to fewer delay minutes as services improve, especially in key areas. On a like-for-like basis (ie using the 2014/15 delay minutes baselines) Schedule 8 improvement is around 20 per cent.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to the Volume Incentive (see Statement 12) but also for differences in income earned from Network Rail High Speed 1. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 11: Analysis of Network Rail's charges to Network Rail (High Speed) Limited for work on HS1, Great Britain

in £m 2015-16 prices unless stated

2015-16							
Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	21	-	-	-	-	6	27
Renewals	-	-	-	-	-	-	-
Total	21	-	-	-	-	6	27

Cumulative							
Service	Staff	Agency	Contractors & consultants	Materials	Plant	Overheads	Total cost
Operations	-	-	-	-	-	-	-
Maintenance	42	-	-	-	-	14	56
Renewals	-	-	-	-	-	-	-
Total	42	-	-	-	-	14	56

Statement 11: Analysis of Network Rail's charges to Network Rail (High Speed) Limited for work on HS1, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The balance on the outstanding loan from Network Rail Infrastructure Limited to Network Rail (High Speed) Limited is £nil. This has been the case since 2010/11 when Network Rail (High Speed) Limited repaid its' loan from Network Rail Infrastructure Limited.
- (2) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Charges levied by Network Rail are broadly in line with the prior year. The slight reduction reflects the new agreement in place between the two organisations for HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, Great Britain

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	23	5	309	304	0.7%	1.47	pence per passenger train mile
Passenger farebox (millions)	46	9	9,284	8,690	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(12)	(2)	20	20	2.1%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(7)	(1)	21,621	21,568	2.6%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	50	11					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Great Britain – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail.
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £11m as a result, compounding the outperformance recognised in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). However, this is a mixture of costs incurred under the freight metrics more than offset by a strong performance on the passenger measures.
- (2) Passenger train mile growth has increased this year ahead of the ORR's expectation. This, combined with the growth witnessed in 2014/15 means that this measure remains ahead of the regulatory target. With the exception of the Wales, all routes are ahead of the regulator's estimate for this stage of the control period as Network Rail responds to passenger demand by providing extra services.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Freight train miles has not grown at the rate that the regulator expected and this leaves Network Rail facing a payout under this mechanism. This year, freight train miles actually decreased slightly whereas this measure expects growth every year. This situation is consistent with the worse than planned performance by the freight part of the business set out in Statement 6. Issues with the deterioration in the demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism implies. The largest shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.
- (5) Freight gross tonne miles has remained static compared to the previous year, when it was slightly ahead of the regulator's target. However, as the targets increase every year, this part of the volume incentive measure now finds itself adverse to target for the reasons noted above.

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m			
			£k/unit	Volume unit			£k/unit	Volume unit			£k/unit	Volume unit					
Track	Track plain line	km	424	1,433	608	-	608	371	1,476	548	-	548	(53)	43	(60)	-	(60)
	Conventional		531	637	338	-	338	537	503	270	-	270	6	(134)	(68)	-	(68)
	High Output		577	352	203	-	203	392	528	207	-	207	(185)	176	4	-	4
	Refurbishment		151	444	67	-	67	160	445	71	-	71	9	1	4	-	4
	S&C	point ends	222	1,030	229	-	229	194	1,176	228	-	228	(28)	146	(1)	-	(1)
	Track Drainage		1	114,978	60	-	60	1	39,865	42	-	42	1	(75,113)	(18)	-	(18)
	Renewal	lm	n/a	13,385	n/a	n/a	n/a	n/a	6,453	n/a	n/a	n/a	n/a	(6,932)	n/a	n/a	n/a
	Refurbishment	lm	n/a	98,994	n/a	n/a	n/a	n/a	32,613	n/a	n/a	n/a	n/a	(66,381)	n/a	n/a	n/a
	New Build	lm	n/a	2,599	n/a	n/a	n/a	n/a	799	n/a	n/a	n/a	n/a	(1,800)	n/a	n/a	n/a
	Fencing	km	38	977	37	-	37	27	960	26	-	26	(11)	(17)	(11)	-	(11)
	Slab Track		n/a	n/a	n/a	10	10	n/a	n/a	n/a	34	34	n/a	n/a	n/a	24	24
	Off track		n/a	n/a	n/a	40	40	n/a	n/a	n/a	33	33	n/a	n/a	n/a	(7)	(7)
	Other						-					-		-	-	-	-
Total					934	50	984			844	67	911			(90)	17	(73)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	419	n/a	n/a	n/a	-	511	n/a	n/a	n/a	-	92
	Full conventional resignalling	SEU	295	993	293	-	293	194	1,231	239	-	239	(101)	238	(54)	-	(54)
	Modular resignalling	SEU	895	19	17	-	17	227	365	83	-	83	(667)	346	66	-	66
	ERTMS resignalling	SEU	-	-	12	-	12	5,500	2	11	-	11	5,500	2	(1)	-	(1)
	Partial conventional resignalling	SEU	227	414	94	-	94	171	917	157	-	157	(56)	503	63	-	63
	Targeted component renewal	SEU	71	42	3	-	3	241	87	21	-	21	170	45	18	-	18
	Level crossings	No.	956	45	43	-	43	1,057	106	112	-	112	101	61	69	-	69
	Signalling other		-	-	-	184	184	-	-	-	185	185	-	-	-	1	1
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	18	18	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(7)	(7)
	Operating strategy other capex		n/a	n/a	n/a	42	42	n/a	n/a	n/a	60	60	n/a	n/a	n/a	18	18
	Minor works		n/a	n/a	n/a	113	113	n/a	n/a	n/a	80	80	n/a	n/a	n/a	(33)	(33)
	Centrally managed costs		n/a	n/a	n/a	11	11	n/a	n/a	n/a	34	34	n/a	n/a	n/a	23	23
	Other		-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)
Total					462	185	647			623	185	808			161	-	161
Civils	Key structures		n/a	n/a	n/a	-	359	n/a	n/a	n/a	-	368	n/a	n/a	n/a	-	9
	Underbridges	m2	2	117,133	230	-	230	2	143,479	268	-	268	(0)	26,346	38	-	38
	Overbridges (incl BG3)	m2	6	13,947	80	-	80	2	34,062	52	-	52	(4)	20,115	(28)	-	(28)
	Tunnels	m2	1	30,412	32	-	32	0	75,033	34	-	34	(1)	44,621	2	-	2
	Major structures	m2	n/a	n/a	n/a	17	17	n/a	n/a	n/a	14	14	n/a	n/a	n/a	(3)	(3)
	Other structures assets		n/a	n/a	n/a	-	77	n/a	n/a	n/a	-	59	n/a	n/a	n/a	-	(18)
	Culverts	m2	4	5,151	20	-	20	5	3,459	18	-	18	1	(1,692)	(2)	-	(2)
	Footbridges	m2	7	2,121	15	-	15	4	2,681	11	-	11	(3)	560	(4)	-	(4)
	Coastal & Estuary Defences	m	6	4,159	23	-	23	3	4,512	13	-	13	(3)	353	(10)	-	(10)
	Retaining Walls	m2	2	7,985	19	-	19	3	6,001	17	-	17	0	(1,984)	(2)	-	(2)
	Earthworks	5-chain	36	3,992	143	-	143	31	3,108	95	-	95	(5)	(884)	(48)	-	(48)
	EW Drainage		1	35,403	25	-	25	1	39,783	28	-	28	(0)	4,380	3	-	3
	Renewal	lm	n/a	7,905	n/a	n/a	n/a	n/a	7,574	n/a	n/a	n/a	n/a	(331)	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,196	n/a	n/a	n/a	n/a	1,599	n/a	n/a	n/a	n/a	403	n/a	n/a	n/a
	Maintenance	lm	n/a	20,496	n/a	n/a	n/a	n/a	25,383	n/a	n/a	n/a	n/a	4,887	n/a	n/a	n/a
	New Build	lm	n/a	5,806	n/a	n/a	n/a	n/a	5,227	n/a	n/a	n/a	n/a	(579)	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	13	13	n/a	-	n/a	16	16	n/a	n/a	n/a	3	3
	Other		n/a	n/a	n/a	5	5	n/a	-	n/a	(67)	(67)	n/a	n/a	n/a	(72)	(72)
Total					587	35	622			536	(37)	499			(51)	(72)	(123)

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost
					volume £m					volume £m					volume £m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	149	n/a	n/a	n/a	-	134	n/a	n/a	n/a	n/a	(15)
	Footbridges	m2	3	5,533	19	-	19	n/a	5,794	n/a	n/a	-	n/a	261	n/a	n/a	-
	Train Sheds	m2	0	16,600	5	-	5	n/a	7,980	n/a	n/a	-	n/a	(8,620)	n/a	n/a	-
	Canopies	m2	1	18,722	23	-	23	n/a	19,752	n/a	n/a	-	n/a	1,030	n/a	n/a	-
	Platforms	m2	1	29,451	24	-	24	n/a	70,629	n/a	n/a	-	n/a	41,178	n/a	n/a	-
	Buildings	m2	2	8,968	14	-	14	n/a	3,863	n/a	n/a	-	n/a	(5,105)	n/a	n/a	-
	Lifts & Escalators	No.	714	14	10	-	10	n/a	73	n/a	n/a	-	n/a	59	n/a	n/a	-
	Other		-	-	-	54	54	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	22	n/a	-	n/a	-	33	n/a	n/a	n/a	n/a	11
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	2	2,184	5	-	5	n/a	-	n/a	n/a	-	n/a	(2,184)	n/a	n/a	-
	Canopies	m2	2	527	1	-	1	n/a	1,193	n/a	n/a	-	n/a	666	n/a	n/a	-
	Platforms	m2	-	100	-	-	-	n/a	800	n/a	n/a	-	n/a	700	n/a	n/a	-
	Buildings	m2	1	2,701	3	-	3	n/a	5,815	n/a	n/a	-	n/a	3,114	n/a	n/a	-
	Lifts & Escalators	No.	2,000	1	2	-	2	n/a	7	n/a	n/a	-	n/a	6	n/a	n/a	-
	Other		-	-	-	11	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		1	27,054	24	-	24	1	11,396	n/a	-	17	n/a	(15,658)	n/a	n/a	(7)
	Buildings	m2	-	9,245	-	-	-	n/a	6,946	n/a	n/a	-	n/a	(2,299)	n/a	n/a	-
	Depot Shed	m2	-	17,809	-	-	-	n/a	4,450	n/a	n/a	-	n/a	(13,359)	n/a	n/a	-
	Lineside Buildings	m2	2	8,184	16	-	16	7	3,292	n/a	n/a	23	n/a	(4,892)	n/a	n/a	7
	MDU Buildings	m2	1	4,920	6	-	6	1	8,257	n/a	n/a	10	n/a	3,337	n/a	n/a	4
	Depot Plant		-	-	-	4	4	n/a	-	n/a	n/a	12	n/a	-	n/a	n/a	8
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(51)	n/a	n/a	n/a	n/a	(51)
Total					152	69	221					181					(40)

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		£m	£m
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	25	n/a	n/a	n/a	n/a	41	n/a	n/a	n/a	n/a	n/a	16	
	wiring	wire runs	(111)	54	(6)	-	(6)	n/a	49	n/a	n/a	-	n/a	(5)	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	67	n/a	n/a	-	n/a	67	n/a	n/a	n/a	-	
	Structure Renewals	No.	104	115	12	-	12	n/a	157	n/a	n/a	-	n/a	42	n/a	n/a	n/a	-	
	Other		-	-	-	19	19	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	341	41	14	-	14	423	26	n/a	n/a	11	n/a	(15)	n/a	n/a	n/a	(3)	
	AC distribution		-	-	-	-	2	n/a	-	n/a	n/a	15	n/a	n/a	n/a	n/a	n/a	13	
	HV Switchgear Renewal	No.	167	6	1	-	1	n/a	8	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	22	n/a	n/a	-	n/a	22	n/a	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	39	n/a	-	n/a	n/a	44	n/a	n/a	n/a	n/a	n/a	5	
	HV Switchgear Renewal	No.	1,667	3	5	-	5	n/a	36	n/a	n/a	-	n/a	33	n/a	n/a	n/a	-	
	HV Cables	km	650	20	13	-	13	n/a	20	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	104	48	5	-	5	n/a	72	n/a	n/a	-	n/a	24	n/a	n/a	n/a	-	
	LV Cables	km	243	37	9	-	9	n/a	16	n/a	n/a	-	n/a	(21)	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	500	2	1	-	1	n/a	2	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	45	n/a	-	n/a	n/a	77	n/a	n/a	n/a	n/a	n/a	32	
	Signalling Power Cable Renewal	km	304	69	21	-	21	n/a	256	n/a	n/a	-	n/a	187	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	87	104	9	-	9	n/a	16	n/a	n/a	-	n/a	(88)	n/a	n/a	n/a	-	
	Other		-	-	-	15	15	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	40	151	6	-	6	n/a	151	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(6)	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	10	n/a	n/a	n/a	n/a	n/a	10	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	6	6	n/a	-	n/a	n/a	10	n/a	n/a	n/a	n/a	n/a	4		
Other electrical power		-	-	-	7	7	n/a	-	n/a	n/a	15	n/a	n/a	n/a	n/a	n/a	8		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total					90	54	144					223					79		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	6	n/a	-	n/a	n/a	28	n/a	-	n/a	n/a	22		
	Customer Information Systems	No.	50	20	1	-	1	n/a	749	n/a	n/a	-	n/a	729	n/a	n/a	-		
	Public Address	No.	10	294	3	-	3	n/a	4,060	n/a	n/a	-	n/a	3,766	n/a	n/a	-		
	CCTV	No.	13	151	2	-	2	n/a	2,426	n/a	n/a	-	n/a	2,275	n/a	n/a	-		
	Clocks	No.	-	8	-	-	-	n/a	27	n/a	n/a	-	n/a	19	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	9	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	(5)		
	PABX Concentrator	No. Lines	3	1,088	3	-	3	n/a	1,079	n/a	n/a	-	n/a	(9)	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	2	-	2	n/a	206	n/a	n/a	-	n/a	206	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	93	43	4	-	4	n/a	11	n/a	n/a	-	n/a	(32)	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	31	-	-	-	n/a	90	n/a	n/a	-	n/a	59	n/a	n/a	-		
	System	No.	-	13	-	-	-	n/a	3	n/a	n/a	-	n/a	(10)	n/a	n/a	-		
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	12	n/a	n/a	-	n/a	1	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	76	-	-	-	n/a	-	n/a	n/a	-	n/a	(76)	n/a	n/a	-		
	Power Systems	No.	-	46	-	-	-	n/a	3	n/a	n/a	-	n/a	(43)	n/a	n/a	-		
	Network		n/a	n/a	n/a	9	9	n/a	-	n/a	n/a	11	n/a	n/a	n/a	n/a	2		
	Projects and other		n/a	n/a	n/a	7	7	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(7)		
	Non route capex		n/a	n/a	n/a	22	22	n/a	-	n/a	n/a	55	n/a	n/a	n/a	n/a	33		
Total					15	38	53					98					46		

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Wheeled plant and machinery	High output		n/a	n/a	n/a	41	41	n/a	n/a	n/a	n/a	12	12	n/a	n/a	n/a	n/a	(29)	(29)
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1
	Infrastructure monitoring		n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	11	11	n/a	n/a	n/a	n/a	54	54	n/a	n/a	n/a	n/a	43	43
	Materials delivery		n/a	n/a	n/a	13	13	n/a	n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	(10)	(10)
	On track plant		n/a	n/a	n/a	11	11	n/a	n/a	n/a	n/a	24	24	n/a	n/a	n/a	n/a	13	13
	Seasonal		n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	1	1
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	7	7	n/a	n/a	n/a	n/a	7	7
	Road vehicles		n/a	n/a	n/a	8	8	n/a	n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	2	2
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Total				-	90	90				-	118	118				-	28	28
IT	IM delivered renewals		n/a	n/a	n/a	119	119	n/a	n/a	n/a	n/a	101	101	n/a	n/a	n/a	n/a	(18)	(18)
	Traffic management		n/a	n/a	n/a	8	8	n/a	n/a	n/a	n/a	38	38	n/a	n/a	n/a	n/a	30	30
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Total				-	127	127				-	139	139				-	12	12
Property	MDUs/offices		n/a	n/a	n/a	8	8	n/a	n/a	n/a	n/a	22	22	n/a	n/a	n/a	n/a	14	14
	Commercial estate		n/a	n/a	n/a	7	7	n/a	n/a	n/a	n/a	7	7	n/a	n/a	n/a	n/a	-	-
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Total				-	15	15				-	29	29				-	14	14
Other renewals	Asset information strategy		n/a	n/a	n/a	73	73	n/a	n/a	n/a	n/a	47	47	n/a	n/a	n/a	n/a	(26)	(26)
	Intelligent infrastructure		n/a	n/a	n/a	8	8	n/a	n/a	n/a	n/a	15	15	n/a	n/a	n/a	n/a	7	7
	Faster isolations		n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	36	36	n/a	n/a	n/a	n/a	26	26
	LOWS		n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(2)	(2)
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	11	11	n/a	n/a	n/a	n/a	10	10
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	77	77	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(77)	(77)
	Other		n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	24	24	n/a	n/a	n/a	n/a	21	21
	Total				-	174	174				-	133	133				-	(41)	(41)
Total Renewals							3,077												62

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	
					volume £m					volume £m					volume £m			
Track	Track plain line	km	444	2,656	1,178	-	1,178	408	2,879	1,175	-	1,175	(35)	223	(3)	-	(3)	
	Conventional		553	1,157	640	-	640	559	1,110	621	-	621	6	(47)	(19)	-	(19)	
	High Output		567	729	413	-	413	457	922	421	-	421	(110)	193	8	-	8	
	Refurbishment		162	770	125	-	125	157	847	133	-	133	(5)	77	8	-	8	
	S&C	point ends	265	1,730	459	-	459	212	2,271	481	-	481	(54)	541	22	-	22	
	Track Drainage		1	138,880	86	-	86	1	80,528	88	-	88	0	(58,352)	2	-	2	
	Renewal	lm	n/a	19,215	n/a	n/a	n/a	n/a	13,796	n/a	n/a	n/a	n/a	(5,419)	n/a	n/a	n/a	
	Refurbishment	lm	n/a	114,599	n/a	n/a	n/a	n/a	65,122	n/a	n/a	n/a	n/a	(49,477)	n/a	n/a	n/a	
	New Build	lm	n/a	5,066	n/a	n/a	n/a	n/a	1,610	n/a	n/a	n/a	n/a	(3,456)	n/a	n/a	n/a	
	Fencing	km	34	1,774	61	-	61	30	1,769	53	-	53	(4)	(5)	(8)	-	(8)	
	Slab Track		n/a	n/a	n/a	15	15	n/a	n/a	n/a	44	44	n/a	n/a	n/a	n/a	29	
	Off track		n/a	n/a	n/a	81	81	n/a	n/a	n/a	69	69	n/a	n/a	n/a	(12)	(12)	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					1,784	96	1,880	1,797					113	1,910	13	17	30	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	829	n/a	n/a	n/a	-	1,018	n/a	n/a	n/a	-	189	
	Full conventional resignalling	SEU	381	1,513	577	-	577	219	2,292	501	-	501	(163)	779	(76)	-	(76)	
	Modular resignalling	SEU	1,474	19	28	-	28	297	435	129	-	129	(1,177)	416	101	-	101	
	ERTMS resignalling	SEU	-	-	28	-	28	-	2	13	-	13	-	2	(15)	-	(15)	
	Partial conventional resignalling	SEU	324	583	189	-	189	208	1,526	317	-	317	(116)	943	128	-	128	
	Targeted component renewal	SEU	143	49	7	-	7	250	232	58	-	58	107	183	51	-	51	
	Level crossings	No.	1,175	80	94	-	94	1,131	168	190	-	190	(44)	88	96	-	96	
	Signalling other		-	-	-	374	374	-	-	-	352	352	-	-	-	(22)	(22)	
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS other costs		n/a	n/a	n/a	39	39	n/a	n/a	n/a	22	22	n/a	n/a	n/a	(17)	(17)	
	Operating strategy other capex		n/a	n/a	n/a	120	120	n/a	n/a	n/a	128	128	n/a	n/a	n/a	8	8	
	Minor works		n/a	n/a	n/a	196	196	n/a	n/a	n/a	132	132	n/a	n/a	n/a	(64)	(64)	
	Centrally managed costs		n/a	n/a	n/a	19	19	n/a	n/a	n/a	70	70	n/a	n/a	n/a	51	51	
	Other		-	-	-	1	1	-	-	-	-	-	-	-	-	-	(1)	(1)
Total					923	375	1,298	1,208					352	1,560	285	(23)	262	
Civils	Key structures		n/a	n/a	n/a	-	672	n/a	n/a	n/a	-	735	n/a	n/a	n/a	-	63	
	Underbridges	m2	2	181,617	409	-	409	2	264,511	523	-	523	(0)	82,894	114	-	114	
	Overbridges (incl BG3)	m2	6	24,658	144	-	144	2	59,379	118	-	118	(4)	34,721	(26)	-	(26)	
	Tunnels	m2	1	47,845	53	-	53	1	103,752	64	-	64	(0)	55,907	11	-	11	
	Major structures	m2	n/a	n/a	n/a	66	66	n/a	n/a	n/a	30	30	n/a	n/a	n/a	(36)	(36)	
	Other structures assets		n/a	n/a	n/a	-	136	n/a	n/a	n/a	-	105	n/a	n/a	n/a	-	(31)	
	Culverts	m2	4	9,916	38	-	38	6	5,558	33	-	33	2	(4,358)	(5)	-	(5)	
	Footbridges	m2	7	3,089	22	-	22	4	4,688	21	-	21	(3)	1,599	(1)	-	(1)	
	Coastal & Estuary Defences	m	4	11,488	47	-	47	3	6,582	18	-	18	(1)	(4,906)	(29)	-	(29)	
	Retaining Walls	m2	3	11,410	29	-	29	3	10,047	33	-	33	1	(1,363)	4	-	4	
	Earthworks	5-chain	45	6,296	285	-	285	30	6,286	191	-	191	(15)	(10)	(94)	-	(94)	
	EW Drainage		1	48,345	43	-	43	1	78,335	64	-	64	(0)	29,990	21	-	21	
	Renewal	lm	n/a	9,481	n/a	n/a	n/a	n/a	15,148	n/a	n/a	n/a	n/a	5,667	n/a	n/a	n/a	
	Refurbishment	lm	n/a	2,423	n/a	n/a	n/a	n/a	3,209	n/a	n/a	n/a	n/a	786	n/a	n/a	n/a	
	Maintenance	lm	n/a	23,528	n/a	n/a	n/a	n/a	49,449	n/a	n/a	n/a	n/a	25,921	n/a	n/a	n/a	
	New Build	lm	n/a	12,913	n/a	n/a	n/a	n/a	10,529	n/a	n/a	n/a	n/a	(2,384)	n/a	n/a	n/a	
	Structures other		n/a	n/a	n/a	42	42	n/a	-	n/a	36	36	n/a	n/a	n/a	(6)	(6)	
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(133)	(133)	n/a	n/a	n/a	(134)	(134)	
Total					1,070	109	1,179	1,065					(67)	998	(5)	(176)	(181)	

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative		Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m
				£m	Other non- volume costs £m				£m	Other non- volume costs £m				£m	Other non- volume costs £m	
Buildings	Franchised Stations		n/a	n/a	n/a	-	265	n/a	n/a	n/a	-	294	n/a	n/a	n/a	29
	Footbridges	m2	4	6,859	28	-	28	n/a	11,038	n/a	n/a	-	n/a	4,179	n/a	n/a
	Train Sheds	m2	0	24,813	10	-	10	n/a	32,233	n/a	n/a	-	n/a	7,420	n/a	-
	Canopies	m2	1	69,862	39	-	39	n/a	46,401	n/a	n/a	-	n/a	(23,461)	n/a	-
	Platforms	m2	1	83,932	53	-	53	n/a	150,566	n/a	n/a	-	n/a	66,634	n/a	-
	Buildings	m2	1	31,543	19	-	19	n/a	10,532	n/a	n/a	-	n/a	(21,011)	n/a	-
	Lifts & Escalators	No.	778	18	14	-	14	n/a	149	n/a	n/a	-	n/a	131	n/a	-
	Other		-	-	-	102	102	n/a	-	n/a	n/a	-	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	47	n/a	-	n/a	-	58	n/a	n/a	n/a	11
	Footbridges	m2	-	120	-	-	-	n/a	-	n/a	n/a	-	n/a	(120)	n/a	-
	Train Sheds	m2	2	2,184	5	-	5	n/a	1,600	n/a	n/a	-	n/a	(584)	n/a	-
	Canopies	m2	3	792	2	-	2	n/a	7,123	n/a	n/a	-	n/a	6,331	n/a	-
	Platforms	m2	3	317	1	-	1	n/a	3,400	n/a	n/a	-	n/a	3,083	n/a	-
	Buildings	m2	1	9,413	14	-	14	n/a	11,689	n/a	n/a	-	n/a	2,276	n/a	-
	Lifts & Escalators	No.	1,250	4	5	-	5	n/a	18	n/a	n/a	-	n/a	14	n/a	-
	Other		-	-	-	20	20	n/a	-	n/a	n/a	-	n/a	n/a	n/a	-
	Light Maintenance Depots		1	68,180	35	-	35	0	109,417	n/a	-	39	n/a	41,237	n/a	4
	Buildings	m2	-	9,488	-	-	-	n/a	73,946	n/a	n/a	-	n/a	64,458	n/a	-
	Depot Shed	m2	-	58,692	-	-	-	n/a	35,471	n/a	n/a	-	n/a	(23,221)	n/a	-
	Lineside Buildings	m2	2	13,540	31	-	31	2	22,261	n/a	n/a	48	n/a	8,721	n/a	17
	MDU Buildings	m2	1	16,067	19	-	19	1	30,473	n/a	n/a	26	n/a	14,406	n/a	7
	Depot Plant		-	-	-	7	7	n/a	-	n/a	n/a	26	n/a	-	n/a	19
	NDS Depots		-	-	-	2	2	n/a	-	n/a	n/a	9	n/a	n/a	n/a	7
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(100)	n/a	n/a	n/a	(100)
Total				275	131	406					400					(6)

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m	£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	63	n/a	n/a	n/a	n/a	77	n/a	n/a	n/a	n/a	14		
	wiring	wire runs	89	112	10	-	10	n/a	86	n/a	n/a	-	n/a	(26)	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	123	n/a	n/a	-	n/a	123	n/a	n/a	-		
	Structure Renewals	No.	102	196	20	-	20	n/a	270	n/a	n/a	-	n/a	74	n/a	n/a	-		
	Other		-	-	-	33	33	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	313	67	21	-	21	393	61	n/a	n/a	24	n/a	(6)	n/a	n/a	3		
	AC distribution		-	-	-	-	3	n/a	-	n/a	n/a	28	n/a	n/a	n/a	n/a	25		
	HV Switchgear Renewal	No.	37	27	1	-	1	n/a	24	n/a	n/a	-	n/a	(3)	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	43	n/a	n/a	-	n/a	43	n/a	n/a	-		
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	63	n/a	-	n/a	n/a	93	n/a	n/a	n/a	n/a	30		
	HV Switchgear Renewal	No.	1,200	5	6	-	6	n/a	38	n/a	n/a	-	n/a	33	n/a	n/a	-		
	HV Cables	km	654	26	17	-	17	n/a	60	n/a	n/a	-	n/a	34	n/a	n/a	-		
	LV Switchgear Renewal	No.	80	113	9	-	9	n/a	150	n/a	n/a	-	n/a	37	n/a	n/a	-		
	LV Cables	km	237	59	14	-	14	n/a	36	n/a	n/a	-	n/a	(23)	n/a	n/a	-		
	Transformer Rectifiers	No.	200	10	2	-	2	n/a	4	n/a	n/a	-	n/a	(6)	n/a	n/a	-		
	Other		-	-	-	15	15	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	78	n/a	-	n/a	n/a	154	n/a	n/a	n/a	n/a	76		
	Signalling Power Cable Renewal	km	396	91	36	-	36	n/a	530	n/a	n/a	-	n/a	439	n/a	n/a	-		
	Principle Supply Point Renewal	No.	111	126	14	-	14	n/a	36	n/a	n/a	-	n/a	(90)	n/a	n/a	-		
	Other		-	-	-	28	28	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	41	222	9	-	9	n/a	485	n/a	n/a	-	n/a	n/a	n/a	n/a	(9)		
SCADA		-	-	-	-	-	n/a	-	n/a	n/a	39	n/a	n/a	n/a	n/a	n/a	39		
Energy efficiency		-	-	-	5	5	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(5)		
System capability / capacity		-	-	-	8	8	n/a	-	n/a	n/a	21	n/a	n/a	n/a	n/a	n/a	13		
Other electrical power		-	-	-	20	20	n/a	-	n/a	n/a	31	n/a	n/a	n/a	n/a	n/a	11		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total					159	111	270				467						197		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	12	n/a	-	n/a	n/a	47	n/a	-	n/a	n/a	35		
	Customer Information Systems	No.	15	132	2	-	2	n/a	937	n/a	n/a	-	n/a	805	n/a	n/a	-		
	Public Address	No.	5	1,101	5	-	5	n/a	6,445	n/a	n/a	-	n/a	5,344	n/a	n/a	-		
	CCTV	No.	11	356	4	-	4	n/a	2,699	n/a	n/a	-	n/a	2,343	n/a	n/a	-		
	Clocks	No.	125	8	1	-	1	n/a	84	n/a	n/a	-	n/a	76	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	12	n/a	-	n/a	n/a	13	n/a	n/a	n/a	n/a	1		
	PABX Concentrator	No. Lines	3	1,088	3	-	3	n/a	3,008	n/a	n/a	-	n/a	1,920	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	95	21	2	-	2	n/a	348	n/a	n/a	-	n/a	327	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	115	52	6	-	6	n/a	78	n/a	n/a	-	n/a	26	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	31	-	-	-	n/a	116	n/a	n/a	-	n/a	85	n/a	n/a	-		
	System	No.	29	35	1	-	1	n/a	4	n/a	n/a	-	n/a	(31)	n/a	n/a	-		
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	17	n/a	n/a	-	n/a	6	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-		
	Radio System	No.	-	76	-	-	-	n/a	3	n/a	n/a	-	n/a	(73)	n/a	n/a	-		
	Power Systems	No.	-	53	-	-	-	n/a	3	n/a	n/a	-	n/a	(50)	n/a	n/a	-		
	Network		n/a	n/a	n/a	14	14	n/a	-	n/a	n/a	21	n/a	n/a	n/a	n/a	7		
	Projects and other		n/a	n/a	n/a	17	17	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(17)		
	Non route capex		n/a	n/a	n/a	80	80	n/a	-	n/a	n/a	116	n/a	n/a	n/a	n/a	36		
Total					24	111	135				197						62		

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain - continued

in £m 2015-16 prices unless stated

Cumulative		Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m
				£m	costs £m				£m	costs £m				£m	costs £m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	64	n/a	n/a	n/a	n/a	95	n/a	n/a	n/a	n/a	31
	Incident response		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	5
	Infrastructure monitoring		n/a	n/a	n/a	7	n/a	n/a	n/a	n/a	8	n/a	n/a	n/a	n/a	1
	Intervention		n/a	n/a	n/a	18	n/a	n/a	n/a	n/a	83	n/a	n/a	n/a	n/a	65
	Materials delivery		n/a	n/a	n/a	35	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	(32)
	On track plant		n/a	n/a	n/a	16	n/a	n/a	n/a	n/a	28	n/a	n/a	n/a	n/a	12
	Seasonal		n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	34	n/a	n/a	n/a	n/a	30
	Locomotives		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fleet support plant		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	14	n/a	n/a	n/a	n/a	14
	Road vehicles		n/a	n/a	n/a	18	n/a	n/a	n/a	n/a	13	n/a	n/a	n/a	n/a	(5)
	S&C delivery		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Other			n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						162					283					121
IT	IM delivered renewals		n/a	n/a	n/a	262	n/a	n/a	n/a	n/a	232	n/a	n/a	n/a	n/a	(30)
	Traffic management		n/a	n/a	n/a	26	n/a	n/a	n/a	n/a	64	n/a	n/a	n/a	n/a	38
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						288					296					8
Property	MDUs/offices		n/a	n/a	n/a	24	n/a	n/a	n/a	n/a	37	n/a	n/a	n/a	n/a	13
	Commercial estate		n/a	n/a	n/a	15	n/a	n/a	n/a	n/a	13	n/a	n/a	n/a	n/a	(2)
	Corporate services		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						39					50					11
Other renewals	Asset information strategy		n/a	n/a	n/a	76	n/a	n/a	n/a	n/a	107	n/a	n/a	n/a	n/a	31
	Intelligent infrastructure		n/a	n/a	n/a	21	n/a	n/a	n/a	n/a	31	n/a	n/a	n/a	n/a	10
	Faster isolations		n/a	n/a	n/a	19	n/a	n/a	n/a	n/a	73	n/a	n/a	n/a	n/a	54
	LOWS		n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)
	Small plant		n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	22	n/a	n/a	n/a	n/a	17
	Research and development		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Phasing overlay		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	West Coast		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	CP4 Rollover		n/a	n/a	n/a	274	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(274)
	Other		n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	55	n/a	n/a	n/a	n/a	52
Total						400					288					(112)
Total Renewals						6,057					6,449					392

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain – continued

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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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered in the year are broadly in line with Network Rail's published CP5 Business Plan, with extra Conventional units offsetting lower High Output activity.
 - a. Conventional – volumes delivered this year are higher than the plan which included a catch-up of the under delivery witnessed in the opening year of the control period, notably in East Midlands, London North West, Wales and Wessex.
 - b. High Output – the programme has fallen behind the plan due to issues experienced with contractor delivery, plant failures, and access restrictions (including priorities being given to more strategically important enhancements programmes). Shortfalls in London North East and London North West accounted for the majority of the variance to plan.
- (5) Track - Switches & Crossings – volumes delivered in the current year are lower than the plan. There were notable shortfalls in Anglia (knock on impact of delays in Norwich Yarmouth & Lowestoft Re-signalling scheme), London North West (plan rationalisation due to resource constraints meaning alternative asset management strategies have been implemented) and Western (resource shortages and planning delays).
- (6) Signalling - volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.

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- (7) Signalling - Full Conventional Re-signalling - volume delivery in the current year is behind plan. Volume variances are driven by when planned programmes are completed, many of which are large, multi-year projects which introduces some uncertainty. This year the underdelivery consists of lower delivery in London North East (cost increases in the portfolio and across the organisation has meant that scarce resource utilisation has been replanned to achieve optimal results), Western (delays in the commissioning dates of Swindon, Bristol and Reading) and Kent (Medway Valley element of East Kent Phase 2 being deferred to future years following project cost uplifts prompting a scope review and change in asset management approach) which have been partly offset by extra volumes reported in London North West (Wolverhampton scheme originally planned for commissioning in the opening year of the control period) and Wales (catch up of activity from the opening year of the control period).
- (8) Signalling – Modular - volumes delivered in the current year is lower than the plan. This variance has largely arisen within Anglia (deferral of North London Line activity to develop more technology-based solution), Wales (impact of deferral of Newport-Shrewsbury and North Wales Coast schemes and other elements of the portfolio in light of increasing cost estimates and constrained resources) and London North East (deferral of activity to future control periods to meet resource constraints and adoption of alternative asset management strategies).
- (9) Signalling - Partial Conventional Re-signalling – volume reported in the year is lower than the plan due to signalling schemes being deferred due to contractor capacity, funding constraints and workbank prioritisation in East Midlands. There have also been deferrals in London North East due to a lack of contractor capacity, in Sussex due to resource and possession issues and in Western as large schemes such as Swindon, Bristol and Reading have had their commissioning dates postponed.
- (10) Signalling – Targeted Component – volumes delivered across most routes in lower than the plan assumed. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Alternative asset management strategies are being implemented to maintain assets at an appropriate level of quality.
- (11) Signalling - Level Crossings – volumes delivered were lower than the plan in most routes. This includes Kent (a number of level crossings deferred due to the slippage of the aforementioned Medway Valley work), London North East (including issues arising from lack of suitable resource) and London North West (deferrals due to access issues). Also, in light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (12) Civils - Underbridges – volumes delivered this year were lower than the plan due primarily to contractor performance, access availability and workbank development which has stemmed from a bottom up review of workbanks to assess priority in light of resource constraints facing the organisation. Thorald Bridge in London North East was a significant scheme in the plan which has now been deferred to later in the control period due to a change in scope. There were access issues on a number of schemes in London North West (including Eskmeal Viaduct and Reddish Viaduct). There were deferrals in Sussex as a result of ecological issues and challenges obtaining the necessary access. Delivery of the Old Lodge Lane bridge, on the Brighton Main Line, was due to be replaced over Christmas but was cancelled due to high winds and risk of possession overruns.
- (13) Civils - Overbridges - volumes delivered this year were lower than the plan due primarily to delays in design and tendering as well as resource availability resulting in a number of schemes slipping into future years in East Midlands. The River Aire bridge in London North East has been deferred to the next control period due to a re-assessment of the asset condition. The Kit Hill bridge in Wessex has been deferred into the next control period following resource re-prioritisation.
- (14) Civils - Tunnels - volumes delivered this year were lower than the plan due predominantly to works at Bishopsgate Tunnel having been deferred to the in the control period in Anglia. The Sevenoaks tunnel scheme in Kent has slipped due to access constraints and the need to align with other works being undertaken within the tunnel in order to optimise delivery. A number of schemes in Wessex (including Popham, Foxhill and Mickleham) have been deferred to the next control period as a result of resource prioritisations identified as part of updates to Network Rail's plans.
- (15) Civils – Culverts – volumes delivered in the current year were higher than the plan. The majority of this variance was in London North East and reflected a catch up of underdelivery in the opening year of the control period and an acceleration of work from future years.

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- (16)Civils - Footbridges - Footbridges – volumes delivered were lower than the plan with a large amount of work deferred to next year due to a mix of workbank re-profiling and review following the development of full bottom-up workbanks in light of re-prioritisations arising from resource constraints facing the organisation.
- (17)Civils - Retaining Walls – volumes delivered in the year were higher than the plan which includes incorporating shortfalls from the opening year of the control period into the current year's workbank, including Ferryhill Lane (Scotland), East Croydon (Sussex) and Fishguard (Wales). The volumes included in the plan were based on high level asset management assumptions and, as such, were always likely to be indicative in nature. The actual volumes required have proven difficult following a better understanding of asset condition and requirements with significant variances (either increases or decreases) across most routes.
- (18)Civils - Earthworks – volumes delivered in the current year were higher than the plan. This is predominantly the result of increasing levels of maintain interventions in year two; partially linked to the recovery of year one under-delivery and partly due to emerging asset condition requirements.
- (19)Civils – Earthworks Drainage – volumes delivered were lower than planned. The volumes included in the plan were based on high level asset management assumptions and, as such, were always likely to be indicative in nature. The actual volumes required have proven difficult following a better understanding of asset condition and requirements with significant variances (either increases or decreases) across most routes.
- (20)Buildings - Franchised Stations – Train Sheds – volumes delivered this year were higher than the plan which included a catch up of activity deferred from the opening year of the control period. There were additional volumes delivered in London North West (extra work undertaken as part of the Manchester Victoria station redevelopment which was not included in the original plan) and Scotland (including a catch up of work deferred from the opening year of the control period and asset management considerations resulting in acceleration of activity from future years) which was partly offset by reductions in Wales (reprofiling of Holyhead station to year four of the control period in order to optimise delivery).
- (21)Buildings - Franchised Stations – Platforms –volumes delivered this year were lower than the plan. The majority of this variance occurred in London North West (due to re-scoping of the requirements of the Liverpool Underground Moorfields project), Sussex (re-profiling of activity within the first two years of the control period with extra volumes being delivered in 2014/15) and East Midlands (resource constraints facing the organisation resulting in a re-prioritisation of funds to those projects and areas that can utilise them most effectively).
- (22)Buildings - Franchised Stations – Buildings –volumes delivered this year were higher than the plan. This variance was mostly in London North West (CP5 Business Plan underestimated the level of work required in this area to maintain the appropriate level of asset quality), Anglia (including the catch up of activity deferred from the opening year of the control period as well as volumes accelerated from future years of the control period) and East Midlands(mainly relates to work at Bedford station that was originally planned for 2016/17 but was accelerated to make use of available resource) partly offset in Western (revision of workbank following re-prioritisation of scarce resources in the organisation to optimise outputs).
- (23)Buildings - Franchised Stations – Lifts & Escalators –volumes delivered this year were lower than the plan which mostly arose from variances in Scotland where, following an assessment of asset condition and available resources, activity has been deferred to future control periods so that funds can be utilised more effectively on other programmes.
- (24)Buildings - Managed Stations – Train Sheds – no volumes were included in the CP5 Business Plan for the current year. All of the volumes reported this year relate to activity in Sussex relating to works at London Victoria originally planned for later in the control period.
- (25)Buildings - Managed Stations – Canopies – volumes delivered this year were lower than the plan. The vast majority of this variance occurred in Sussex where there was a re-phasing of works between years two and three of the control period, with the volumes not delivered this year anticipated to be achieved in 2016/17.
- (26)Buildings - Managed Stations – Platforms – volumes delivered this year were lower than the plan. This variance all arose in Kent and was a consequence of reprofiling resurfacing works at Charing Cross station which have been rescheduled for 2016/17 due to external resource issues.

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- (27) Buildings - Managed Stations – Buildings – volumes delivered this year were lower than the plan which is due to underdelivery in Anglia (deferral of works at Liverpool Street station until 2016/17 due to priority given to Crossrail enhancement programme works in this region), partly offset by extra volumes delivered in London North East (acceleration of works from future years to utilise available resource), Scotland (evolving works programme at Edinburgh Waverly and Glasgow Central stations compared to the original plan) and Wessex (unplanned repairs to the concourse roof at Waterloo station).
- (28) Buildings - Light Maintenance Depots – volumes delivered were higher than the plan which partly offset the shortfall in volumes delivered in the first year of the control period. Extra volumes were required following asset quality concerns (London North East following a crane failure, Plymouth shed roof in Western and Stewart's Lane in Sussex).
- (29) Buildings - Lineside Buildings - volume delivery this year is higher than the CP5 Business Plan which includes a catch up of activity deferred from the opening year of the control period. The largest variance in the year is in London North West where no volumes were planned for CP5 but asset condition has required some intervention at Crewe Power Signal Box works.
- (30) Buildings – MDU buildings – volumes delivered were lower than the plan which reflected reprofiling of activity to later in the control period (London North West) partly offset by underestimates of the level of activity required for this type of asset in the original CP5 Business Plan (London North East and Wales).
- (31) Electrification – Mid-life Refurbishment – no volumes have been delivered this year, a trend that is expected to continue for the remainder of the control period. Alternative asset management strategies are being implemented to maintain the asset at an appropriate level of quality. Also, In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (32) Electrification - Structures Renewals – volumes delivered this year are lower than the plan which includes the impact of the pausing and subsequent restarting of the Midland Mainline Enhancement programme which led to fluctuations in delivery resource availability which has ultimately delayed the programme. In addition, volumes in Anglia are higher than the plan which was based on some high level assumptions about the number of volumes that would be required to maintain asset condition which now appear to be inaccurate, as better asset management information becomes available
- (33) Electrification - Conductor Rail Renewal – volumes delivered in the year are higher than the plan assumed which is mostly due to the recovery of volumes deferred from last year's plan following improved delivery.
- (34) Electrification – Booster Transformers – no volumes were delivered in the year which is a pattern expected to continue for the remainder of the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (35) Electrification - HV Switchgear Renewal DC - volumes delivered this year are lower than the plan mostly due to a fundamental replanning of activity in Wessex as a result of safety concerns. Network Rail takes the safety of staff, passengers and contractors very seriously which increases the need to complete such works carefully.
- (36) Electrification - LV Switchgear Renewal – volumes delivered this year are lower than the plan due to items being re-profiled from current year due to access availability and the intention to drive greater financial efficiency through more effective planning.
- (37) Electrification – LV Cables – volumes delivered were higher than the plan which was a mixture of some over and under delivery throughout various routes as activity was re-phased within the control period or the high level assumptions in the CP6 Business Plan have been superseded by a more detailed asset management strategy following the emergence of better information.
- (38) Electrification - Signalling Power Cables – volumes delivered were lower than the plan which is mainly due to lower contractor resource availability, caused in part by delays engaging with and understanding the new framework contracts introduced this control period. Shortfalls in London North West and Western account for most of the variance in the year.

Statement 14: Renewals volumes, unit costs and expenditure, Great Britain – continued

in £m 2015-16 prices unless stated

- (39) Electrification - Principle Supply Point Renewal – volumes reported in the year were higher than the plan. There were notable increases in volumes in Kent (the CP5 Business Plan assumed no activity in this area but improved asset information has required volumes to be delivered) and Sussex (which includes a catch up of activity deferred from the opening year of the control period).
- (40) Telecoms – Customer Information Systems – volumes delivered in the year were lower than planned. There were notable reductions in volume in Wessex, Sussex (both mostly due to activity deferred into future control periods in light of the resource constraints facing the organisation and the requirement to prioritise projects which can utilise the available funds most effectively) and London North East (where a change in train operator franchise has led to delays agreeing the scope of works to be undertaken).
- (41) Telecoms – Public Address – volumes delivered in the year were lower than planned. This is due to a reprofiling of activity within the control period to allow better planning and optimise delivery (Kent, Sussex and Wessex) and a deferral of activity into future control periods to ensure that scarce resources are used optimally in areas that can use the funds most effectively (London North West).
- (42) Telecoms – CCTV – volumes delivered in the year were lower than planned, which is a trend across most routes. These shortfalls are mainly due to the impact of resource constraints facing the organisation meaning that funds have to be re-prioritised to those areas which can use them most effectively. In addition, a policy change for London Managed Stations CCTV renewals has been implemented which favours partial renewals rather than full renewals as the preferred asset management solution.
- (43) Telecoms – Clocks – volumes delivered in the current year were lower than planned. The shortfall in volumes is mainly in East Midlands and London North West where resource constraints facing the organisation has meant that plans have had to be revised to re-prioritise projects which can make the most effective use of resources.
- (44) Telecoms – Processor Controlled Concentrator – no volumes were delivered in the current year. The shortfall compared to the CP5 Business Plan was predominately in London North West where activity has been reprofiled to later years of the control period to optimise delivery.
- (45) Telecoms - Driver-Only Operation: CCTV – volumes delivered in the current year were higher than the plan which included a catch up of activity deferred from the opening year of the control period. The majority of the variance this year arose in Anglia where works have been reprofiled within the control period to optimise delivery.
- (46) Telecoms - Driver-Only Operation: Mirrors – volumes delivered in the current year were lower than the plan assumed. The majority of this shortfall was in London North West where activity has been reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (47) Telecoms - Public Emergency Telephone System – volumes delivered in the current year were higher than the plan. This was largely due to an acceleration of activity into earlier years of the control period compared to the assumptions in the CP5 Business Plan. Total volumes across the control period are expected to be line with the plan set at the start of CP5.
- (48) Telecoms – Radio Systems – there were no volumes included for the current year in the plan. However, volumes were delivered, primarily in Scotland, as asset management assessments have necessitated some activity this year.
- (49) Telecoms – Power Systems – there were minimal volumes for the current year in the plan. However, volumes were delivered, primarily in Scotland, as asset management assessments have necessitated some activity this year.

Statement 1: Summary regulatory financial performance, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	3,835	3,776	59	7,613	7,528	85	3,778
Fixed Income	277	256	21	629	593	36	352
Variable Income	1,025	1,061	(36)	2,030	2,028	2	1,005
Other Single Till Income	779	803	(24)	1,509	1,556	(47)	730
Opex memorandum account	17	-	17	17	-	17	-
Total Income	5,933	5,896	37	11,798	11,705	93	5,865
Operating expenditure							
Network operations	489	395	(94)	938	804	(134)	449
Support costs	345	424	79	722	869	147	377
Traction electricity, industry costs and rates	532	569	37	1,053	1,050	(3)	521
Network maintenance	1,134	1,021	(113)	2,225	2,064	(161)	1,091
Schedule 4	229	201	(28)	419	395	(24)	190
Schedule 8	105	4	(101)	212	7	(205)	107
Total operating expenditure	2,834	2,614	(220)	5,569	5,189	(380)	2,735
Capital expenditure							
Renewals	2,769	2,378	(391)	5,477	4,750	(727)	2,708
PR13 enhancement expenditure	2,736	2,787	51	5,222	5,305	83	2,486
Non PR13 enhancement expenditure	214	-	(214)	352	-	(352)	138
Total capital expenditure	5,719	5,165	(554)	11,051	10,055	(996)	5,332
Other expenditure							
Financing costs	1,274	1,581	307	2,562	3,074	512	1,288
Corporation tax (received)/paid	-	-	-	(4)	4	8	(4)
Total other expenditure	1,274	1,581	307	2,558	3,078	520	1,284
Total expenditure	9,827	9,360	(467)	19,178	18,322	(856)	9,351

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

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher traction electricity charges and higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding these items, income is higher than the determination as a result of extra property income generated which more than offsets lower freight income. This is set out in more detail in Statement 6a. Income is higher than the previous year as extra property income (notably property sales) more than offsets declines in the freight industry.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines May (2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year due to higher market electricity prices which is mostly recovered through additional income.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including incidents at Dover in Kent, as well as other numerous landslips. These variances are set out in more detail in Statement 10. Costs are higher than the previous year due to more significant weather events and the delivery of extra renewals activity which required network possessions.

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

in £m 2015-16 prices unless stated

- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year reflecting additional activities.
- (14) Capital expenditure - PR13 Enhancements expenditure is less than the baseline which is a combination of efficient overspends more than offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3. Investment is higher than the previous year reflecting net extra delivery across a wide range of schemes and programmes.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. Expenditure is higher than last year with a major contribution from elements of the East West rail programme funded through the investment framework.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, England and Wales

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	45,577	44,161	1,416
Indexation to 2013-14 prices	2,134	2,068	66
Opening RAB for the year (2014-15 prices)	47,711	46,229	1,482
Indexation for the year	502	486	16
Opening RAB (2015-16 prices)	48,213	46,715	1,498
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,555	2,378	177
PR13 enhancements	2,706	2,679	27
Non-PR13 enhancements	213	-	213
Total enhancements	2,919	2,679	240
Amortisation	(2,154)	(2,154)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	51,533	49,618	1,915

RAB Regulatory financial position - cumulative, England and Wales

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	44,034	48,213	44,034
Adjustments for the actual capital expenditure outturn in CP4	1,252	-	1,252
Renewals	2,522	2,555	5,077
PR13 enhancements	2,458	2,706	5,164
Non-PR13 enhancements	106	213	319
Total enhancements	2,564	2,919	5,483
Amortisation	(2,154)	(2,154)	(4,308)
Adjustments for under-delivery of regulatory outputs	(5)	-	(5)
Closing RAB	48,213	51,533	51,533

Statement 2a: RAB - Regulatory financial position, England & Wales – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity within the control period. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, England & Wales – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, England and Wales

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	2,372	2,378	4,750
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	221	-	221
Capitalised financing on CP4 deferrals	5	10	15
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	2,598	2,388	4,986
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(648)	(525)	(1,173)
Capitalised financing on acceleration / (deferrals) of expenditure	(14)	(40)	(54)
Adjustments for efficient overspend	708	880	1,588
Capitalised financing on efficient overspend	15	50	65
25% retention of efficient overspend	(177)	(220)	(397)
Capitalised financing on efficient overspend 25% retention	(4)	(12)	(16)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	55	36	91
Capitalised financing on efficient overspend through spend to save framework	1	4	5
20% retention of efficient overspend through spend to save framework	(11)	(5)	(16)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	(1)	(1)
Other adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	(0)	(0)
Total Renewals (added to the RAB - see Statement 2a)	2,522	2,555	5,077
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(3)	(11)	(14)
Adjustment for 25% retention of efficient overspend	188	225	413
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	1	-	1
Total actual renewals expenditure (see statement 9)	2,708	2,769	5,477

Statement 2b: RAB - reconciliation of expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	2,464	2,679	5,143
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	198	(198)	-
Capitalised financing on CP4 deferrals	4	5	9
Baseline adjustments	-	269	269
Capitalised financing on Baseline adjustments	-	6	6
Adjustments to DfT funding	(157)	-	(157)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(11)
Other adjustments	25	25	50
Capitalised financing on other adjustments	1	2	3
Adjusted PR13 determination (enhancements)	2,531	2,781	5,312
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(187)	(165)	(352)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(12)	(16)
Adjustments for efficient overspend	73	(28)	45
Capitalised financing on efficient overspend	2	3	5
25% retention of efficient overspend	(18)	7	(11)
Capitalised financing of 25% efficient overspend	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	67	159	226
agreements - retention of efficient overspend	(11)	(39)	(50)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	6
Adjustments for efficient overspend through spend to save framework	5	(5)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	1	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,458	2,706	5,164
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	119	204	323
overspend	(15)	-	(15)
Capitalised financing on non-PR13 enhancements expenditure	2	9	11
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	106	213	319
Total enhancements (added to the RAB - see statement 2a)	2,564	2,919	5,483
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(2)	(10)	(12)
Adjustment for 25% retention of efficient overspend	45	31	76
Other adjustments	18	10	28
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	473	296	769
Other adjustments	(1)	-	(1)
Total actual enhancement expenditure (see statement 3)	3,097	3,246	6,343

Statement 2b: RAB - reconciliation of expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail).
- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.
- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (13) Enhancements – Adjustments for efficient overspend/ (underspend) – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5. Under the terms of the Regulatory Accounting Guidelines (May 2016) Network Rail can add 25 per cent of the underspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure/ saving.
- (14) Enhancements - 25% retention of efficient overspend/ (underspend) – following on from the above comment, this heading represents the 25 per cent of the overspend/ underspend that Network Rail retains. The overspend is not eligible for logging up to the RAB (this is retained by Network Rail) whilst the underspend is logged up to the RAB to reflect the benefit retained by Network Rail of efficient underspends.
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (17) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.

Statement 2b: RAB - reconciliation of expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (18) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the element of the overspend that Network Rail retained in 2014/15 which has been reversed in the current year to reflect the latest control period plans for this category of investment.
- (19) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (20) Non-PR13 enhancements – Other adjustments (including discretionary investment) – expenditure this year mainly relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, England and Wales

in £m 2015-16 prices unless stated

	2015-16			2014-15		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	18	26	8	27	27	-
Stations - National Station Improvement Programme (NSIP)	20	8	(12)	30	37	7
Stations - Access for All (AfA)	31	(1)	(32)	60	62	2
Development	38	94	56	99	125	26
Level crossing safety	18	24	6	28	44	16
Passenger journey improvement	6	(58)	(64)	7	8	1
The strategic rail freight network	24	16	(8)	87	89	2
Total funds	155	109	(46)	338	392	54
Committed projects						
Thameslink	471	409	(62)	976	856	(120)
Crossrail	504	523	19	909	964	55
GW electrification (Paddington to Cardiff)	590	609	19	889	860	(29)
Adjustment for DfT funding - GW electrification	-	-	-	(74)	(74)	-
Bridgend to Swansea electrification	8	12	4	13	14	1
East West Rail (committed scheme)	16	130	114	160	165	5
Northern Hub	243	323	80	410	412	2
IEP Programme	54	37	(17)	125	143	18
North Trans Pennine Electrification East	10	(41)	(51)	26	24	(2)
North Trans Pennine Electrification West	(3)	(17)	(14)	-	-	-
NW Electrification	(39)	(99)	(60)	(3)	-	3
Reading station area redevelopment	23	19	(4)	132	137	5
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(83)	(83)	-
Stafford area improvement scheme	86	78	(8)	139	130	(9)
West coast power supply upgrade	57	48	(9)	113	115	2
Total committed projects	2,020	2,031	11	3,732	3,663	(69)
Named schemes						
The Electric Spine:						
MML electrification	50	29	(21)	103	97	(6)
Derby station area remodelling	4	7	3	7	7	-
Electric spine (DfT SoFA amount)	47	70	23	70	78	8
Total Electric Spine projects	101	106	5	180	182	2
Thames Valley:						
Acton to Willesden electrification (WCML)	1	(5)	(6)	1	2	1
Thames Valley branches	1	-	(1)	1	2	1
Oxford Station area capacity and station enlargement	8	9	1	12	10	(2)
Total Thames Valley projects	10	4	(6)	14	14	-
Midlands						
Walsall to Rugeley electrification	16	24	8	32	40	8
Total Midlands Projects	16	24	8	32	40	8
Yorkshire						
Huddersfield station capacity improvement	2	-	(2)	2	-	(2)
Total Yorkshire Projects	2	-	(2)	2	-	(2)
Airports & Ports:						
Western access to London Heathrow Airport	5	2	(3)	7	8	1
Service Improvements in the Ely Area	1	1	-	1	2	1
Redhill additional platform	4	3	(1)	5	5	-
Total airports & Ports	10	6	(4)	13	15	2

Statement 3: Analysis of enhancement capital expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

	2015-16			2014-15		
	Actual	Baseline	Difference	Actual	Baseline	Difference
South East						
Waterloo	40	36	(4)	48	37	(11)
Total South East	40	36	(4)	48	37	(11)
West						
Dr Days to Filton Abbey Wood capacity improvements	12	6	(6)	16	12	(4)
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	1	(3)	(4)	1	-	(1)
Total West	13	3	(10)	17	12	(5)
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(1)	(1)	-	1	1
South London HV traction power upgrade	1	(3)	(4)	2	1	(1)
West Anglia main line capacity increase	5	5	-	7	5	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	3	1	4	4	-
West of England DMU capability works	1	(4)	(5)	1	1	-
East Kent resignalling phase 2	17	23	6	42	54	12
Stevenage and Gordon Hill turnbacks	2	2	-	3	3	-
Reading, Ascot to London Waterloo train lengthening	3	2	(1)	4	3	(1)
Uckfield line train lengthening	13	12	(1)	14	13	(1)
MMML long distance high speed services train lengthening	1	-	(1)	2	3	1
Route gauge Clearance for different EMUs	2	(1)	(3)	4	2	(2)
Bradford Mill Lane capacity	1	1	-	1	1	-
Leeds station capacity	-	(3)	(3)	-	-	-
Chiltern Main Line Train Lengthening	8	11	3	14	12	(2)
North West train lengthening	-	(3)	(3)	-	-	-
New Cross Grid	1	(12)	(13)	3	3	-
Anglia traction power supply upgrade	4	-	(4)	7	7	-
Sussex traction power supply upgrade	4	-	(4)	5	5	-
Wessex traction power supply upgrade	9	17	8	14	21	7
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	7	5	(2)	10	11	1
LNE routes traction power supply upgrade	-	(16)	(16)	-	1	1
Total HLOS capacity metric schemes	81	38	(43)	138	152	14
Third party funded						
Welsh Valley lines electrification	-	(8)	(8)	2	2	-
Total Third Party funded	-	(8)	(8)	2	2	-

Statement 3: Analysis of enhancement capital expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	2014-15 Baseline	Difference
CP4 Projects Rollovers						
Birmingham New St Gateway	58	140	82	158	209	51
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	8	9	1	15	14	(1)
Redditch Branch Enhancement	-	1	1	17	17	-
Kent power supply upgrade (CP4)	16	28	12	54	54	-
Barry - Cardiff Queen Street corridor	2	-	(2)	13	13	-
Capacity relief to the ECML	-	(7)	(7)	73	74	1
North Doncaster Chord	-	(2)	(2)	-	-	-
East Coast mainline overhead electrification	-	(2)	(2)	-	-	-
DC Regeneration	-	-	-	1	1	-
Package 4, Gravesend Train Lengthening	-	-	-	-	-	-
Package 7,10 Car Park West Suburban Railway	-	4	4	15	15	-
Wessex Automatic Selective Door Opening	1	2	1	2	2	-
Battersea Park Station Planform Lengthening	-	(1)	(1)	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	2	(2)	(4)	23	16	(7)
Westerleigh Junction - Barnt Green linespeed increase	-	-	-	-	-	-
Station Security	-	(2)	(2)	-	-	-
Other CP4 Rollover	6	6	-	6	6	-
Total CP4 rollovers	93	174	81	382	427	45
Other projects						
Seven day railway projects	21	33	12	38	40	2
ERTMS Cab fitment	10	18	8	19	26	7
R&D allowance	4	5	1	7	14	7
Depots and stabling	44	71	27	62	71	9
Income generating property schemes	116	173	57	198	218	20
Other income generating investment framework schemes	-	(36)	(36)	-	-	-
Total other projects	195	264	69	324	369	45
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	2,736	2,787	51	5,222	5,305	83
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	24	-	(24)
NHub Huyton & Roby	(21)	-	21	-	-	-
DNOs clearance work	3	-	(3)	12	-	(12)
OCSLNE SCPF Newcastle Station	-	-	-	19	-	(19)
Tram Train Project	(5)	-	5	-	-	-
NW Electrification	79	-	(79)	79	-	(79)
Other government sponsored schemes	15	-	(15)	19	-	(19)
Total Government sponsored schemes	71	-	(71)	153	-	(153)
Network Rail spend to save schemes						
Mountfield	4	-	(4)	30	-	(30)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	4	-	(4)	30	-	(30)
East West Rail (committed scheme)	131	-	(131)	131	-	(131)
Other	(2)	-	2	9	-	(9)
Total Schemes promoted by third parties	129	-	(129)	140	-	(140)
Discretionary Investment	10	-	(10)	29	-	(29)
Total non PR13 enhancement expenditure	214	-	(214)	352	-	(352)
Total Network Rail funded enhancements (see Statement 1)	2,950	2,787	(163)	5,574	5,305	(269)
Third Party PAYG	296	-	(296)	769	-	(769)
Total enhancements (see statement 2b)	3,246	2,787	(459)	6,343	5,305	(1,038)

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £2,950m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,246m less the PAYG schemes funded by third parties (£296m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

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- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure was slightly lower than the determination in this year and is much lower for the control period to date. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and control period to date is higher than the determination which is mostly due to underperformance. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) 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. Expenditure is less than the regulator's determination in the year and control period to date due to re-profiling of work to future years. However this was offset by negative financial performance in the year (reported in Statement 5a) as the total programme is now expected to cost more than the baseline. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (c) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is slightly higher than the baseline due to acceleration of activity into the current year. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
 - (d) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
 - (e) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably lower than the baseline in the year due to a reclassification of spend to 'Non PR-13'. This is partially off-set by financial underperformance on this programme (refer to Statement 5a) due to increases in the expected final costs of the programme which have arisen after the baseline was revised as part of the aforementioned Hendy review.
 - (f) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Although costs in the control period to date are broadly consistent the baseline the project is now expected to cost more than the baseline included in the Hendy review. Therefore, negative FPM has been recognised in the current year (refer to Statement 5a).
 - (g) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is slightly lower than the baseline as activity has been re-profiling into future years. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).

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- (h) North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is broadly in line with the baseline.
- (i) North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is broadly in line with the baseline. The credit balance recognised in the current year is due to a reclassification of investment reported in 2014/15 into North Trans Pennine Electrification East.
- (j) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The credit balance reported in the current year represents a change in funding agreed with DfT and many of the programme costs are now included in the Government Sponsored Schemes section of this statement. The credit position on the control period to date represents reclassifications relating to expenditure undertaken on this programme in previous control periods to the Government Sponsored Schemes category.
- (k) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. As this programme nears completion the expected costs for delivering the whole programme have decreased, as tight cost control has allowed the release of project contingencies. As a result, there is a saving against baseline and a recognition of financial outperformance (see Statement 5a).
- (l) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
- (m) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. The programme has spent slightly more than the baseline but this is due to work being brought forward from later in the control period.
- (n) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Costs are in line with the baseline. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

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- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is slightly higher than the baseline for the control period to date as activity has progressed more swiftly than expected.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the control period to date is consistent with the baseline.
 - (c) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is slightly lower than the baseline as elements of the programme have been deferred into future years.
 - (d) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (e) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (f) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along on the Oxford Corridor. Expenditure is very slightly higher than the baseline.
 - (g) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years.
 - (h) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Work at this stage in the control period is slightly ahead of plan. Activity on this project is expected to ramp up over the later years of the control period.
 - (i) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.
 - (j) Service Improvements in the Ely Area - this project is to develop a scheme which improves capacity in the Ely area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. Progress on this project is in line with the Hendy review expectations.
 - (k) Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations.
 - (l) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. There has been an update to the anticipated project costs since the baselines were re-set as part of the aforementioned Hendy review which has been partially offset by deferral of activity into later years. Consequently, financial underperformance has been acknowledged this year (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

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- (m) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is slightly higher than the baseline due to work being brought forward from future years.
 - (n) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first two years of the control period.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Leeds and Sheffield Capacity – This project Provides additional capacity at Leeds Station and a programme of platform extensions to allow longer trains to operate on a number of routes in West and South Yorkshire into Leeds and Sheffield. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period.
 - (b) South London HV traction power upgrade - The key aim of this project is 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, Sussex and Kent Routes. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period. Following the Hendy review completion of the first stage of the project will now happen in control period 6.
 - (c) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure was very slightly higher than the baseline.
 - (a) Bow Junction upgrade with Chelmsford & Wickford turnbacks – Overcrowding on the Chelmsford and Southend Victoria routes is reduced by optimising capacity released on the Electric Lines into Liverpool Street following diversion of most peak suburban services through the Crossrail tunnel from 2019. The project comprises performance improvements, upgrade of Bow Junction and provision of turnbacks in the Chelmsford and Wickford areas. Expenditure in the control period to date is consistent with the baseline arising from the Hendy review.
 - (b) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Hendy review baselines there was minimal activity on this programme in the first two years of the control period.
 - (c) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure was lower than the baseline due to re-scheduling of work in the project since the Hendy Review.
 - (d) Stevenage and Gordon Hill turnbacks - this project was planned to deliver the capacity metric into Moorgate and King's Cross providing for efficient use of suburban rolling stock by allowing services to turnback at Stevenage and Gordon Hill hence providing efficient resourcing for peak capacity on Inner Suburban services into King's Cross and Moorgate. As part of the Hendy review the Gordon Hill turnback has been deferred until descoped and will be considered as part of the funding requirements for CP6. Expenditure was consistent with the baseline included in the Hendy Review.
 - (e) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure was broadly consistent with the baseline included in the Hendy Review for the control period to date.
 - (f) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure is on target with the baseline.

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (g) MML long distance high speed services train lengthening - The project will relieve overcrowding by enabling the introduction of longer trains on the MML. In line with the baselines in the Hendy review there was minimal activity on this programme in the first two years of the control period. The project has been pushed towards the end of the control period following the outcome of the Hendy Review.
- (h) Route gauge Clearance for different EMUs – expenditure is slightly higher than the revised baseline which was agreed as part of the Hendy review due to acceleration of activity from future years.
- (i) Bradford Mill Lane capacity – this programme is designed to provide parallel moves at Bradford interchange to/from Leeds and Halifax to support improvements in the North Yorkshire area. There has been minimal activity on this project in the opening years of this control period, in line with the expectation in the baseline agreed following the Hendy review.
- (j) Leeds station capacity – This project enhances capacity in the Leeds area. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
- (k) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are slightly higher than target as work has been accelerated from future years.
- (l) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
- (m) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure was consistent target with the baseline over the first two years of the control period.
- (n) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure was on target with the baseline.
- (o) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic Thameslink Programme. Expenditure was on target with the baseline.
- (p) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure is lower than the baseline due to delays in project delivery that have arisen since the baseline was agreed following the Hendy review.
- (q) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.
- (r) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is broadly on target with the baseline.
- (s) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. . In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.

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- (9) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but has been treated as neutral when assessing financial performance.
 - (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. This project was re-scheduled following the Hendy Review so has had its commissioning pushed back to later in the control period. However financial underperformance has been recognised (refer to Statement 5a) due to the increased costs following the delay. As a result of this financial underperformance, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (c) Redditch Branch Enhancement - This project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (d) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure was on target with the revised baseline for the control period to date.
 - (e) Barry - Cardiff Queen Street corridor – This project will deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (f) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was in line with the baseline and the programme is largely completed.
 - (g) North Doncaster Chord - The scheme was planned to allow an increase in passenger and freight services on the East Coast Main Line (ECML) by removing a significant number of existing freight services between Joan Croft junction and Hambleton South junction and re-routing these via a more direct route. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (h) East Coast mainline overhead electrification - The key output is a reduction of delay minutes to support delivery of the route performance as part of CP4/5 Long Term Performance Plan (LTPP). The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (i) DC generation - To complete the scheme that enables DC regenerative braking to be introduced on all DC electrified routes in Wessex. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (j) Package 4, Gravesend Train Lengthening – This project will facilitate the operational plan assumed with train operators to deliver the CP4 HLOS capacity metric by supporting 12 car operations on specific services between Gillingham and Gravesend. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.

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in £m 2015-16 prices unless stated

- (k) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (l) Wessex Automatic Selective Door Opening – This project aims to provide the necessary infrastructure to facilitate the operational plan assumed with train operators to deliver CP4 HLOS capacity metrics. The project will facilitate operation of 10 car suburban trains on the Wessex Windsor Line network. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (m) Battersea Park Station Platform Lengthening – This project was planned to increase capacity at the station. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
- (n) Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure on this element of the programmes in line with the Hendy baseline and is substantially complete.
- (o) East Croydon Passenger Capacity Scheme - Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (p) MML Linespeed Improvements – this project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (q) Westerleigh Junction - Barnt Green linespeed increase - This enhancement will provide a linespeed increase to 100mph for the majority of the route, resulting in increased performance robustness. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
- (r) Station Security – This programme planned to deliver enhanced vehicle access control arrangements across key franchised stations. As part of the Hendy review, the phasing of this project was amended. Expenditure in the control period to date is in line with this new phasing.
- (s) Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure is in line with the baseline agreed following the Hendy review.

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (11) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is below target due to reprofiling of activity into future years.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was rephased from the current control period to CP6. Therefore the expenditure is below the regulator's determination for the year and control period to date.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. The expenditure for the control period is below the target as work has been reprofiled until later years of the control period.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was NW Electrification which included the reclassification of expenditure included in the PR13 funded element of the NW Electrification programme into the Government sponsored category. Similarly, last year, Northern Hub Huyton & Roby was included as a Government sponsored scheme not, as agreed with the DfT, this expenditure now forms part of the PR13-funded scope under the Northern Hub programme. Also, the Tram Train Pilot expenditure undertaken in 2014/15 has now been cash funded this year, thus reducing the Government sponsored expenditure but increasing PAYG.
 - (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in previous years and so there is limited cost this year. Also, there were no other similarly large schemes undertaken this year by Network Rail and so the investment in this category is lower than the previous year.

Statement 3: Analysis of enhancement capital expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (c) Schemes promoted by third parties – the item in this category which accounts for the vast majority of the expenditure was East West Rail Phase 1. This was re-classified from the PR13 expenditure discussed above. The expenditure on this scheme is much higher than anything else in the control period to date.
- (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and in the prior year to CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). The extra costs on Manchester Victoria results in financial underperformance (refer to Statement 5).
- (e) PAYGO – as noted above, in the control period this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Significant programmes in this category in the current year include: Crossrail, and North-South Wales Journey Time Reduction. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, England and Wales

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	33,169	32,755	(414)			
Adjustment for opening control period debt	-	(520)	(520)			
Opening net debt	33,169	32,235	(934)	29,335	28,642	(693)
Income						
Grant income	(3,835)	(3,776)	59	(7,573)	(7,489)	84
Fixed charges	(277)	(256)	21	(625)	(590)	35
Variable charges	(1,025)	(1,061)	(36)	(2,020)	(2,017)	3
Other single till income	(779)	(803)	(24)	(1,501)	(1,549)	(48)
Total income	(5,916)	(5,896)	20	(11,719)	(11,645)	74
Expenditure						
Network operations	489	395	(94)	933	799	(134)
Support costs	345	424	79	718	864	146
Traction electricity, industry costs and rates	532	569	37	1,047	1,046	(1)
Network maintenance	1,134	1,021	(113)	2,214	2,053	(161)
Schedule 4	229	201	(28)	417	393	(24)
Schedule 8	105	4	(101)	211	8	(203)
Renewals	2,769	2,378	(391)	5,448	4,725	(723)
PR13 enhancement	2,736	2,679	(57)	5,197	5,117	(80)
Non-PR13 enhancement	214	-	(214)	350	-	(350)
Total expenditure	8,553	7,671	(882)	16,535	15,005	(1,530)
Financing						
Interest expenditure on nominal debt - FIM covered	314	499	185	766	978	212
Interest expenditure on index linked debt - FIM covered	217	237	20	435	461	26
Expenditure on the FIM	297	370	73	625	708	83
Interest expenditure on government borrowing	250	-	(250)	334	-	(334)
Interest on cash balances held by Network Rail	(8)	(14)	(6)	(18)	(23)	(5)
Total interest costs	1,070	1,092	22	2,142	2,124	(18)
Accretion on index linked debt - FIM covered	204	489	285	407	950	543
Total financing costs	1,274	1,581	307	2,549	3,074	525
Corporation tax	-	-	-	(4)	4	8
Other	(508)	-	508	(124)	511	635
Movement in net debt	3,403	3,356	(47)	7,237	6,949	(288)
Closing net debt	36,572	35,591	(981)	36,572	35,591	(981)

B) Analysis of the movement in Network Rail's net debt

(£m, nominal prices)	2015-16 £m	2014-15 £m
Increase in net debt	3,403	3,834
Represented by:		
New debt issued		
Market issued debt	-	-
Borrowing from government	6,821	5,859
Accretion on index linked debt	204	203
Debt repaid	(2,791)	(2,160)
Decrease in net cash balances	(874)	223
Other	43	(291)
Increase in net debt	3,403	3,834

Statement 4: Net debt and financial ratios, England and Wales - continued

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	2015-16		2014-15	
	£m	% of total borrowing	£m	% of total borrowing
Market issued debt				
Nominal borrowings (GBP)	5,131	13%	6,810	20%
Nominal borrowings (Foreign currency)	4,299	11%	5,398	16%
Total nominal borrowings	9,430	25%	12,208	36%
Index linked borrowings (GBP)	16,014	42%	15,811	47%
Borrowing from government	12,687	33%	5,859	17%
Total regulatory borrowings	38,131	100%	33,878	100%
Uncleared cash items	-		-	
Obligations under finance lease	-		-	
Net cash balances	(1,561)		(710)	
Regulatory net debt as at 31 March 2016	36,572		33,169	

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.90	0.87	1.03
FFO/interest	2.89	2.88	3.00
Net debt/RAB (gearing)	69.5%	71.0%	71.7%
FFO/debt	9.3%	8.4%	9.2%
RCF/debt	6.1%	5.5%	6.1%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, England & Wales – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt has increased by £3.4bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £1.0bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt. However, these have been more than offset by lower than expected interest costs, favourable working capital movements and extra income.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, England & Wales – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
 - b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
 - c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
 - d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
 - e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.
- (12) Other – Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The reduction in debt this year as a result of these movements more than offsets the increases in debt that occurred in 2014/15. As Network Rail manages its cashflow at a network-wide level the amount in the route represents an allocation of the Great Britain position. The control period to date movement is significantly different to the regulator's assumption which anticipated £0.5bn of working capital decreases in the control period.
- (13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, England & Wales – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Network maintenance costs partly offset by savings in Support costs and interest cost savings. The slight decline in this ratio compared to the previous year is a net combination of factors which have contributed to higher operating costs partly offset by higher income and lower interest expense. These variances are addressed in more detail in other statements of these Regulatory financial statements.

(17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines May 2016, in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio. The ratio is higher than the previous year. The size of the increase is in line with the regulator's assumptions and is expected to continue for the rest of the control period as both components of the calculation are increasing at the same absolute value.

Statement 4: Net debt and financial ratios, England & Wales – continued

in £m nominal unless otherwise stated

(18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction. The decline in the ratio in 2015/16 compared with the previous year is expected as the level of debt increases but the surplus funds from trading remain generally constant. However, the rate of decrease in the current year is quicker than the regulator assumed largely due to the difficulties in achieving the regulator's efficiency targets for Maintenance, Network Operations and Schedule 8.

Statement 5a: Total financial performance, England and Wales

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	3,835	3,776	59	59	-	-	-	-
Fixed Income	277	256	21	20	-	-	1	1
Variable Income	763	751	12	-	-	-	12	12
Other Single Till Income	779	803	(24)	(55)	-	-	31	31
Opex memorandum account	17	-	17	7	-	-	10	10
Total Income	5,671	5,586	85	31	-	-	54	54
Expenditure								
Network operations	489	395	(94)	-	-	-	(94)	(94)
Support costs	345	424	79	15	-	-	64	64
Industry costs and rates	244	231	(13)	(3)	-	-	(10)	(10)
Traction electricity	25	25	-	-	-	-	-	-
Reporter's fees	1	3	2	-	2	-	-	-
Network maintenance	1,134	1,021	(113)	-	(11)	-	(102)	(102)
Schedule 4 costs	229	201	(28)	-	29	-	(57)	(57)
Schedule 8 costs	105	4	(101)	-	-	-	(101)	(101)
Renewals	2,769	2,378	(391)	-	489	-	(880)	(220)
PR13 Enhancements	2,736	2,787	51	-	182	-	(131)	(32)
Non PR13 Enhancements	214	-	(214)	-	(214)	-	-	-
Financing Costs	1,274	1,581	307	307	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	9,565	9,050	(515)	319	477	-	(1,311)	(552)
Total:			(430)	350	477	-	(1,257)	(498)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(498)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(101)
Under-delivery of train performance requirements (CaSL)								(28)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(129)
Total financial out / (under) performance to be recognised								(627)

Statement 5a: Total financial performance, England and Wales - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 C Favourable / (Adverse)	Variance not included in Due total financial to: performance D	Variances in volume of work E	Other adjustments to PR13 F	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
Income	A	B	C	D	E	F	G	H
Grant Income	7,613	7,528	85	85	-	-	-	-
Fixed Income	629	593	36	36	-	-	-	-
Variable Income	1,507	1,491	16	-	-	-	16	16
Other Single Till Income	1,509	1,556	(47)	(87)	-	-	40	40
Opex memorandum account	17	-	17	(2)	-	-	19	19
Total Income	11,275	11,168	107	32	-	-	75	75
Expenditure								
Network operations	938	804	(134)	-	-	-	(134)	(134)
Support costs	722	869	147	36	-	-	111	111
Industry costs and rates	487	465	(22)	(3)	-	-	(19)	(19)
Traction electricity	41	43	2	-	-	-	2	2
Reporter's fees	2	5	3	-	3	-	-	-
Network maintenance	2,225	2,064	(161)	-	18	-	(179)	(179)
Schedule 4 costs	419	395	(24)	-	34	-	(58)	(58)
Schedule 8 costs	212	7	(205)	-	-	-	(205)	(205)
Renewals	5,477	4,750	(727)	-	861	-	(1,588)	(397)
PR13 Enhancements	5,222	5,305	83	-	349	-	(266)	(60)
Non PR13 Enhancements	352	-	(352)	-	(333)	-	(19)	(19)
Financing Costs	2,562	3,074	512	512	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(4)	4	8	-	8	-	-	-
Total Expenditure	18,655	17,785	(870)	545	940	-	(2,355)	(958)
Total:			(763)	577	940	-	(2,280)	(883)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(883)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(168)
Under-delivery of train performance requirements (CaSL)								(49)
Missed Enhancement milestones								(5)
Total adjustment for under-delivery outputs								(222)
Total financial out / (under) performance to be recognised								(1,105)

Statement 5a: Total financial performance, England and Wales - continued

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(262)	(310)	48	(523)	(537)	14
Total variance not included in total	(262)	(310)	48	(523)	(537)	14
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	-	50	(50)	-	81	(81)
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	2	(2)
Total variance not included in total	-	51	(51)	-	83	(83)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	12	-	12	12	-	12
Spend to save adjustment	3	-	3	3	-	3
Release of CP4 long distance financial penalty provision	-	-	-	21	-	21
Total variance not included in total	15	-	15	36	-	36
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	262	310	(48)	523	537	(14)
Total variance not included in total	262	310	(48)	523	537	(14)

Statement 5a: Total financial performance, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures of financial performance used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance. Fixed income also includes amounts payable or receivable under alliancing agreements. An alliancing arrangement was in place in the Wessex route to incentivise collaborative working to deliver mutual benefits. Any alliancing payments (or receipts) fall within the scope of FPM and so the impact of this is included in the FPM calculation. The marginal outperformance reported this year negates the marginal underperformance reported in 2014/15.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand, continuing the trend of the previous year. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of additional property sales and rental income compared to the regulator's expectations partly offset by a substantial decrease in the freight traffic (largely driven by demand for coal transportation).

Statement 5a: Total financial performance, England & Wales – continued

in £m 2015-16 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate as well as expectations about efficiencies that could be achieved this control period. The regulator's determination assumed that Network Rail would exit the control period with a lower cost base. However, as efficiencies that were expected to occur in the final years of CP4 did not materialise, Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for this control period was always going to be unlikely. In addition, Network Operations costs in 2014/15 were much higher than the regulator's expectations, meaning that financial underperformance in 2015/16 was highly probable. In addition, this year Network Rail had additional costs relating to higher signaller costs as assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher due to extra investment in projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, there are also extra costs due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (7) Support costs – costs are lower than the PR13 assumption largely as a net result of non-recurring transactions, including contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes, lower re-organisation costs, reduction in performance related pay to senior staff, favourable settlement of commercial claims as well as from some efficiencies achieved throughout the various functions that comprise Support costs. Not all of the favourable variance to the PR13 allowance has been classified as financial outperformance. During the year, Network Rail recognised some income received from agreeing restructuring to restructuring of financing arrangements. However, as this change in financing results in higher interest expenses (which are excluded from the scope of FPM) this benefit has also been excluded. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the prior year not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a release of some for the provision. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this was not been counted as financial outperformance. Similarly, when the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual.

Statement 5a: Total financial performance, England & Wales – continued

in £m 2015-16 prices unless stated

- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. Once more, these net costs are broadly in line with the regulatory assumption.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved with ORR. Underlying Network maintenance costs are notably higher than the determination this year. This is a continuation of the trend witnessed in the first year of the control period when negative FPM was reported. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. In addition, following a decision made by the Office for National Statistics Network Rail is now included within the accounts of the government which has led to changes in the way the company is financed, resulting in cash constraints this control period. Consequently, renewals expenditure plans have been revised resulting in lower levels of activity which, in turn, has necessitated more maintenance activity to keep the assets at the required condition. Financial underperformance in the control period is driven by a combination of the above factors and from the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas in 2014/15 to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs financial outperformance in 2014/15.
- (12) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). This financial underperformance includes the impact of weather events damaging the network, necessitating possessions to undertake the required remediation works. This includes significant incidents at Dover sea wall at Kent which both led to lengthy possessions.
- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. This is largely due to worse than expected schedule 8 costs last year reflecting train performance in 2014/15. Given how far behind the regulator's targets Network Rail was at the start of this year, achieving the ORR's targets was never a realistic expectation. The determination assumed PPM (industry measure of passenger train lateness) of 92.1 per cent in England & Wales in 2015/16 compared to actual PPM of 88.9 per cent. Consequently, schedule 8 compensation payments to operators have been higher than ORR assumed.

Statement 5a: Total financial performance, England & Wales – continued

in £m 2015-16 prices unless stated

- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.
- (18) Corporation tax – no Corporation tax payments (or receipts) have been made this year. Whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in 2014/15 will remain throughout the control period. Given this uncertainty, no FPM has been recognised so far this control period and the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated as the control period progresses.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality targets for England & Wales were missed in 2015/16, continuing the trend from the first year of the control period. As well as the indirect financial impact of this (which manifests itself in higher Schedule 8 costs) Network Rail also faces a reduction to FPM for these missed outputs. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that England & Wales PPM target of 92.1 per cent was missed by. The ORR's target for England & Wales PPM was much higher than Network Rail's own plans, given the CP4 exit position for performance compared to the regulator's assumption, the experiences in 2014/15 and ever more traffic on the network.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales for both this year and for 2014/15. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output was missed by. The regulator's target of 2.2 per cent was considerably lower than Network Rail's own Business Plan for 2015/16.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. Whilst some milestones were missed in 2014/15 (notably: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development) there were no missed outputs this year which impacted customer outputs.

Statement 5b: Total financial performance - renewals variance analysis, England and Wales

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(266)	22	(288)	(72)		(68)	(4)	-
Signalling	73	345	(272)	(68)		(72)	4	-
Civils	(132)	72	(204)	(51)		(32)	(19)	-
Buildings	(31)	25	(56)	(14)		(10)	(4)	-
Electrical power and fixed plant	78	126	(48)	(12)		(3)	(9)	-
Telecoms	43	47	(4)	(1)		(1)	-	-
Wheeled plant and machinery	24	24	-	-		-	-	-
IT	(38)	(38)	-	-		-	-	-
Property	17	17	-	-		-	-	-
Other renewals	(159)	(151)	(8)	(2)		3	(5)	-
Total	(391)	489	(880)	(220)		(183)	(37)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(410)	198	(608)	(152)		(145)	(7)	-
Signalling	167	587	(420)	(105)		(99)	(6)	-
Civils	(170)	118	(288)	(72)		(46)	(26)	-
Buildings	(48)	32	(80)	(20)		(10)	(10)	-
Electrical power and fixed plant	196	280	(84)	(21)		(5)	(16)	-
Telecoms	50	62	(12)	(3)		(1)	(2)	-
Wheeled plant and machinery	109	109	-	-		-	-	-
IT	(102)	(102)	-	-		-	-	-
Property	23	23	-	-		-	-	-
Other renewals	(542)	(446)	(96)	(24)		(2)	(22)	-
Total	(727)	861	(1,588)	(397)		(308)	(89)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. More than one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs have been higher than Network Rail's plan which has included the impact of deferral of volumes (notably Switches and Crossings) as set out in Statement 14. Reductions in volumes do not result in a proportionate decrease in programme costs as there are a number of costs which are fixed in the short term which have to be spread across fewer units. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. Assumptions of contractor efficiencies in the business plan have not materialised with performance issues and commercial claims exacerbating the shortfalls.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost Cardiff, Swindon, Oxford, Bromsgrove and Bristol. Efficiencies assumed in the determination have proved to be elusive with over optimistic assessments made of the savings that could be achieved. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.
- (4) Civils – as with the previous year, financial underperformance has been reported for this category. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. In addition, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout England & Wales. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs.
- (5) Buildings – financial underperformance has been reported once more for this category. This is partly due to not achieving the efficiency savings the regulator assumed in its determination which appear to have been over optimistic in the level of savings that could be generated this control period. Extra scope on certain jobs (such as Manchester and Liverpool stations) have added to costs.
- (6) Electrical power and fixed plant – as with last year, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic. In addition, a number of small overspends have materialised across a number of projects. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven costs higher.
- (7) Telecoms – financial underperformance has been reported this year, continuing the trend from the previous year. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved.

Statement 5b: Total financial performance - renewals variance analysis, England & Wales – continued

in £m 2015-16 prices unless stated

- (8) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. These additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification and Paddington roof).

Statement 5c: Total financial performance - enhancement variance analysis, England and Wales

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(62)	2	-	(64)	(7)
GW electrification (Paddington to Cardiff)	19	3	-	16	4
East West Rail (committed scheme)	114	134	-	(20)	(5)
IEP Programme	(17)	(21)	-	4	1
Reading station area redevelopment	(4)	(16)	-	12	3
West coast power supply upgrade	(9)	(29)	-	20	5
Birmingham New St Gateway	82	62	-	20	5
Package 7,10 Car Park West Suburban Railway	4	-	-	4	1
MML linespeed improvements	(4)	-	-	(4)	(1)
Manchester Victoria	(11)	-	-	(11)	(11)
Swindon Kemble Redoubling	-	(11)	-	11	11
Crossrail	19	114	-	(95)	(32)
Northern Hub	80	100	-	(20)	(5)
Waterloo	(4)	-	-	(4)	(1)
Other Enhancements	(370)	(370)	-	-	-
Total	(163)	(32)	-	(131)	(32)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(120)	11	-	(131)	(18)
GW electrification (Paddington to Cardiff)	(29)	(29)	-	-	-
East West Rail (committed scheme)	5	29	-	(24)	(6)
IEP Programme	18	18	-	-	-
Reading station area redevelopment	5	(7)	-	12	3
West coast power supply upgrade	2	2	-	-	-
Birmingham New St Gateway	51	51	-	-	-
Package 7,10 Car Park West Suburban Railway	-	-	-	-	-
MML linespeed improvements	(7)	1	-	(8)	(2)
Manchester Victoria	(19)	-	-	(19)	(19)
Swindon Kemble Redoubling	(24)	(24)	-	-	-
Crossrail	55	150	-	(95)	(32)
Northern Hub	2	22	-	(20)	(5)
Waterloo	(11)	(7)	-	(4)	(1)
Other Enhancements	(197)	(201)	-	4	1
Total	(269)	16	-	(285)	(79)

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (2) GW electrification – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (3) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the current year. The reason for the increased costs since Hendy include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.
- (4) IEP programme – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (5) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies.

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2015-16 prices unless stated

- (6) West coast power supply upgrade – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (7) Birmingham New St Gateway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (8) Package 7, 10 Car Park West Suburban Railway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (9) MML linespeed improvements – some minor underperformance has been recognised this year as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (10) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This has led to negative FPM being declared in both years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance has been classified as financial underperformance.
- (11) Swindon Kemble Redoubling – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (12) Crossrail – underperformance has been recognised this year in light of additional programme costs due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspends.
- (13) Northern Hub – underperformance has been recognised this year following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving more costly than the expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues.
- (14) Waterloo – programme costs are expected to be higher than the expectation set out in the Hendy report. This is mostly due to additional costs across significant parts of the programme such as Waterloo International conversion, Platform 1-4 upgrade and Rail Systems. The project is still relatively near the start of its lifecycle so there is still much uncertainty about the expected final costs with many risks and opportunities present at this time.

Statement 5c: Total financial performance - enhancement variance analysis, England & Wales – continued

in £m 2015-16 prices unless stated

(15)Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 6a: Analysis of income, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	3,835	3,776	59	7,613	7,528	85	3,778
Franchised track access income							
Fixed charges	277	256	21	629	593	36	352
Variable charges							
Variable usage charge	156	157	(1)	310	311	(1)	154
Traction electricity charges	262	310	(48)	523	537	(14)	261
Electrification asset usage charge	14	13	1	28	27	1	14
Capacity charge	400	391	9	793	781	12	393
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	193	190	3	376	372	4	183
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,025	1,061	(36)	2,030	2,028	2	1,005
Total franchised track access income	1,302	1,317	(15)	2,659	2,621	38	1,357
Total franchised track access and grant income	5,137	5,093	44	10,272	10,149	123	5,135
Other single till income							
Property income	333	295	38	603	569	34	270
Freight income	57	74	(17)	124	143	(19)	67
Open access income	29	28	1	56	54	2	27
Stations income	237	230	7	476	462	14	239
Facility and financing charges	50	106	(56)	103	187	(84)	53
Depots Income	58	56	2	116	113	3	58
Other income	15	14	1	31	28	3	16
Total other single till income	779	803	(24)	1,509	1,556	(47)	730
Total income	5,916	5,896	20	11,781	11,705	76	5,865

Statement 6a: Analysis of income, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is largely offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators which is largely in line with the prior year. The control period to date variance reflects the inflation differences noted above and the continued provision of additional services, notably in London North West route. Fixed charges are lower than last year but as the amount received is contractual as discussed above and is set in the determination prior year comparisons are not particularly useful. The decrease from last year is largely offset by increased government grant receipts.

Statement 6a: Analysis of income, England & Wales – continued

in £m 2015-16 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are slightly higher than the previous year largely due to the increases in wholesale electricity prices. This increase has been partly offset by unfavourable settlement of commercial claims. As the regulator assumed a high increase in prices the current year there is now an adverse variance in the control period to date. Again, this is largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge - this is higher than the determination which is a combination the increases in charges arising from differences in inflation assumptions (refer to comments above) and because of increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The control period favourable variance is also due to these factors. There have also been more trains than last year and thus an increase in income compared to 2014/15.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as set out in the above comments). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail would incur if profiling of capital projects work over the control period occurred in line with the regulator's assumptions. Schedule 4 Income is higher than last year as expected by the regulator's determination.
- (7) Property income – this is higher than the determination due to increased property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The main reason for the increase in sales is the selling of the future benefits of Grand Central in Birmingham. Property income is noticeably higher than the previous year due to extra sales and extra rental income. Property rental income has increased significantly compared to 2014/15 as Network Rail has managed to offer desirable rental properties and station units to retailers. Rental yields on much of the property portfolio has increased compared to the previous year which has been helped by some new facilities generating extra income (such as the revamped Birmingham New Street station, Manchester Victoria station and inclusion of a mezzanine level at London Euston). Also, freight rental income has more than doubled compared to the previous year as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped.
- (8) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulted in around a 50 per cent decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.
- (9) Stations income – this is favourable to the regulator's assumption in the year and control period to date with the main contributor being Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).

Statement 6a: Analysis of income, England & Wales – continued

in £m 2015-16 prices unless stated

- (10) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. This is consistent with the situation last year resulting in a large adverse variance against the determination in the control period to date (but also a large saving in interest costs incurred as reported in Statement 4).
- (11) Depots income - income is slightly higher than the regulator's assumption in the year and control period to date. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

Statement 6b: Analysis of other single till income, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	259	289	(30)	497	559	(62)	238
Property sales	74	36	38	106	69	37	32
Adjustment for commercial opex	-	(30)	30	-	(59)	59	-
Total property income	333	295	38	603	569	34	270
Freight income							
Freight variable usage charge	45	54	(9)	97	107	(10)	52
Freight traction electricity charges	5	9	(4)	11	15	(4)	6
Freight electrification asset usage charge	-	1	(1)	-	1	(1)	-
Freight capacity charge	4	5	(1)	7	9	(2)	3
Freight only line charge	1	3	(2)	4	6	(2)	3
Freight specific charge	-	-	-	-	-	-	-
Freight other income	1	-	1	2	-	2	1
Freight coal spillage charge	1	2	(1)	3	5	(2)	2
Total freight income	57	74	(17)	124	143	(19)	67
Open access income							
Variable usage charge income	6	2	4	9	4	5	3
Open access capacity charge	2	1	1	3	3	-	1
Open access traction electricity charges	2	5	(3)	6	9	(3)	4
Fixed contractual contribution	19	20	(1)	38	38	-	19
Open access other income	-	-	-	-	-	-	-
Total open access income	29	28	1	56	54	2	27
Stations income							
Managed stations income							
Long term charge	31	31	-	63	62	1	32
Qualifying expenditure	53	40	13	105	81	24	52
Total managed stations income	84	71	13	168	143	25	84
Franchised stations income							
Long term charge	110	114	(4)	223	229	(6)	113
Stations lease income	43	45	(2)	85	90	(5)	42
Total franchised stations income	153	159	(6)	308	319	(11)	155
Total stations income	237	230	7	476	462	14	239
Facility and financing charges							
Facility charges	50	55	(5)	103	104	(1)	53
Crossrail finance charge	-	50	(50)	-	81	(81)	-
Welsh Valleys finance charge	-	1	(1)	-	2	(2)	-
Total facility and financing charges	50	106	(56)	103	187	(84)	53
Depots income	58	56	2	116	113	3	58
Other	15	14	1	31	28	3	16
Total other single till income	779	803	(24)	1,509	1,556	(47)	730

Statement 6b: Analysis of other single till income, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property-related activity but also from other areas such as freight and open access. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation for both current year and the control period to date. Property rental income has increased significantly compared to 2014/15 which is in line with the regulator's expectation as Network Rail has managed to offer desirable rental properties and station units to retailers. Rental yields on much of the property portfolio has increased compared to the previous year which has been helped by some new facilities generating extra income (such as the revamped Birmingham New Street station, Manchester Victoria station and inclusion of a mezzanine level at London Euston). Also, freight rental income has more than doubled compared to the previous year as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped.
- (2) Property sales – income is higher than the regulator's determination and the prior year which is mostly due to the sale of Network Rail's interests in the Grand Central shopping complex in Birmingham, as reported in the media. As noted in last year's Regulatory financial statements, by their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Due to the large benefit of Grand Central the sales income is much higher than the determination for the control period to date. However, there is no indication that this favourable variance will remain throughout the rest of the control period.
- (3) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulting in around a 50 per cent decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.
- (4) Open access income – overall income in this area is consistent with the regulator's assumption and the prior year. However, underlying performance has improved (as shown by higher Variable usage charge income) which has been offset by lower than expected traction electricity charges. The amounts Network Rail can charge for this are largely driven by the market price of electricity meaning that although Network Rail receives lower income, it also incurs lower costs (shown in traction electricity costs in Statement 7a).
- (5) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The main contributor to this is the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations after the targets in the regulator's determination were set. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a). This change is also largely responsible for the favourable control period to date position compared to the regulator's expectations.

Statement 6b: Analysis of other single till income, England & Wales – continued

in £m 2015-16 prices unless stated

- (6) Franchised stations – long term charge – income in the year was slightly lower than the regulatory target due to the transfer of a number of stations in the Anglia route from Network Rail to the franchisee on a long-term lease which has not foreseen in the determination. This transfers responsibility for maintaining and renewing the station to the franchisee who no longer have to pay charges to Network Rail to fulfil these tasks. This is augmented by the transfer of status of Reading and Bristol stations to Managed stations. The slight decrease compared to 2014/15 is also mostly due to the transfer of stations in Anglia.
- (7) Franchised stations – Stations Lease Income – income slightly lower than the regulatory target due to the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (8) Facility charges – these are lower than the regulator assumed in its' determination as Network Rail has undertaken less investment framework schemes than the regulator assumed. Network Rail receives facility fee income when it provides additional depot and station facilities to operators who subsequently pay a charge for using these facilities. As fewer such schemes have been undertaken the resultant income earned is lower. Facility charge income is slightly lower than the previous year which included a favourable settlement of a commercial contract which provided a boost to the 2014/15 results.
- (9) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. There is consistent with the situation last year resulting in a large adverse variance against the determination in the control period to date (but also a large saving in interest costs incurred as reported in Statement 4).
- (10) Depots – income is slightly higher than the regulator's assumptions in both the current year and the control period to date which has been helped by the extra income earned following development of Reading depot.
- (11) In line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges.

Statement 6c: Analysis of income by operator,

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Arrive Trains Wales			
Variable Usage Charges	3.1	3.3	6.4
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	3.9	4.1	8.0
Fixed Charges	18.4	14.1	32.5
Station Facility Charge	-	-	-
Station Long Term Charges	10.0	10.2	20.2
Station QX	0.4	0.4	0.8
Other Charges	1.6	1.5	3.1
Total income	37.4	33.6	71.0

	2014-15	2015-16	CP5 Total
C2C			
Variable Usage Charges	1.7	1.9	3.6
Traction Electricity Charges	6.4	7.3	13.7
Electrification Asset Usage Charges	0.4	0.5	0.9
Capacity Charges	2.3	2.5	4.8
Fixed Charges	4.8	3.7	8.5
Station Facility Charge	-	-	-
Station Long Term Charges	2.6	-	2.6
Station QX	-	-	-
Other Charges	1.2	1.3	2.5
Total income	19.4	17.2	36.6

	2014-15	2015-16	CP5 Total
Chiltern			
Variable Usage Charges	2.1	2.2	4.3
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	1.6	1.7	3.3
Fixed Charges	4.7	3.8	8.5
Station Facility Charge	-	-	-
Station Long Term Charges	3.7	3.8	7.5
Station QX	-	-	-
Other Charges	11.2	13.8	25.0
Total income	23.3	25.3	48.6

	2014-15	2015-16	CP5 Total
Cross Country			
Variable Usage Charges	9.6	9.8	19.4
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	22.2	22.6	44.8
Fixed Charges	22.1	16.8	38.9
Station Facility Charge	-	-	-
Station Long Term Charges	1.5	1.6	3.1
Station QX	2.9	3.4	6.3
Other Charges	-	-	-
Total income	58.3	54.2	112.5

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
East Coast Main Line Rail			
Variable Usage Charges	17.2	-	17.2
Traction Electricity Charges	18.7	-	18.7
Electrification Asset Usage Charges	1.5	-	1.5
Capacity Charges	32.0	-	32.0
Fixed Charges	24.8	-	24.8
Station Facility Charge	-	-	-
Station Long Term Charges	7.3	-	7.3
Station QX	2.5	-	2.5
Other Charges	1.2	-	1.2
Total income	105.2	-	105.2

	2014-15	2015-16	CP5 Total
Virgin East Coast			
Variable Usage Charges	1.6	17.8	19.4
Traction Electricity Charges	1.7	20.1	21.8
Electrification Asset Usage Charges	0.1	1.6	1.7
Capacity Charges	3.0	35.7	38.7
Fixed Charges	2.3	20.8	23.1
Station Facility Charge	-	-	-
Station Long Term Charges	0.7	7.2	7.9
Station QX	0.3	2.4	2.7
Other Charges	0.1	1.4	1.5
Total income	9.8	107.0	116.8

	2014-15	2015-16	CP5 Total
East Midlands			
Variable Usage Charges	7.5	7.6	15.1
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	17.2	17.6	34.8
Fixed Charges	15.1	11.4	26.5
Station Facility Charge	1.4	4.2	5.6
Station Long Term Charges	5.5	6.7	12.2
Station QX	0.3	0.3	0.6
Other Charges	6.6	6.6	13.2
Total income	53.6	54.4	108.0

	2014-15	2015-16	CP5 Total
First Capital Connect			
Variable Usage Charges	3.1	-	3.1
Traction Electricity Charges	9.4	-	9.4
Electrification Asset Usage Charges	0.7	-	0.7
Capacity Charges	17.0	-	17.0
Fixed Charges	9.4	-	9.4
Station Facility Charge	0.4	-	0.4
Station Long Term Charges	4.6	-	4.6
Station QX	2.0	-	2.0
Other Charges	1.0	-	1.0
Total income	47.6	-	47.6

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Govia Thameslink Railway			
Variable Usage Charges	4.3	12.1	16.4
Traction Electricity Charges	17.1	49.3	66.4
Electrification Asset Usage Charges	0.9	2.2	3.1
Capacity Charges	23.9	66.5	90.4
Fixed Charges	11.3	25.6	36.9
Station Facility Charge	0.5	2.8	3.3
Station Long Term Charges	5.3	22.9	28.2
Station QX	1.9	7.4	9.3
Other Charges	2.9	3.1	6.0
Total income	68.1	191.9	260.0

	2014-15	2015-16	CP5 Total
First Great Western			
Variable Usage Charges	18.9	19.1	38.0
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	46.9	48.8	95.7
Fixed Charges	31.4	23.3	54.7
Station Facility Charge	1.9	2.0	3.9
Station Long Term Charges	16.5	16.6	33.1
Station QX	7.8	7.8	15.6
Other Charges	25.6	21.9	47.5
Total income	149.0	139.5	288.5

	2014-15	2015-16	CP5 Total
Greater Anglia			
Variable Usage Charges	10.6	9.8	20.4
Traction Electricity Charges	31.3	25.1	56.4
Electrification Asset Usage Charges	2.2	1.9	4.1
Capacity Charges	17.5	14.2	31.7
Fixed Charges	26.3	17.5	43.8
Station Facility Charge	1.1	1.3	2.4
Station Long Term Charges	3.6	2.3	5.9
Station QX	2.8	2.0	4.8
Other Charges	2.8	4.3	7.1
Total income	98.2	78.4	176.6

	2014-15	2015-16	CP5 Total
London Midland			
Variable Usage Charges	6.0	6.5	12.5
Traction Electricity Charges	13.8	15.6	29.4
Electrification Asset Usage Charges	0.9	1.0	1.9
Capacity Charges	34.1	34.2	68.3
Fixed Charges	18.3	13.9	32.2
Station Facility Charge	0.3	0.3	0.6
Station Long Term Charges	10.6	10.9	21.5
Station QX	4.7	5.9	10.6
Other Charges	3.3	3.3	6.6
Total income	92.0	91.6	183.6

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
London Overground			
Variable Usage Charges	0.8	1.2	2.0
Traction Electricity Charges	4.0	6.9	10.9
Electrification Asset Usage Charges	0.1	0.3	0.4
Capacity Charges	2.3	2.9	5.2
Fixed Charges	3.6	3.8	7.4
Station Facility Charge	-	-	-
Station Long Term Charges	3.5	4.2	7.7
Station QX	0.4	1.0	1.4
Other Charges	0.6	0.6	1.2
Total income	15.3	20.9	36.2

	2014-15	2015-16	CP5 Total
Merseyrail			
Variable Usage Charges	0.8	0.8	1.6
Traction Electricity Charges	5.5	5.5	11.0
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	0.5	0.5	1.0
Fixed Charges	3.2	2.4	5.6
Station Facility Charge	-	-	-
Station Long Term Charges	7.7	7.7	15.4
Station QX	-	-	-
Other Charges	0.6	0.8	1.4
Total income	18.4	17.8	36.2

	2014-15	2015-16	CP5 Total
MTR Crossrail			
Variable Usage Charges	-	0.6	0.6
Traction Electricity Charges	-	3.3	3.3
Electrification Asset Usage Charges	-	0.2	0.2
Capacity Charges	-	2.8	2.8
Fixed Charges	-	1.6	1.6
Station Facility Charge	-	-	-
Station Long Term Charges	-	0.8	0.8
Station QX	-	0.6	0.6
Other Charges	-	-	-
Total income	-	9.9	9.9

	2014-15	2015-16	CP5 Total
Northern			
Variable Usage Charges	4.3	4.8	9.1
Traction Electricity Charges	4.4	6.2	10.6
Electrification Asset Usage Charges	0.2	0.3	0.5
Capacity Charges	8.2	8.3	16.5
Fixed Charges	25.0	19.2	44.2
Station Facility Charge	-	-	-
Station Long Term Charges	16.1	16.2	32.3
Station QX	3.0	3.0	6.0
Other Charges	5.2	5.1	10.3
Total income	66.4	63.1	129.5

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Scotrail			
Variable Usage Charges	0.6	-	0.6
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	0.1	-	0.1
Capacity Charges	0.4	-	0.4
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	0.1	-	0.1
Other Charges	-	-	-
Total income	1.2	-	1.2

	2014-15	2015-16	CP5 Total
Serco Sleeper			
Variable Usage Charges	-	0.2	0.2
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	-	0.1	0.1
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	-	-	-
Total income	-	0.3	0.3

	2014-15	2015-16	CP5 Total
South Eastern			
Variable Usage Charges	8.4	9.6	18.0
Traction Electricity Charges	32.3	34.4	66.7
Electrification Asset Usage Charges	1.0	1.1	2.1
Capacity Charges	16.0	16.8	32.8
Fixed Charges	23.2	17.7	40.9
Station Facility Charge	0.1	0.1	0.2
Station Long Term Charges	23.7	23.2	46.9
Station QX	5.7	5.5	11.2
Other Charges	7.4	7.2	14.6
Total income	117.8	115.6	233.4

	2014-15	2015-16	CP5 Total
South West Trains			
Variable Usage Charges	11.9	12.0	23.9
Traction Electricity Charges	36.8	38.9	75.7
Electrification Asset Usage Charges	1.1	1.1	2.2
Capacity Charges	25.5	25.8	51.3
Fixed Charges	24.6	18.8	43.4
Station Facility Charge	10.4	7.2	17.6
Station Long Term Charges	27.7	29.1	56.8
Station QX	4.2	4.9	9.1
Other Charges	7.6	10.3	17.9
Total income	149.8	148.1	297.9

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Southern			
Variable Usage Charges	8.7	3.6	12.3
Traction Electricity Charges	28.1	11.6	39.7
Electrification Asset Usage Charges	1.0	0.4	1.4
Capacity Charges	41.4	17.0	58.4
Fixed Charges	18.1	4.3	22.4
Station Facility Charge	2.2	0.9	3.1
Station Long Term Charges	21.4	6.8	28.2
Station QX	3.1	1.1	4.2
Other Charges	1.6	0.5	2.1
Total income	125.6	46.2	171.8

	2014-15	2015-16	CP5 Total
Transpennine			
Variable Usage Charges	4.3	4.4	8.7
Traction Electricity Charges	2.1	2.2	4.3
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	10.5	10.8	21.3
Fixed Charges	11.0	9.1	20.1
Station Facility Charge	-	-	-
Station Long Term Charges	3.6	3.6	7.2
Station QX	1.4	1.7	3.1
Other Charges	0.1	0.1	0.2
Total income	33.1	32.0	65.1

	2014-15	2015-16	CP5 Total
Virgin West Coast			
Variable Usage Charges	28.8	28.2	57.0
Traction Electricity Charges	37.9	41.2	79.1
Electrification Asset Usage Charges	2.8	2.9	5.7
Capacity Charges	66.3	67.1	133.4
Fixed Charges	42.2	32.1	74.3
Station Facility Charge	8.6	8.7	17.3
Station Long Term Charges	10.8	11.0	21.8
Station QX	5.6	5.8	11.4
Other Charges	1.4	1.4	2.8
Total income	204.4	198.4	402.8

	2014-15	2015-16	CP5 Total
Consolidated Non-Franchised Train Operators			
Variable Usage Charges	2.5	4.5	7.0
Traction Electricity Charges	3.1	1.3	4.4
Electrification Asset Usage Charges	-	-	-
Capacity Charges	1.3	1.6	2.9
Fixed Charges	18.9	18.8	37.7
Station Facility Charge	-	-	-
Station Long Term Charges	1.5	1.2	2.7
Station QX	0.7	(0.2)	0.5
Other Charges	0.2	0.2	0.4
Total Turnover	28.2	27.4	55.6

Statement 6c: Analysis of income by operator, England & Wales - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Consolidated Charter Train Operators			
Variable Usage Charges	0.9	0.6	1.5
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	-	-	-
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	-	-	-
Total Turnover	0.9	0.6	1.5

	2014-15	2015-16	CP5 Total
Consolidated Freight Operating Companies			
Variable Usage Charges	51.5	48.7	100.2
Traction Electricity Charges	6.5	5.1	11.6
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	3.1	3.7	6.8
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	7.0	3.8	10.8
Total Turnover	68.2	61.4	129.6

6c: Analysis of income by operator, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amounts reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. Therefore, income for First Capital Connect is significantly lower this year compared to last and, conversely, income for Govia Thameslink Railway is significantly higher this year compared to last.
- (5) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, income for East Coast Main Line Rail is significantly lower this year compared to last and, conversely, income for Virgin East Coast is significantly higher this year compared to last.
- (6) In 2015/16 MTR Crossrail started to operate services this year and so are shown in Statement 6c in the Regulatory financial statements for the first time this year. Previously, these services were operated by Greater Anglia and so in 2014/15 the associated income will also have been reported within the Greater Anglia figures which accounts for most of the decrease in the income from this operator compared to the previous year.
- (7) During the year a number of stations were transferred to C2C on a long-term lease. Therefore, the station income paid by this operator to Network Rail has decreased compared to the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England and Wales

in £m 2015-16 prices unless stated

	2015-16			Cumulative			2014-15
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	236	211	(25)	466	428	(38)	230
Signalling shift managers	16	13	(3)	33	26	(7)	17
Local operations managers	17	14	(3)	37	29	(8)	20
Controllers	33	29	(4)	65	58	(7)	32
Electrical control room operators	12	9	(3)	23	19	(4)	11
Total signaller expenditure	314	276	(38)	624	560	(64)	310
Non-signaller expenditure							
Mobile operations managers	31	29	(2)	63	59	(4)	32
Managed stations	53	35	(18)	98	71	(27)	45
Performance	17	13	(4)	29	27	(2)	12
Customer relationship executives	8	6	(2)	12	13	1	4
Route enhancement managers	-	-	-	5	-	(5)	5
Weather	12	18	6	27	36	9	15
Other	26	11	(15)	59	23	(36)	33
Operations delivery	5	-	(5)	8	-	(8)	3
HQ - Operations services	1	-	(1)	2	-	(2)	1
HQ - Performance and planning	4	-	(4)	5	-	(5)	1
HQ - Stations and customer services	1	-	(1)	1	-	(1)	-
HQ - Other	44	26	(18)	72	53	(19)	28
Other operating income	(27)	(19)	8	(67)	(38)	29	(40)
Total non-signaller expenditure	175	119	(56)	314	244	(70)	139
Total network operations expenditure	489	395	(94)	938	804	(134)	449
Support costs							
Core support costs							
Human resources	33	56	23	71	113	42	38
Information management	56	56	-	118	115	(3)	62
Government and corporate affairs	11	17	6	25	35	10	14
Group strategy	6	10	4	14	21	7	8
Finance	17	25	8	33	53	20	16
Business services	12	13	1	26	26	-	14
Accommodation	70	69	(1)	144	139	(5)	74
Utilities	36	40	4	74	78	4	38
Insurance	51	44	(7)	95	90	(5)	44
Legal and inquiry	7	5	(2)	13	11	(2)	6
Safety and sustainable development	22	8	(14)	44	17	(27)	22
Strategic sourcing	6	9	3	12	18	6	6
Business change	2	4	2	4	6	2	2
Other corporate functions	32	3	(29)	62	6	(56)	30
Core support costs	361	359	(2)	735	728	(7)	374
Other support costs							
Asset management services	35	37	2	66	75	9	31
Network Rail telecoms	39	34	(5)	84	77	(7)	45
National delivery service	-	4	4	-	8	8	-
Infrastructure Projects	(26)	-	26	(43)	-	43	(17)
Commercial property	(10)	(3)	7	(14)	(6)	8	(4)
Group costs	(54)	(7)	47	(106)	(13)	93	(52)
Total other support costs	(16)	65	81	(13)	141	154	3
Total support costs	345	424	79	722	869	147	377
Traction electricity, industry costs and rates							
Traction electricity	287	335	48	564	580	16	277
Business rates	144	141	(3)	286	281	(5)	142
British transport police costs	73	65	(8)	148	132	(16)	75
RSSB costs	7	8	1	17	16	(1)	10
ORR licence fee and railway safety levy	15	15	-	30	32	2	15
Reporters fees	1	3	2	2	5	3	1
Other industry costs	5	2	(3)	6	4	(2)	1
Total traction electricity, industry costs and rates	532	569	37	1,053	1,050	(3)	521
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,366	1,388	22	2,713	2,723	10	1,347

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 25 per cent higher than the regulator’s assumptions. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are lower than the previous year following further devolution of responsibilities to routes and other business areas and other efficiencies made through continuing cost control. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are in line with the determination and lower than the previous year. The reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2015-16 prices unless stated

- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through reductions in headcount and consultancy costs as many discretionary projects have been cancelled. The improvements in cost compared to the previous year are largely due to the same factors, with delays in headcount to replace staff exiting the business.
- (9) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred over at the end of CP4 year-on-year costs are broadly consistent. The slight increase compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (10) Accommodation – these property expenses were slightly higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent compared to the CP4 exit position but costs have actually increased slightly. This was mostly due to new office space being acquired in London in 2014/15 which is also driving the adverse variance in the control period. Costs are slightly lower than the previous year following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (11) Utilities – costs are lower than the determination and the prior year because of lower prices paid for water, gas and electricity mainly due to favourable market conditions.
- (12) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslide at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (13) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.
- (14) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2015-16 prices unless stated

- (15) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (16) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are higher than the previous year mainly due to additional activity being undertaken to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (17) Network Rail telecoms – costs for the year and the control period to date are higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers. The reduction in costs compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/GSM-R which have not recurred.
- (18) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position to be achieved by 2017/18.
- (19) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.
- (20) Commercial Property – net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand). In addition, extra revenue has been earned from stations, including the revamped Manchester Victoria station.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, England & Wales – continued

in £m 2015-16 prices unless stated

- (21) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would receive credits of c. £29m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £25m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under LTIP arrangements, recognition of income received from agreeing restructuring to restructuring of financing arrangements and the favourable settlement of commercial claims. The net credit position in Group is in line with the prior year but, as expected, the composition of this amount is different. In 2014/15, there was a large reduction in payments to senior management under LTIP arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (22) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year with the exception of traction electricity costs. This group of costs is lower than the determination mostly due to lower Traction electricity costs which are driven by market rates which is partly offset by higher Business rates and British Transport Police costs.
- (23) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are slightly lower than the regulator assumed, again with this saving being largely offset by lower traction electricity income received. Costs are higher than the previous year reflecting market prices for electricity.
- (24) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination and prior year) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5).
- (25) British Transport Police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (26) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of costs Network Rail is required to pay under this mechanism has increased compared to the regulator's expectation which is causing the adverse variance in the current year and control period to date.

Statement 7b: Analysis of network operations expenditure and support costs by activity, England and Wales

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	213	255	254
MOMS	22	31	32
Control	37	44	44
Planning & Performance Staff Costs	28	27	34
Managed Stations Staff Costs	16	16	17
Operations Management Staff Costs	20	22	24
Other	110	54	84
Total operations & customer services costs	446	449	489
Total Network Operations	446	449	489
Support			
Human resources			
Functional support	27	14	14
Training (inc Westwood)	19	10	8
Graduates	2	-	2
Apprenticeships	6	8	8
Other	4	6	1
Total human resources	58	38	33
Information management			
Support	7	6	1
Projects	2	1	1
Licences	-	-	-
Business operations	46	55	54
Other	-	-	-
Total information management	55	62	56
Finance	16	16	17
Business Change	3	2	2
Contracts & Procurement	8	-	-
Strategic Sourcing (National Supply Chain)	-	6	6
Planning & development	13	8	6
Safety & compliance	14	-	-
Other corporate services	49	14	15
Commercial property	98	70	60
Infrastructure Projects	(52)	(17)	(26)
Route Services	11	16	16
Asset management & Engineering/Asset heads	129	-	-
National delivery service	3	-	-
Private party	-	-	-
Utilities	-	38	36
Network Rail Telecoms	-	45	39
Digital Railway	-	15	20
Safety Technical & Engineering	-	38	37
Government & Corporate Affairs	-	14	11
Business Services	-	14	12
Route Asset Management	-	-	1
Legal and inquiry	-	6	7
Group/central			
Pensions	1	-	-
Insurance	33	44	51
Redundancy/reorganisation costs	63	15	10
Staff incentives/Bonus Reduction	4	(23)	(6)
Accommodation & Support Recharges	(3)	(25)	(25)
Commercial claims settlements	-	-	(29)
ORR financial penalty	72	(21)	-
Other	2	2	(4)
Total group/central costs	172	(8)	(3)
Total support	577	377	345
Total network operations and support costs	1,023	826	834

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) 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 rest of the business areas. Support costs are lower than the previous year (generation of net efficiencies across a range of functions more than offsetting reduced impact of one-off Group items this year compared to last).
- (4) Network Operations – staff costs are largely in line with the previous year. The slight increase reflects settlement of pay awards at a higher rate than inflation and higher average headcount throughout the year partly caused by the requirement to provide adequate staffing for the new ROCs (Route Operating Centres).
- (5) Network Operations – other costs have noticeably increased since the previous year which includes extra consultancy and training costs for the implementation of new working practices in the year, such as LEAN and visualisation. These initiatives are expected to generate significant operational improvements and efficiencies across the company (not just in Network Operations costs) but will require some investment to introduce them successfully. Costs are also higher following redevelopment of stations (notably Birmingham New Street and London Euston) which will generate extra property income, but also some additional costs to run the enlarged premises. Also, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the overall industry there is an associated increase in costs.
- (6) Human Resources – as reported in last year’s Regulatory financial statements costs are decreasing year-on-year, largely as a result of devolution of responsibilities to routes and other business areas in order to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. This year has seen a continuation of this trend and hence further decreases in Human Resources costs.
- (7) Information Management – cost reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.
- (8) Finance – the slight increase in costs compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (9) Property – net costs are lower in the current year due to a combination of additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand) and a reduction in accommodation costs following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (10) Infrastructure Projects - in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.

Statement 7b: Analysis of network operations expenditure and support costs by activity, England & Wales – continued

in £m 2015-16 prices unless stated

- (11)Route services – as part of the move towards a devolved organisation, responsibility for certain central activities, such as Human Resources and Finance have transferred to the routes with the objective of allowing them to make more informed decisions and only acquire the services they feel are necessary. The extra costs this year compared to last reflect the continuing journey of this devolution trajectory.
- (12)Utilities - costs are slightly lower than the previous year as a result of improved utility procurement strategies and favourable movements in market prices.
- (13)Telecoms – cost savings compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/ GSM-R which have not recurred.
- (14)Digital railway – as planned, costs are higher than last year as activity in this area increases. Digital Railway is a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (15)Government & corporate affairs - the improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance (resulting in extra costs in that department) but also to some minor efficiencies
- (16)Group – Insurance – costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (17)Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this reorganisation initiative there was also substantial costs in 2014/15 too. This year costs were lower due to fewer restructures. As part of the pay and conditions negotiations with trade unions in Summer 2015, it was agreed that there would be no compulsory redundancies for union members in 2015/16 which limited the opportunity for reorganisations in the current year.
- (18)Group – staff incentives – in 2014/15 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. This year, the credit balance relates to lower expected payouts for long-term incentive plans to be made following performance compared to corporate targets. The planned costs of these schemes are included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets is recognised in Group.
- (19)Group – commercial claims settlements – during the year Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties. The largest one of these was the recognition of amounts received for Crossrail Limited for agreeing to some contractual changes, largely around the method of financing charges. As this is likely to result in additional borrowing costs for Network Rail, no financial performance benefit (refer to Statement 5) was reported for this deal as borrowing costs are outside of the measure of financial performance.
- (20)Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15 the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

Statement 7c: Insurance reconciliation, England and Wales

in £m 2015-16 prices unless stated

A) Reconciliation of costs				Market based insurance			Self insurance Claims recognised by the captive		Total	
Risk	Underlying cost	Claims paid	Market premiums A	Underlying cost	Captive premiums B	Other C	Total cost D			
Property	0	0	3	61	40	11	0			43
Business interruption	0	0	4	61	33	11	0			37
Terrorism	0	0	10	0	0	0	0			10
Employer's liability	0	0	1	2	2	5	0			3
Public & products liability	0	0	5	7	6	9	0			11
Motor	0	0	1	2	2	3	0			3
Construction all risks	0	0	1	1	1	1	0			2
Other cover	2	0	10	1	1	4	0			11
Investment return	0	0	0	0	0	0	2			2
Total	2	0	35	135	85	44	2			122

Total insurance recognised in:

Schedule 4 & 8	0	0	0	61	33	11	0			33
Operations	0	0	0	0	0	0	0			0
Support costs	2	0	34	74	52	32	2			88
Maintenance	0	0	0	0	0	0	0			0
Renewals	0	0	0	0	0	0	0			0
Enhancements	0	0	0	0	0	0	0			0
Total	2	0	34	135	85	43	2			121

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2015-16	Cumulative	2014-15
Operations	(46)	(69)	(23)
Investment revenues	2	3	1
Finance costs	0	0	0
Profit/(loss) before tax	(44)	(66)	(22)
Tax	0	0	0
Profit/(loss) attributable to shareholders	(44)	(66)	(22)

Statement 7c: Insurance reconciliation, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) Losses incurred by Network Rail Insurance Limited (unaudited) were higher than the previous year. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. There were a number of significant incidents this year which resulted in higher costs recognised in Network Rail Insurance Limited, such as those at Lamington viaduct, Dover seawall and Eden Brows. In addition, there are actuarial assessments made. In the previous year there were fewer large incidents (the only significant item was Harbury tunnel landslip) and so lower costs.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England and Wales

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	236	0	0	236	211	0	0	211	(25)	0	0	(25)
Signalling shift managers	17	(1)	0	16	13	0	0	13	(4)	1	0	(3)
Local operations managers	18	(1)	0	17	14	0	0	14	(4)	1	0	(3)
Controllers	34	(1)	0	33	29	0	0	29	(5)	1	0	(4)
Electrical control room operators	13	(1)	0	12	9	0	0	9	(4)	1	0	(3)
Total signaller expenditure	318	(4)	0	314	276	0	0	276	(42)	4	0	(38)
Non-signaller expenditure												
Mobile operations managers	32	(1)	0	31	29	0	0	29	(3)	1	0	(2)
Managed stations	53	0	0	53	35	0	0	35	(18)	0	0	(18)
Performance	17	0	0	17	13	0	0	13	(4)	0	0	(4)
Customer relationship executives	8	0	0	8	6	0	0	6	(2)	0	0	(2)
Route enhancement managers	8	(8)	0	0	0	0	0	0	(8)	8	0	0
Weather	20	(8)	0	12	18	0	0	18	(2)	8	0	6
Other	74	(48)	0	26	11	0	0	11	(63)	48	0	(15)
Operations delivery	(2)	7	0	5	0	0	0	0	2	(7)	0	(5)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	14	(10)	0	4	0	0	0	0	(14)	10	0	(4)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	59	(15)	0	44	26	0	0	26	(33)	15	0	(18)
Other operating income	0	0	(27)	(27)	0	0	(19)	(19)	0	0	8	8
Total non-signaller expenditure	285	(83)	(27)	175	138	0	(19)	119	(147)	83	8	(56)
Total network operations	603	(87)	(27)	489	414	0	(19)	395	(189)	87	8	(94)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	40	(5)	(2)	33	58	0	(2)	56	18	5	0	23
Information management	85	(26)	(3)	56	60	0	(4)	56	(25)	26	(1)	0
Government and corporate affairs	13	(2)	0	11	17	0	0	17	4	2	0	6
Group strategy	14	(7)	(1)	6	10	0	0	10	(4)	7	1	4
Finance	17	0	0	17	25	0	0	25	8	0	0	8
Business services	12	0	0	12	14	0	(1)	13	2	0	(1)	1
Accommodation	72	(2)	0	70	69	0	0	69	(3)	2	0	(1)
Utilities	53	0	(17)	36	40	0	0	40	(13)	0	17	4
Insurance	51	0	0	51	44	0	0	44	(7)	0	0	(7)
Legal and inquiry	7	0	0	7	5	0	0	5	(2)	0	0	(2)
Safety and sustainable developmen	36	(10)	(4)	22	8	0	0	8	(28)	10	4	(14)
Strategic sourcing	6	0	0	6	21	0	(12)	9	15	0	(12)	3
Business change	2	0	0	2	4	0	0	4	2	0	0	2
Other corporate functions	78	(2)	(44)	32	3	0	0	3	(75)	2	44	(29)
Core support costs	486	(54)	(71)	361	378	0	(18)	359	(108)	54	52	(2)
Other support costs												
Asset management services	72	(30)	(7)	35	55	0	(18)	37	(17)	30	(11)	2
Network Rail telecoms	62	(18)	(5)	39	34	0	0	34	(28)	18	5	(5)
National delivery service	0	0	0	0	26	0	(22)	4	26	0	(22)	4
Infrastructure projects	398	(412)	(12)	(26)	0	0	0	0	(398)	412	12	26
Commercial property	38	(12)	(36)	(10)	25	0	(28)	(3)	(13)	12	8	7
Group costs	(27)	0	(27)	(54)	(1)	0	(6)	(7)	26	0	21	47
Total other support costs	543	(472)	(87)	(16)	139	0	(74)	65	(404)	472	13	81
Total support costs	1,029	(526)	(158)	345	517	0	(92)	424	(512)	526	65	79

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	469	(3)	0	466	428	0	0	428	(41)	3	0	(38)
Signalling shift managers	34	(1)	0	33	26	0	0	26	(8)	1	0	(7)
Local operations managers	39	(2)	0	37	29	0	0	29	(10)	2	0	(8)
Controllers	69	(4)	0	65	58	0	0	58	(11)	4	0	(7)
Electrical control room operators	25	(2)	0	23	19	0	0	19	(6)	2	0	(4)
Total signaller expenditure	636	(12)	0	624	560	0	0	560	(76)	12	0	(64)
Non-signaller expenditure												
Mobile operations managers	65	(2)	0	63	59	0	0	59	(6)	2	0	(4)
Managed stations	97	1	0	98	71	0	0	71	(26)	(1)	0	(27)
Performance	30	(1)	0	29	27	0	0	27	(3)	1	0	(2)
Customer relationship executives	14	(2)	0	12	13	0	0	13	(1)	2	0	1
Route enhancement managers	22	(17)	0	5	0	0	0	0	(22)	17	0	(5)
Weather	35	(8)	0	27	36	0	0	36	1	8	0	9
Other	124	(65)	0	59	23	0	0	23	(101)	65	0	(36)
Operations delivery	48	(40)	0	8	0	0	0	0	(48)	40	0	(8)
HQ - Operations services	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Performance and planning	18	(13)	0	5	0	0	0	0	(18)	13	0	(5)
HQ - Stations and customer	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Other	91	(19)	0	72	53	0	0	53	(38)	19	0	(19)
Other operating income	1	0	(68)	(67)	0	0	(38)	(38)	(1)	0	30	29
Total non-signaller expenditure	548	(166)	(68)	314	282	0	(19)	244	(266)	166	30	(70)
Total network operations	1,184	(178)	(68)	938	842	0	(19)	804	(342)	178	30	(134)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	85	(9)	(5)	71	115	0	(2)	113	30	9	3	42
Information management	173	(49)	(6)	118	119	0	(4)	115	(54)	49	2	(3)
Government and corporate affairs	28	(3)	0	25	35	0	0	35	7	3	0	10
Group strategy	31	(15)	(2)	14	21	0	0	21	(10)	15	2	7
Finance	33	0	0	33	53	0	0	53	20	0	0	20
Business services	28	(2)	0	26	27	0	(1)	26	(1)	2	(1)	0
Accommodation	146	(2)	0	144	139	0	0	139	(7)	2	0	(5)
Utilities	106	(2)	(30)	74	78	0	0	78	(28)	2	30	4
Insurance	95	0	0	95	90	0	0	90	(5)	0	0	(5)
Legal and inquiry	13	0	0	13	11	0	0	11	(2)	0	0	(2)
Safety and sustainable developmen	64	(16)	(4)	44	17	0	0	17	(47)	16	4	(27)
Strategic sourcing	12	0	0	12	30	0	(12)	18	18	0	(12)	6
Business change	4	0	0	4	6	0	0	6	2	0	0	2
Other corporate functions	344	(190)	(92)	62	6	0	0	6	(338)	190	92	(56)
Core support costs	1,162	(288)	(139)	735	747	0	(18)	728	(415)	288	120	(7)
Other support costs							0					
Asset management services	130	(55)	(9)	66	93	0	(18)	75	(37)	55	(9)	9
Network Rail telecoms	132	(36)	(12)	84	77	0	0	77	(55)	36	12	(7)
National delivery service	(5)	1	4	0	30	0	(22)	8	35	(1)	(26)	8
Infrastructure projects	704	(731)	(16)	(43)	0	0	0	0	(704)	731	16	43
Commercial property	82	(29)	(67)	(14)	22	0	(28)	(6)	(60)	29	39	8
Group costs	(13)	0	(93)	(106)	(7)	0	(6)	(13)	6	0	87	93
Total other support costs	1,030	(850)	(193)	(13)	215	0	(74)	141	(815)	850	119	154
Total support costs	2,192	(1,138)	(332)	722	962	0	(92)	869	(1,230)	1,138	239	147

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 25 per cent higher than the regulator’s assumptions. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs where responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra costs (but also additional property income). Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are lower than the previous year following further devolution of responsibilities to routes and other business areas and other efficiencies made through continuing cost control. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are in line with the determination and lower than the previous year. The reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (7) Government and corporate affairs – costs are notably lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through reductions in headcount and consultancy costs as many discretionary projects have been cancelled. The improvements in cost compared to the previous year are largely due to the same factors, with delays in headcount to replace staff exiting the business.
- (9) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent. The slight increase compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (10) Accommodation – these property expenses were slightly higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent compared to the CP4 exit position but costs have actually increased slightly. This was mostly due to new office space being acquired in London in 2014/15 which is also driving the adverse variance in the control period. Costs are slightly lower than the previous year following the migration of staff from London offices to cheaper accommodation in Milton Keynes which has been partly offset by extra Route Operating Centre (ROC) costs.
- (11) Utilities – costs are lower than the determination and the prior year because of lower prices paid for water, gas and electricity mainly due to favourable market conditions.
- (12) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslide at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (13) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.
- (14) Strategic sourcing – costs are lower than the determination assumptions for the year and the control period to date which is mainly due to efficiencies (largely headcount and increased reliance on automated processes) as well as a devolution of certain responsibilities to individual cost centre managers throughout the business.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (15) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (16) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are higher than the previous year mainly due to additional activity being undertaken to support the digital railway project, a transformational project aimed at accommodating the rising passenger demand for rail travel by utilising the latest technology to provide track capacity improvements.
- (17) Network Rail telecoms – costs for the year and the control period to date are higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers. The reduction in costs compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/ GSM-R which have not recurred.
- (18) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Savings have been made at a quicker rate than the regulator assumed in the PR13 settlement, which expected a cost neutral position to be achieved by 2017/18.
- (19) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on Thameslink and Crossrail programmes.
- (20) Commercial Property – net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand). In addition, extra revenue has been earned from stations, including the revamped Manchester Victoria station.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

(21) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would receive credits of c. £29m relating to Support costs recharges to NRHS1 and capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by c. £25m relating to reorganisation costs. Amounts charged to capital projects were in line with the determination and amounts recharged to NRHS1 were slightly lower than the regulator assumed (as Network Rail built in additional efficiencies into its service contract with NRHS1). Savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under LTIP arrangements, recognition of income received from agreeing restructuring to restructuring of financing arrangements and the favourable settlement of commercial claims. The net credit position in Group is in line with the prior year but, as expected, the composition of this amount is different. In 2014/15, there was a large reduction in payments to senior management under LTIP arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.

Statement 8a: Summary analysis of network maintenance expenditure, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	482	386	(96)	946	787	(159)	464
Signalling	171	143	(28)	346	290	(56)	175
Civils	146	124	(22)	247	249	2	101
Buildings	30	51	21	65	96	31	35
Electrical power and fixed plant	82	93	11	169	183	14	87
Telecoms	21	18	(3)	39	38	(1)	18
Other network operations	172	145	(27)	360	296	(64)	188
Asset management services	49	32	(17)	84	65	(19)	35
National Delivery Service	(8)	40	48	(12)	82	94	(4)
Property	8	5	(3)	19	10	(9)	11
Group	(19)	(16)	3	(38)	(32)	6	(19)
Total maintenance expenditure	1,134	1,021	(113)	2,225	2,064	(161)	1,091

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are higher than the previous year which includes the impact of extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability. These have been offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (2) Track – costs are higher than the determination mainly as a result of a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost based across the control period to date and is expected to continue for the remainder of the control period. Costs are slightly higher than the previous year partly offset by the savings shown in the above table in National Delivery Services but also due to extra work being undertaken to safeguard safety and performance in the face of ever-increasing network traffic.
- (3) Signalling – as with the previous year, costs are higher than the determination. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs. Furthermore, the challenging efficiency targets in the determination have proven unachievable. Maintenance costs in this area are in line with the previous year, with some modest efficiencies delivered.
- (4) Civils – costs were higher than the determination mainly as a result of higher than expected 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. These extra costs have been partly offset by a transfer of some activities and costs to Asset Management Services (which has contributed to the increased costs in that area). Costs in the control period to date are lower than the determination assumption which is due to significantly less reactive maintenance required in the first year of the control period. The increase in costs compared to the previous year are due to a combination of increased reactive maintenance and inspection costs partly offset by a movement of some responsibilities to Asset Management Services.

Statement 8a: Summary analysis of network maintenance expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (5) Buildings – all 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. Expenditure in the current (and previous) year in this area is less than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Reactive maintenance variances also account for the lower control period to date position. Overall, reactive maintenance expenditure is higher than the previous year, but the amount relating to Buildings has remained largely consistent.
- (6) Electrical power and fixed plant – some efficiencies have been made in this category, with the savings generated across almost all of Network Rail's operational routes. This has been achieved through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. Costs have marginally improved compared to the previous year due to a combination of these minor efficiencies across the whole organisation. In addition, the responsibilities for some activities have moved the route Asset management services teams which have increased costs in that category.
- (7) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A total of £37m was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving. Despite this, costs are still higher than the regulator's assumption this year. About one-third of this is due to the trailing costs of the tidy railway and vegetation management programmes referenced above. The remaining extra costs relate to investment in opex projects to improve performance and efficiencies and additional local activity as part of the move towards a devolved, more accountable railway resulting in increased capabilities and responsibilities of the local asset management teams.
- (8) Asset management services – costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils (which has led to a reduction in costs in that category), transfer of activity from Electrical power and fixed plant (which has led to a reduction in costs in that category), additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. The same factors are responsible for the extra spend in the control period to date and the increase in costs compared to the previous year.
- (9) National Delivery Services – as noted above, and in previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail. The amounts recovered were higher than the previous year for the same reason.
- (10) Property – costs in the current year are slightly higher than the regulatory assumption mostly due to the inclusion of some additional provisions for remediation of some of Network Rail's rental estate. This, combined with extra costs recognised last year due to a tenant being declared bankrupt leaving Network Rail to bear the decontamination costs of clearing the site, has resulted in higher expenditure than the determination allowance for the control period to date. Costs are lower than the previous year due to the non-recurring cost reported in 2014/15 for the aforementioned site remediation which was higher than the one-off incidents in the current year.
- (11) Group – the credit balance on this account relates to notional vehicle rental income for vehicles owned by Network Rail which is recognised separately to the charge for using these vehicles (which is included throughout the other expenditure categories). The notional income is higher than the determination assumed in both the current year and the control period to date due to additional vehicle purchases completed towards the end of the previous control period. Future plans for sourcing the company's vehicle requirements (outright capital purchase or leasing from a third party) may mean that the level of notional income recognised will decrease in future years of the control period.

Statement 8b: Summary analysis of network maintenance headcount, England and Wales

	2014-15	2015-16
Track	7,341	7,394
Signalling	2,927	2,913
Civils	261	247
Buildings	155	169
Electrical power and fixed plant	1,381	1,375
Telecoms	432	468
Other network operations	1,492	1,614
Asset management services	-	-
National delivery service	669	973
Property	-	-
Group	-	-
Other maintenance	-	-
Total network maintenance headcount	14,658	15,153

Statement 8b: Summary analysis of network maintenance headcount, England & Wales – continued

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Maintenance headcount attributed to network operations has increased slightly compared with the previous year. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduce reliance on overtime or external contractors.
- (3) Other network operations – headcount increase includes recruitment to the OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset. In addition, the number of staff involved in delivering minor capital works has increased. This solution allows the routes greater discretion and flexibility over certain types of works that they want to undertake on their routes.
- (4) National Delivery Service - increase in headcount compared to the last year was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change.

Statement 8c: Analysis of network maintenance expenditure by MDU, England and Wales

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Ashford	23	22	45
Bedford	18	18	36
Bletchley	28	28	56
Bristol	19	18	37
Brighton	24	25	49
Carlisle	23	23	46
Clapham	25	24	49
Cardiff	30	30	60
Croydon	23	24	47
Derby	21	22	43
Doncaster	18	17	35
Eastleigh	22	21	43
Hitchin	22	23	45
Ipswich	26	25	51
Leeds	17	18	35
Liverpool	22	23	45
London Bridge	22	23	45
London Euston	27	24	51
Manchester	29	28	57
Newcastle	21	24	45
Orpington	19	20	39
Plymouth	15	15	30
Preston	16	15	31
Reading	16	17	33
Romford	33	30	63
Saltley	23	25	48
Sandwell & Dudley	19	21	40
Sheffield	15	15	30
Shrewsbury	15	16	31
Stafford	20	21	41
Swindon	15	17	32
Tottenham	32	30	62
Warrington	20	19	39
Woking	28	24	52
York	19	21	40
Centrally managed			
Structures examinations	58	73	131
Major items of maintenance plant	6	5	11
HQ managed activities	61	31	92
Other	201	258	459
Total network maintenance	1,091	1,133	2,224

Statement 8c: Analysis of network maintenance expenditure by MDU, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Maintenance costs are higher than the previous year which includes the impact of extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability. These have been offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (2) Overall depots costs are in line with the previous year although there are movements within each depot which reflects the workbank requirements of that area in that year, the level of staff activity associated with capital projects as well as individual circumstances and challenges facing each unique area in either the current or previous year.
- (3) Structures examinations – costs are higher than the previous year due to extra work undertaken this year to assess the condition of structures to determine whether intervention is necessary. This includes additional costs recognised this year in relation to contractor disputes in this area. In addition, in the previous year some of this activity was the responsibility of central route teams and so reported within HQ Managed activities. Specialist teams and cost centres have been created to better understand and monitor the direct costs of Structures examinations this year.
- (4) HQ managed activities – costs are noticeably lower than the previous year. In 2014/15, Network Rail's Board took the decision to long-term incentive payments to senior staff. These savings, and more, were instead reinvested into two major maintenance programmes, Tidy Railway and Vegetation Management, which were designed to generate long-term improvements in train performance. Expenditure on these projects was significantly less in the current year which accounts for the fall in costs in this category compared to the previous year. In addition, as noted above certain responsibilities transferred to the Structures examinations category this year.
- (5) Other – costs in this category are higher than 2014/15 largely due to additional reactive maintenance work required this year. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8d: Analysis of network maintenance headcount by MDU, England and Wales

	2014-15			2015-16		
	Agency		Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305
Bedford	300	-	300	301	-	301
Bletchley	364	1	365	390	1	391
Bristol	366	1	367	378	1	379
Brighton	358	1	359	329	-	329
Carlisle	373	-	373	378	-	378
Clapham	300	-	300	317	-	317
Cardiff	416	1	417	423	1	424
Croydon	295	-	295	275	2	277
Derby	460	1	461	495	-	495
Doncaster	292	-	292	291	-	291
Eastleigh	298	2	300	315	1	316
Hitchin	342	1	343	358	1	359
Ipswich	405	-	405	420	-	420
Leeds	309	2	311	309	1	310
Liverpool	346	-	346	353	-	353
London Bridge	294	1	295	285	-	285
London Euston	322	-	322	315	-	315
Manchester	447	3	450	447	1	448
Newcastle	383	-	383	382	-	382
Orpington	260	-	260	247	-	247
Plymouth	314	1	315	333	-	333
Preston	271	2	273	273	-	273
Reading	331	5	336	350	6	356
Romford	426	4	430	448	2	450
Saltley	328	-	328	348	-	348
Sandwell & Dudley	304	3	307	312	4	316
Sheffield	317	1	318	312	-	312
Shrewsbury	259	-	259	270	-	270
Stafford	325	2	327	322	1	323
Swindon	256	2	258	306	1	307
Tottenham	428	1	429	452	1	453
Warrington	343	-	343	341	-	341
Woking	380	2	382	390	6	396
York	372	2	374	381	2	383
Centrally managed						
Route HQ	1,906	140	2,046	1,857	139	1,996
Other HQ	561	107	668	863	110	973
Total network maintenance	14,371	287	14,658	14,870	282	15,152

Statement 8d: Analysis of network maintenance headcount by MDU, England & Wales – continued

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result of a change in responsibilities between Route HQ and individual depots. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduced reliance on overtime and external contractors.
- (3) The remainder of the increase is in the local delivery units. This is a combination of increases in certain depots partly offset by decreases in others which reflects the differing workbanks and staffing strategies of each individual depot. The most notable increase was in Swindon where staff levels in 2014/15 were lower than organisational requirements. To reduce reliance on contractors and overtime, the depot increased its headcount this year.
- (4) Route HQ – the net reduction in headcount is largely due to the transfer of responsibilities to the local depots to allow greater local autonomy and flexibility to help improve decision making and so train performance. This is offset by increases for recruitment to the OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset.
- (5) Other HQ – the noticeably increase compared to the previous year is due to extra staff recruited into the National Delivery Services function. This was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change.

Statement 9a: Summary analysis of renewals expenditure, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	869	603	(266)	1,680	1,270	(410)	811
Signalling	616	689	73	1,241	1,408	167	625
Civils	532	400	(132)	997	827	(170)	465
Buildings	206	175	(31)	376	328	(48)	170
Electrical power and fixed plant	134	212	78	253	449	196	119
Telecoms	39	82	43	113	163	50	74
Wheeled plant and machinery	82	106	24	147	256	109	65
Information Technology	115	77	(38)	260	158	(102)	145
Property	12	29	17	28	51	23	16
Other renewals	164	5	(159)	382	(160)	(542)	218
Total renewals expenditure	2,769	2,378	(391)	5,477	4,750	(727)	2,708

Statement 9a: Summary analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity which have been more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year as reported in Statement 5. The higher like-for-like costs has been partly offset by deferral of activities until later in the control period (or into future control periods) as Network Rail seeks to utilise the financial resources available in the most effective way possible. Investment is slightly higher than the previous year reflecting extra Track and Civils works partly offset by decreased expenditure on projects rolled over from CP4.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the first year of the control period, a trend which has continued in to the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the last years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Expenditure was higher than the previous year with the highest contributions arising from Conventional work (where volumes increased by about one-fifth (as shown in Statement 14)) and extra Off track works (which included extra investment on Drainage activity).
- (3) Signalling – expenditure was lower than the determination expected. However, this was due to higher underlying costs being more than offset by deferral of activity into later in the control period and beyond. Key schemes that were deferred include Norwich to Yarmouth and Lowestoft (due to change in scope), Cambridge (delay to the level crossings contract award) and Feltham (which has been deferred to CP6 due to funding constraints). Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects such as Swindon and East Kent, where further contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in that year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs. Efficiencies assumed by the regulator have also proven to be elusive. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year which includes the impact of the extra remedial works required following weather events and an increased in the level of volumes delivered this year (which is shown in Statement 14). Delivery in 2014/15 was impacted by delays in implementing new contractor frameworks for CP5.

Statement 9a: Summary analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (5) Buildings – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year mainly due to extra investment at Franchised stations, partly due to the additional scope noted above and partly due to delays in introducing contractor framework agreements at the start of CP5.
- (6) Electrical power and fixed plant – costs were lower than the regulator assumed which was due to deferrals of activity being partly offset by higher like-for-like costs. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven cost increases. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferrals in the year includes a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Also, delays in the Great Eastern Overhead line programme has reduced expenditure with this programme now scheduled for next control period. Investment has increased compared to the previous year mainly due to some extra Fixed Plant acquisitions, but, as noted above, this still remains lower than the regulator assumed.
- (7) Telecoms – expenditure in the year was noticeably below the determination. There has been some re-profiling of work to later in the control period. The major underspends in year relate to the West Coast Main Line programme which after project review, has been re profiled to future control periods and FTN and NOC (National Operating Centre) slippages due to prolonged testing and contractor disputes. These underspends are expected to negate overspends in the final three years of the control period where delivery on key schemes is expected to ramp up. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year which included greater investment in FTNx projects which are now coming to completion which would have been reported within Non-route capital expenditure.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention and On track plant items than the regulator expected which was partly offset by higher expenditure on Materials delivery equipment and High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.

Statement 9a: Summary analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Property – costs are lower than the regulator’s assumption and the prior year due to less expenditure on corporate offices and accommodation. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which helps explain why costs are lower than the previous year which included extra costs for London offices following relocation of staff.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. More than £60m has been spent on these schemes this control period (the expenditure is included in the CP4 Rollover category so it doesn’t appear as though Asset information strategy is overspending compared to the regulator’s targets). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources which have now been successfully resolved. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption and lower costs than in 2014/15.
 - c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year’s Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year’s expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - d. Small plant – expenditure is less than the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail’s policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.
 - e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year’s Regulatory financial statements.

Statement 9a: Summary analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- f. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, England and Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	287	201	(86)	542	414	(128)
High output renewal	202	96	(106)	412	211	(201)
Plain line refurbishment	53	23	(30)	105	46	(59)
S&C renewal	163	140	(23)	346	310	(36)
S&C refurbishment	45	38	(7)	74	73	(1)
Track non-volume	35	46	11	57	97	40
Off track	84	59	(25)	144	119	(25)
Total track	869	603	(266)	1,680	1,270	(410)
Signalling						
Full conventional resignalling	283	178	(105)	559	409	(150)
Modular resignalling	16	42	26	26	80	54
ERTMS resignalling	11	14	3	25	21	(4)
Partial conventional resignalling	83	175	92	176	337	161
Targeted component renewal	2	19	17	5	57	52
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	18	11	(7)	39	22	(17)
Operating strategy other capital expenditure	42	51	9	118	116	(2)
Level crossings	43	95	52	90	153	63
Minor works	107	70	(37)	185	145	(40)
Centrally managed costs	10	34	24	17	68	51
Other	1	-	-	1	-	-
Total signalling	616	689	73	1,241	1,408	167
Civils						
Underbridges	192	179	(13)	339	375	36
Overbridges	64	31	(33)	114	62	(52)
Bridgeguard 3	11	-	(11)	13	-	(13)
Major structures	7	8	1	47	19	(28)
Tunnels	29	27	(2)	47	55	8
Other assets	65	37	(28)	116	76	(40)
Structures other	12	29	17	35	59	24
Earthworks	147	89	(58)	285	181	(104)
Other	5	-	(5)	1	-	-
Total civils	532	400	(132)	997	827	(170)
Buildings						
Managed stations	22	53	31	46	82	36
Franchised stations	136	95	(41)	242	192	(50)
Light maint depots	23	7	(16)	32	14	(18)
Depot plant	4	9	5	7	17	10
Lineside buildings	15	3	(12)	29	9	(20)
MDU buildings	6	6	-	18	11	(7)
NDS depots	-	2	2	2	3	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	206	175	(31)	376	328	(48)

Statement 9b: Detailed analysis of renewals expenditure, England and Wales - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	12	10	3	24	21
Overhead Line	24	39	15	61	75	14
DC distribution	39	44	5	63	96	33
Conductor rail	14	12	(2)	21	26	5
SCADA	-	10	10	-	35	35
Energy efficiency	-	2	2	4	4	-
System capability / capacity	6	11	5	8	22	14
Other electrical power	7	15	8	20	29	9
Fixed plant	42	67	25	73	138	65
Total electrical power and plant	134	212	78	253	449	196
Telecoms						
Operational communications	7	7	-	10	14	4
Network	6	13	7	10	23	13
SISS	5	30	25	10	57	47
Projects and other	1	17	16	5	27	22
Non-route capital expenditure	20	15	(5)	78	42	(36)
Total telecoms	39	82	43	113	163	50
Wheeled plant and machinery						
High output	37	11	(26)	58	86	28
Incident response	-	1	1	-	4	4
Infrastructure monitoring	4	3	(1)	7	7	-
Intervention	10	49	39	16	76	60
Materials delivery	12	3	(9)	32	3	(29)
On track plant	10	21	11	14	25	11
Seasonal	2	3	1	4	31	27
Locomotives	-	-	-	-	-	-
Fleet support plant	-	6	6	-	12	12
Road vehicles	7	9	2	16	12	(4)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	82	106	24	147	256	109
Information Technology						
IM delivered renewals	108	70	(38)	237	142	(95)
Traffic management	7	7	-	23	16	(7)
Total information technology	115	77	(38)	260	158	(102)
Property						
MDUs/offices	5	22	17	16	38	22
Commercial estate	7	7	-	12	13	1
Corporate services	-	-	-	-	-	-
Total property	12	29	17	28	51	23
Other renewals						
Asset information strategy	66	46	(20)	69	102	33
Intelligent infrastructure	7	13	6	19	27	8
Faster isolations	9	34	25	18	68	50
LOWS	2	2	-	2	3	1
Small plant	1	10	9	5	20	15
Research and development	-	-	-	-	-	-
Phasing overlay	-	(100)	(100)	-	(380)	(380)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	76	-	(76)	266	-	(266)
Other	3	-	(3)	3	-	(3)
West Coast	-	-	-	-	-	-
Total other renewals	164	5	(159)	382	(160)	(542)
Total renewals	2,769	2,378	(391)	5,477	4,750	(727)

Statement 9b: Detailed analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity which have been more than offset by higher underlying costs (notably in Track, Signalling and Civils). Consequently, financial underperformance has been recognised in the current year as reported in Statement 5. The higher like-for-like costs has been partly offset by deferral of activities until later in the control period (or into future control periods) as Network Rail seeks to utilise the financial resources available in the most effective way possible. Investment is slightly higher than the previous year reflecting extra Track and Civils works partly offset by decreased expenditure on projects rolled over from CP4.
- (2) Track – costs are higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the first year of the control period, a trend which has continued in to the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 as anticipated efficiencies in the last years of CP4 were not realised. Network Rail's CP5 Business Plan (published in response to the regulator's determination at the start of CP5) was clear that the track targets set by ORR were undeliverable. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years as Network Rail assess the appropriate level of work to be completed in the current control period in light of the funding restraints that it faces. Expenditure was higher than the previous year with the highest contributions arising from Conventional work (where volumes increased by about one-fifth (as shown in Statement 14)) and extra Off track works (which included extra investment on Drainage activity).
- (3) Signalling – expenditure was lower than the determination expected. However, this was due to higher underlying costs being more than offset by deferral of activity into later in the control period and beyond. Key schemes that were deferred include Norwich to Yarmouth and Lowestoft (due to change in scope), Cambridge (delay to the level crossings contract award) and Feltham (which has been deferred to CP6 due to funding constraints). Level crossing programmes have been delayed due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally. The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects such as Swindon and East Kent, where further contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects in order to improve the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Costs are broadly in line with the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in that year.
- (4) Civils – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been augmented by extra costs incurred as a result of weather events damaging the network. There have been a number of instances of network degradation as a result of landslips and other water damage which have affected the network throughout Great Britain. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Reductions in the level of volumes delivered have also resulted in higher costs as the lower volumes do not manifest themselves in a proportion decrease in programme costs. Efficiencies assumed by the regulator have also proven to be elusive. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year which includes the impact of the extra remedial works required following weather events and an increased in the level of volumes delivered this year (which is shown in Statement 14). Delivery in 2014/15 was impacted by delays in implementing new contractor frameworks for CP5.

Statement 9b: Detailed analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (5) Buildings – expenditure in the year was higher than the regulator anticipated being a combination of deferrals of activity more than offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous year which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's efficiency targets. As a result Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year mainly due to extra investment at Franchised stations, partly due to the additional scope noted above and partly due to delays in introducing contractor framework agreements at the start of CP5.
- (6) Electrical power and fixed plant – costs were lower than the regulator assumed which was due to deferrals of activity being partly offset by higher like-for-like costs. These higher underlying costs have partly been caused by efficiency targets included in the regulator's determination which now appears to have been over optimistic. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). In addition, contractor performance has been lower than expectation and commercial claims have driven cost increases. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferrals in the year includes a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Also, delays in the Great Eastern Overhead line programme has reduced expenditure with this programme now scheduled for next control period. Investment has increased compared to the previous year mainly due to some extra Fixed Plant acquisitions, but, as noted above, this still remains lower than the regulator assumed.
- (7) Telecoms – expenditure in the year was noticeably below the determination. There has been some re-profiling of work to later in the control period. The major underspends in year relate to the West Coast Main Line programme which after project review, has been re profiled to future control periods and FTN and NOC (National Operating Centre) slippages due to prolonged testing and contractor disputes. These underspends are expected to negate overspends in the final three years of the control period where delivery on key schemes is expected to ramp up. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year which included greater investment in FTNx projects which are now coming to completion which would have been reported within Non-route capital expenditure.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention and On track plant items than the regulator expected which was partly offset by higher expenditure on Materials delivery equipment and High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.

Statement 9b: Detailed analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Property – costs are lower than the regulator’s assumption and the prior year due to less expenditure on corporate offices and accommodation. This is mainly due to expectations about when developments will occur compared to the latest plans. Plans are only implemented once there is a sufficiently robust business case available in order to proceed with development rather than when the regulator assumed expenditure would happen. Given the bespoke nature of these schemes annual expenditure can be uneven which helps explain why costs are lower than the previous year which included extra costs for London offices following relocation of staff.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. More than £60m has been spent on these schemes this control period (the expenditure is included in the CP4 Rollover category so it doesn’t appear as though Asset information strategy is overspending compared to the regulator’s targets). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year. There have been some delays with the programme which has caused a re-profiling of expenditure into later years of the control period. These delays include issues caused by resource constraints, re-prioritisation of workbank (for example, to fit tubular stretch bars) as well as some technical problems with power interference from traction power sources which have now been successfully resolved. These same factors have also contributed to lower costs in the control period to date compared to the regulator’s assumption and lower costs than in 2014/15.
 - c. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year’s Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year’s expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - d. Small plant – expenditure is less than the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail’s policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.

Statement 9b: Detailed analysis of renewals expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- e. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- f. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 10: Other information, England and Wales

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	229	201	(28)	419	395	(24)	190
Access charge supplement Income	(193)	(190)	3	(376)	(372)	4	(183)
Net (income)/cost	36	11	(25)	43	23	(20)	7
Schedule 8							
Performance element income	(5)	-	5	(28)	-	28	(23)
Performance element costs	110	4	(106)	240	7	(233)	130
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	105	4	(101)	212	7	(205)	107

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	10	19	9
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	3	4	1
RSSB Costs	-	2	2
ORR licence fee and railway safety levy	-	(1)	(1)
Reporters fees	-	(2)	(2)
Other industry costs	-	(1)	(1)
Network Rail HS1	4	4	-
Difference in CP4 opex memo allowance	-	(8)	(8)
Total logged up items	17	17	-

D) Net income / (costs) from alliances:

	2015-16	Cumulative	2014-15
Payment from South West Trains	1	2	1
Adjustment of 2013-14 payments and receipts	-	-	-
Total alliance income	1	2	1
Payment to South West Trains	-	(2)	(2)
Total alliance costs	-	(2)	(2)
Net alliance income / (cost)	1	-	(1)

Statement 10: Other information, England & Wales – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income rather than the physical transfer of cash or cash equivalents.

Comments:

- (1) Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including incidents at Dover in Kent, as well as other numerous landslips. As noted in Statement 7, there were a number of high-profile storms in 2013/14 which adversely affected the railway infrastructure. As a result Network Rail is unable to obtain the same level of insurance cover for the funding including in the determination. Therefore, less insurance was purchased meaning that, ceteris paribus, schedule 4 costs will be higher than the regulator assumed in CP5. Schedule 4 costs are also driven by the amount of renewals activity undertaken in a particular year as possession of the railway (and hence compensation payments) are required to deliver the work. Compared to the assumptions in the Schedule 4 model used to create the determination, there is a lower level of volumes delivered for the key renewals categories that generate the majority of possessions costs (such as Track - Plain line and Track - Switches & crossings). In addition, there has been some negative financial performance recognised for Schedule 4 costs this year (refer to Statement 5), suggesting that possessions have been more expensive than the regulator assumed. The regulatory allowances are based on a series assumptions which supposes that the possessions required to deliver renewals works are standard in nature. The financial underperformance is also impacted by the disruptive weather events noted above. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (such as Track - Plain line and Track - Switches & crossings, Signalling - Full and partial conventional re-signalling and electrification works), and the impact of weather events upon the network. The Access charge supplement income is in line with the determination. This is expected as this is largely a contractually obliged payment made by operators. The minor variance is largely due to differences in the inflation used in the actual contracts and the inflation used to uplift the regulatory determination. This is explained in more detail in Statement 6. Increases in the Access charge supplement compared to last year are in proportion to the regulatory expectation.

Statement 10: Other information, England & Wales – continued

in £m 2015-16 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2015/16. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the control period due to infrastructure failures, fatalities and severe weather related incidents, continuing the trend witnessed in the previous year. Given the 2014/15 Schedule 8 costs, achieving the regulatory target this year was extremely unlikely. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. Each year the regulator's targets for Schedule 8 delay minutes get harder. Despite this, net performance costs are slightly lower than the prior year due to fewer delay minutes as services improve, especially in key areas. On a like-for-like basis (ie using the 2014/15 delay minutes baselines) Schedule 8 improvement is around 20 per cent.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to the Volume Incentive (see Statement 12) but also for differences in income earned from Network Rail High Speed 1. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. The net positive balance currently on the Opex memorandum means that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6. For the control period to date, gains made on the volume incentive have been partly offset by the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4.

Statement 12: Volume incentives, England and Wales

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	19	4	276	272	0.7%	1.47	pence per passenger train mile
Passenger farebox (millions)	44	9	8,820	8,252	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(11)	(2)	19	19	2.1%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(5)	(1)	20,534	20,384	2.6%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	47	10					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, England & Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £10m as a result, compounding the outperformance recognised in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). However, this is a mixture of costs incurred under the freight metrics more than offset by a strong performance on the passenger measures.
- (2) Passenger train mile growth has increased this year ahead of the ORR's expectation. This, combined with the growth witnessed in 2014/15 means that this measure remains ahead of the regulatory target. With the exception of the Wales, all routes are ahead of the regulator's estimate for this stage of the control period as Network Rail responds to passenger demand by providing extra services.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Freight train miles has not grown at the rate that the regulator expected and this leaves Network Rail facing a payout under this mechanism. This year, freight train miles actually decreased slightly whereas this measure expects growth every year. This situation is consistent with the worse than planned performance by the freight part of the business set out in Statement 6. Issues with the deterioration in the demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism implies. The largest shortfall is in the London North East route where the baseline assumed large increases in the quantity of biomass fuel transported to the Drax power station which proved to be overoptimistic.
- (5) Freight gross tonne miles has remained static compared to the previous year, when it was slightly ahead of the regulator's target. However, as the targets increase every year, this part of the volume incentive measure now finds itself adverse to target for the reasons noted above.

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales

in £m 2012-13 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m		
				Volume unit	£m				Volume unit	£m				Volume unit	£m				
Track	Track plain line	km	446	1,215	542	-	542	374	1,277	478	-	478	(72)	62	(64)	-	(64)		
	Conventional		523	549	287	-	287	520	408	212	-	212	(3)	(141)	(75)	-	(75)		
	High Output		574	352	202	-	202	392	528	207	-	207	(182)	176	5	-	5		
	Refurbishment		169	314	53	-	53	173	341	59	-	59	4	27	6	-	6		
	S&C	point ends	226	920	208	-	208	189	1,066	202	-	202	(37)	146	(6)	-	(6)		
	Track Drainage		0	112,768	51	-	51	1	39,865	35	-	35	0	(72,903)	(16)	-	(16)		
	Renewal	lm	n/a	11,305	n/a	n/a	n/a	n/a	6,453	n/a	n/a	n/a	n/a	(4,852)	n/a	n/a	n/a		
	Refurbishment	lm	n/a	98,864	n/a	n/a	n/a	n/a	32,613	n/a	n/a	n/a	n/a	(66,251)	n/a	n/a	n/a		
	New Build	lm	n/a	2,599	n/a	n/a	n/a	n/a	799	n/a	n/a	n/a	n/a	(1,800)	n/a	n/a	n/a		
	Fencing	km	42	816	34	-	34	28	745	21	-	21	(13)	(71)	(13)	-	(13)		
	Slab Track		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	Off track		n/a	n/a	n/a	33	33	n/a	n/a	n/a	31	31	n/a	n/a	n/a	(2)	(2)		
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					835	34	869			736	35	771			(99)	1	(98)		
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	395	n/a	n/a	n/a	-	436	n/a	n/a	n/a	-	41		
	Full conventional resignalling	SEU	285	993	283	-	283	154	1,231	190	-	190	(131)	238	(93)	-	(93)		
	Modular resignalling	SEU	842	19	16	-	16	205	365	75	-	75	(637)	346	59	-	59		
	ERTMS resignalling	SEU	-	-	11	-	11	5,500	2	11	-	11	5,500	2	-	-	-		
	Partial conventional resignalling	SEU	200	414	83	-	83	159	886	141	-	141	(41)	472	58	-	58		
	Targeted component renewal	SEU	59	34	2	-	2	241	79	19	-	19	182	45	17	-	17		
	Level crossings	No.	956	45	43	-	43	1,039	103	107	-	107	83	58	64	-	64		
	Signalling other		-	-	-	177	177	-	-	-	166	166	-	-	-	(11)	(11)		
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS other costs		n/a	n/a	n/a	18	18	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(7)	(7)		
	Operating strategy other capex		n/a	n/a	n/a	42	42	n/a	n/a	n/a	53	53	n/a	n/a	n/a	11	11		
	Minor works		n/a	n/a	n/a	107	107	n/a	n/a	n/a	73	73	n/a	n/a	n/a	(34)	(34)		
	Centrally managed costs		n/a	n/a	n/a	10	10	n/a	n/a	n/a	29	29	n/a	n/a	n/a	19	19		
	Other		-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)		
	Total					438	178	616			543	166	709			105	(12)	93	
Civils	Key structures		n/a	n/a	n/a	-	303	n/a	n/a	n/a	-	313	n/a	n/a	n/a	-	10		
	Underbridges	m2	2	91,573	192	-	192	2	122,370	230	-	230	(0)	30,797	38	-	38		
	Overbridges (incl BG3)	m2	6	11,663	75	-	75	2	31,801	48	-	48	(5)	20,138	(27)	-	(27)		
	Tunnels	m2	1	28,646	29	-	29	0	73,267	31	-	31	(1)	44,621	2	-	2		
	Major structures	m2	n/a	n/a	n/a	7	7	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(3)	(3)		
	Other structures assets		n/a	n/a	n/a	-	65	n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	(19)		
	Culverts	m2	4	4,560	17	-	17	5	2,686	13	-	13	1	(1,874)	(4)	-	(4)		
	Footbridges	m2	8	1,649	14	-	14	4	2,260	10	-	10	(4)	611	(4)	-	(4)		
	Coastal & Estuary Defences	m	5	3,459	16	-	16	2	3,812	7	-	7	(3)	353	(9)	-	(9)		
	Retaining Walls	m2	2	7,288	18	-	18	3	5,868	16	-	16	0	(1,420)	(2)	-	(2)		
	Earthworks	5-chain	38	3,263	123	-	123	31	2,669	82	-	82	(7)	(594)	(41)	-	(41)		
	EW Drainage		1	33,221	24	-	24	1	35,062	22	-	22	(0)	1,841	(2)	-	(2)		
	Renewal	lm	n/a	7,320	n/a	n/a	n/a	n/a	6,094	n/a	n/a	n/a	n/a	(1,226)	n/a	n/a	n/a		
	Refurbishment	lm	n/a	1,184	n/a	n/a	n/a	n/a	1,264	n/a	n/a	n/a	n/a	80	n/a	n/a	n/a		
	Maintenance	lm	n/a	19,101	n/a	n/a	n/a	n/a	22,477	n/a	n/a	n/a	n/a	3,376	n/a	n/a	n/a		
	New Build	lm	n/a	5,616	n/a	n/a	n/a	n/a	5,227	n/a	n/a	n/a	n/a	(389)	n/a	n/a	n/a		
	Structures other		n/a	n/a	n/a	12	12	n/a	-	n/a	11	11	n/a	n/a	n/a	(1)	(1)		
	Other		n/a	n/a	n/a	5	5	n/a	-	n/a	(59)	(59)	n/a	n/a	n/a	(64)	(64)		
	Total					508	24	532			459	(44)	415			(49)	(68)	(117)	

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

in £m 2012-13 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Other non-volume costs					Other non-volume costs					Other non-volume costs				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m			
Buildings	Franchised Stations		n/a	n/a	n/a	-	136	n/a	n/a	n/a	-	124	n/a	n/a	n/a	n/a	(12)
	Footbridges	m2	3	5,230	18	-	18	n/a	5,122	n/a	n/a	-	n/a	(108)	n/a	n/a	-
	Train Sheds	m2	0	11,800	5	-	5	n/a	5,680	n/a	n/a	-	n/a	(6,120)	n/a	n/a	-
	Canopies	m2	1	15,492	17	-	17	n/a	19,523	n/a	n/a	-	n/a	4,031	n/a	n/a	-
	Platforms	m2	1	28,636	23	-	23	n/a	68,729	n/a	n/a	-	n/a	40,093	n/a	n/a	-
	Buildings	m2	2	8,968	14	-	14	n/a	3,290	n/a	n/a	-	n/a	(5,678)	n/a	n/a	-
	Lifts & Escalators	No.	643	14	9	-	9	n/a	6	n/a	n/a	-	n/a	(8)	n/a	n/a	-
	Other		-	-	-	50	50	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	22	n/a	-	n/a	-	31	n/a	n/a	n/a	n/a	9
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	2	2,184	5	-	5	n/a	-	n/a	n/a	-	n/a	(2,184)	n/a	n/a	-
	Canopies	m2	2	527	1	-	1	n/a	1,193	n/a	n/a	-	n/a	666	n/a	n/a	-
	Platforms	m2	-	100	-	-	-	n/a	800	n/a	n/a	-	n/a	700	n/a	n/a	-
	Buildings	m2	2	1,892	3	-	3	n/a	5,550	n/a	n/a	-	n/a	3,658	n/a	n/a	-
	Lifts & Escalators	No.	2,000	1	2	-	2	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	-
	Other		-	-	-	11	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		1	27,054	23	-	23	1	11,396	n/a	-	15	n/a	(15,658)	n/a	n/a	(8)
	Buildings	m2	-	9,245	-	-	-	n/a	6,946	n/a	n/a	-	n/a	(2,299)	n/a	n/a	-
	Depot Shed	m2	-	17,809	-	-	-	n/a	4,450	n/a	n/a	-	n/a	(13,359)	n/a	n/a	-
	Lineside Buildings	m2	2	6,744	15	-	15	7	3,027	n/a	n/a	22	n/a	(3,717)	n/a	n/a	7
	MDU Buildings	m2	1	4,920	6	-	6	1	8,201	n/a	n/a	10	n/a	3,281	n/a	n/a	4
	Depot Plant		-	-	-	4	4	n/a	-	n/a	n/a	11	n/a	-	n/a	n/a	7
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(45)	n/a	n/a	n/a	n/a	(45)
Total					141	65	206					171				(35)	

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

in £m 2012-13 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	24	n/a	n/a	n/a	n/a	n/a	39	n/a	n/a	n/a	n/a	n/a	15
	wiring	wire runs	(207)	29	(6)	-	(6)	n/a	48	n/a	n/a	n/a	-	n/a	19	n/a	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	67	n/a	n/a	n/a	-	n/a	67	n/a	n/a	n/a	-
	Structure Renewals	No.	104	115	12	-	12	n/a	154	n/a	n/a	n/a	-	n/a	39	n/a	n/a	n/a	-
	Other		-	-	-	18	18	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Conductor rail	km	341	41	14	-	14	423	26	n/a	n/a	n/a	11	n/a	(15)	n/a	n/a	n/a	(3)
	AC distribution		-	-	-	-	2	n/a	-	n/a	n/a	n/a	12	n/a	n/a	n/a	n/a	n/a	10
	HV Switchgear Renewal	No.	167	6	1	-	1	n/a	8	n/a	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	n/a	20	n/a	n/a	n/a	-	n/a	20	n/a	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	39	n/a	-	n/a	n/a	n/a	44	n/a	n/a	n/a	n/a	n/a	5
	HV Switchgear Renewal	No.	1,667	3	5	-	5	n/a	36	n/a	n/a	n/a	-	n/a	33	n/a	n/a	n/a	-
	HV Cables	km	650	20	13	-	13	n/a	20	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	LV Switchgear Renewal	No.	104	48	5	-	5	n/a	72	n/a	n/a	n/a	-	n/a	24	n/a	n/a	n/a	-
	LV Cables	km	243	37	9	-	9	n/a	16	n/a	n/a	n/a	-	n/a	(21)	n/a	n/a	n/a	-
	Transformer Rectifiers	No.	500	2	1	-	1	n/a	2	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Other		-	-	-	6	6	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	36	n/a	-	n/a	n/a	n/a	71	n/a	n/a	n/a	n/a	n/a	35
	Signalling Power Cable Renewal	km	261	69	18	-	18	n/a	229	n/a	n/a	n/a	-	n/a	160	n/a	n/a	n/a	-
	Principle Supply Point Renewal	No.	79	101	8	-	8	n/a	16	n/a	n/a	n/a	-	n/a	(85)	n/a	n/a	n/a	-
	Other		-	-	-	10	10	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	40	151	6	-	6	n/a	148	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(6)
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	n/a	9	n/a	n/a	n/a	n/a	n/a	9
	Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	6	6	n/a	-	n/a	n/a	n/a	10	n/a	n/a	n/a	n/a	n/a	4
	Other electrical power		-	-	-	7	7	n/a	-	n/a	n/a	n/a	14	n/a	n/a	n/a	n/a	n/a	7
	Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
Total				86	48		134						210						76
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	5	n/a	-	n/a	n/a	n/a	27	n/a	-	n/a	n/a	n/a	22
	Customer Information Systems	No.	50	20	1	-	1	n/a	743	n/a	n/a	n/a	-	n/a	723	n/a	n/a	n/a	-
	Public Address	No.	7	294	2	-	2	n/a	4,017	n/a	n/a	n/a	-	n/a	3,723	n/a	n/a	n/a	-
	CCTV	No.	13	151	2	-	2	n/a	2,426	n/a	n/a	n/a	-	n/a	2,275	n/a	n/a	n/a	-
	Clocks	No.	-	8	-	-	-	n/a	27	n/a	n/a	n/a	-	n/a	19	n/a	n/a	n/a	-
	Operational Comms		n/a	n/a	n/a	-	7	n/a	-	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	(4)
	PABX Concentrator	No. Lines	2	1,088	2	-	2	n/a	997	n/a	n/a	n/a	-	n/a	(91)	n/a	n/a	n/a	-
	Processor Controlled Concentrator	No. Lines	-	-	2	-	2	n/a	206	n/a	n/a	n/a	-	n/a	206	n/a	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	86	35	3	-	3	n/a	-	n/a	n/a	n/a	-	n/a	(35)	n/a	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	31	-	-	-	n/a	83	n/a	n/a	n/a	-	n/a	52	n/a	n/a	n/a	-
	System	No.	-	13	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	(13)	n/a	n/a	n/a	-
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	12	n/a	n/a	n/a	-	n/a	1	n/a	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Radio System	No.	-	3	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	(3)	n/a	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	n/a	2	n/a	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-
	Network		n/a	n/a	n/a	6	6	n/a	-	n/a	n/a	n/a	9	n/a	n/a	n/a	n/a	n/a	3
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)
	Non route capex		n/a	n/a	n/a	20	20	n/a	-	n/a	n/a	n/a	43	n/a	n/a	n/a	n/a	n/a	23
Total				12	27		39						82						43

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

in £m 2012-13 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
			£k/unit	unit	£m	volume costs		£m	£k/unit	unit	£m		£m	£k/unit	unit	£m		£m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	37	37	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(26)	(26)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Infrastructure monitoring		n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	10	10	n/a	n/a	n/a	49	49	n/a	n/a	n/a	39	39		
	Materials delivery		n/a	n/a	n/a	12	12	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(9)	(9)		
	On track plant		n/a	n/a	n/a	10	10	n/a	n/a	n/a	22	22	n/a	n/a	n/a	12	12		
	Seasonal		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6		
	Road vehicles		n/a	n/a	n/a	7	7	n/a	n/a	n/a	9	9	n/a	n/a	n/a	2	2		
S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total					-	82	82	108					108	26					26
IT	IM delivered renewals		n/a	n/a	n/a	108	108	n/a	n/a	n/a	91	91	n/a	n/a	n/a	(17)	(17)		
	Traffic management		n/a	n/a	n/a	7	7	n/a	n/a	n/a	34	34	n/a	n/a	n/a	27	27		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					-	115	115	125					125	10					10
Property	MDUs/offices		n/a	n/a	n/a	5	5	n/a	n/a	n/a	21	21	n/a	n/a	n/a	16	16		
	Commercial estate		n/a	n/a	n/a	7	7	n/a	n/a	n/a	7	7	n/a	n/a	n/a	-	-		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					-	12	12	28					28	16					16
Other renewals	Asset information strategy		n/a	n/a	n/a	66	66	n/a	n/a	n/a	42	42	n/a	n/a	n/a	(24)	(24)		
	Intelligent infrastructure		n/a	n/a	n/a	7	7	n/a	n/a	n/a	13	13	n/a	n/a	n/a	6	6		
	Faster isolations		n/a	n/a	n/a	9	9	n/a	n/a	n/a	32	32	n/a	n/a	n/a	23	23		
	LOWS		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)		
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	10	10	n/a	n/a	n/a	9	9		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	76	76	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(76)	(76)		
Other		n/a	n/a	n/a	3	3	n/a	n/a	n/a	22	22	n/a	n/a	n/a	19	19			
Total						164	164	119					119	(45)					(45)
Total Renewals							2,769	2,738							(31)				

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

in £m 2012-13 prices unless stated

Cumulative		Actual						Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	
					volume £m					volume £m					volume £m			
Track	Track plain line	km	461	2,296	1,059	-	1,059	426	2,420	1,030	-	1,030	(36)	124	(29)	-	(29)	
	Conventional		551	984	542	-	542	560	901	505	-	505	10	(83)	(37)	-	(37)	
	High Output		565	729	412	-	412	457	922	421	-	421	(109)	193	9	-	9	
	Refurbishment		180	583	105	-	105	174	597	104	-	104	(6)	14	(1)	-	(1)	
	S&C	point ends	269	1,559	420	-	420	208	2,072	431	-	431	(61)	513	11	-	11	
	Track Drainage		1	136,670	70	-	70	1	80,525	72	-	72	0	(56,145)	2	-	2	
	Renewal	lm	n/a	17,135	n/a	n/a	n/a	n/a	13,796	n/a	n/a	n/a	n/a	(3,339)	n/a	n/a	n/a	
	Refurbishment	lm	n/a	114,469	n/a	n/a	n/a	n/a	65,122	n/a	n/a	n/a	n/a	(49,347)	n/a	n/a	n/a	
	New Build	lm	n/a	5,066	n/a	n/a	n/a	n/a	1,607	n/a	n/a	n/a	n/a	(3,459)	n/a	n/a	n/a	
	Fencing	km	38	1,387	53	-	53	31	1,339	42	-	42	(7)	(48)	(11)	-	(11)	
	Slab Track		n/a	n/a	n/a	4	4	n/a	n/a	n/a	7	7	n/a	n/a	n/a	3	3	
	Off track		n/a	n/a	n/a	74	74	n/a	n/a	n/a	65	65	n/a	n/a	n/a	(9)	(9)	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Total				1,602	78	1,680			1,575	72	1,647			(27)	(6)	(33)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	791	n/a	n/a	n/a	-	900	n/a	n/a	n/a	-	109	
	Full conventional resignalling	SEU	370	1,509	559	-	559	184	2,288	421	-	421	(186)	779	(138)	-	(138)	
	Modular resignalling	SEU	1,368	19	26	-	26	-	435	119	-	119	(1,368)	416	93	-	93	
	ERTMS resignalling	SEU	-	-	25	-	25	-	2	13	-	13	-	2	(12)	-	(12)	
	Partial conventional resignalling	SEU	302	583	176	-	176	196	1,495	293	-	293	(106)	912	117	-	117	
	Targeted component renewal	SEU	122	41	5	-	5	-	220	54	-	54	(122)	179	49	-	49	
	Level crossings	No.	1,200	75	90	-	90	1,124	161	181	-	181	(76)	86	91	-	91	
	Signalling other		-	-	-	359	359	-	-	-	318	318	-	-	-	(41)	(41)	
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS other costs		n/a	n/a	n/a	39	39	n/a	n/a	n/a	22	22	n/a	n/a	n/a	(17)	(17)	
	Operating strategy other capex		n/a	n/a	n/a	118	118	n/a	n/a	n/a	118	118	n/a	n/a	n/a	-	-	
	Minor works		n/a	n/a	n/a	185	185	n/a	n/a	n/a	118	118	n/a	n/a	n/a	(67)	(67)	
	Centrally managed costs		n/a	n/a	n/a	17	17	n/a	n/a	n/a	60	60	n/a	n/a	n/a	43	43	
	Other		-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)	
	Total				881	360	1,241			1,081	318	1,399			200	(42)	158	
Civils	Key structures		n/a	n/a	n/a	-	560	n/a	n/a	n/a	-	627	n/a	n/a	n/a	-	67	
	Underbridges	m2	2	145,197	339	-	339	2	229,324	450	-	450	(0)	84,127	111	-	111	
	Overbridges (incl BG3)	m2	6	21,089	127	-	127	2	55,651	108	-	108	(4)	34,562	(19)	-	(19)	
	Tunnels	m2	1	44,719	47	-	47	1	100,626	59	-	59	(0)	55,907	12	-	12	
	Major structures	m2	n/a	n/a	n/a	47	47	n/a	n/a	n/a	10	10	n/a	n/a	n/a	(37)	(37)	
	Other structures assets		n/a	n/a	n/a	-	116	n/a	n/a	n/a	-	85	n/a	n/a	n/a	-	(31)	
	Culverts	m2	3	8,992	29	-	29	6	4,524	25	-	25	2	(4,468)	(4)	-	(4)	
	Footbridges	m2	9	2,193	20	-	20	5	3,764	18	-	18	(4)	1,571	(2)	-	(2)	
	Coastal & Estuary Defences	m	4	10,458	40	-	40	2	5,552	11	-	11	(2)	(4,906)	(29)	-	(29)	
	Retaining Walls	m2	3	10,638	27	-	27	3	9,482	31	-	31	1	(1,156)	4	-	4	
	Earthworks	5-chain	50	4,839	243	-	243	-	5,417	163	-	163	(50)	578	(80)	-	(80)	
	EW Drainage		1	43,969	42	-	42	1	68,875	54	-	54	(0)	24,906	12	-	12	
	Renewal	lm	n/a	8,886	n/a	n/a	n/a	n/a	12,185	n/a	n/a	n/a	n/a	3,299	n/a	n/a	n/a	
	Refurbishment	lm	n/a	2,201	n/a	n/a	n/a	n/a	2,534	n/a	n/a	n/a	n/a	333	n/a	n/a	n/a	
	Maintenance	lm	n/a	21,856	n/a	n/a	n/a	n/a	43,627	n/a	n/a	n/a	n/a	21,771	n/a	n/a	n/a	
	New Build	lm	n/a	11,026	n/a	n/a	n/a	n/a	10,529	n/a	n/a	n/a	n/a	(497)	n/a	n/a	n/a	
	Structures other		n/a	n/a	n/a	35	35	n/a	-	n/a	26	26	n/a	n/a	n/a	(9)	(9)	
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(117)	(117)	n/a	n/a	n/a	(118)	(118)	
	Total				914	83	997			919	(81)	838			5	(164)	(159)	

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

in £m 2012-13 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m
					volume £m					volume £m					volume £m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	242	n/a	n/a	n/a	-	269	n/a	n/a	n/a	n/a	27
	Footbridges	m2	4	6,556	26	-	26	n/a	10,090	n/a	n/a	-	n/a	3,534	n/a	n/a	-
	Train Sheds	m2	1	19,553	10	-	10	n/a	29,349	n/a	n/a	-	n/a	9,796	n/a	n/a	-
	Canopies	m2	0	61,293	30	-	30	n/a	37,499	n/a	n/a	-	n/a	(23,794)	n/a	n/a	-
	Platforms	m2	1	80,537	51	-	51	n/a	146,232	n/a	n/a	-	n/a	65,695	n/a	n/a	-
	Buildings	m2	1	31,543	18	-	18	n/a	9,406	n/a	n/a	-	n/a	(22,137)	n/a	n/a	-
	Lifts & Escalators	No.	722	18	13	-	13	n/a	15	n/a	n/a	-	n/a	(3)	n/a	n/a	-
	Other		-	-	-	94	94	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	54	n/a	n/a	n/a	n/a	8
	Footbridges	m2	-	120	-	-	-	n/a	-	n/a	n/a	-	n/a	(120)	n/a	n/a	-
	Train Sheds	m2	2	2,184	5	-	5	n/a	1,600	n/a	n/a	-	n/a	(584)	n/a	n/a	-
	Canopies	m2	3	792	2	-	2	n/a	7,123	n/a	n/a	-	n/a	6,331	n/a	n/a	-
	Platforms	m2	3	317	1	-	1	n/a	3,400	n/a	n/a	-	n/a	3,083	n/a	n/a	-
	Buildings	m2	2	8,324	14	-	14	n/a	11,104	n/a	n/a	-	n/a	2,780	n/a	n/a	-
	Lifts & Escalators	No.	1,250	4	5	-	5	n/a	4	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	19	19	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		1	59,736	32	-	32	0	108,085	n/a	-	34	n/a	48,349	n/a	n/a	2
	Buildings	m2	-	9,477	-	-	-	n/a	73,047	n/a	n/a	-	n/a	63,570	n/a	n/a	-
	Depot Shed	m2	-	50,259	-	-	-	n/a	35,038	n/a	n/a	-	n/a	(15,221)	n/a	n/a	-
	Lineside Buildings	m2	2	12,100	29	-	29	2	21,731	n/a	n/a	46	n/a	9,631	n/a	n/a	17
	MDU Buildings	m2	1	12,317	18	-	18	1	30,361	n/a	n/a	26	n/a	18,044	n/a	n/a	8
	Depot Plant		-	-	-	7	7	n/a	-	n/a	n/a	24	n/a	-	n/a	n/a	17
	NDS Depots		-	-	-	2	2	n/a	-	n/a	n/a	9	n/a	n/a	n/a	n/a	7
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(88)	n/a	n/a	n/a	n/a	(88)
Total					254	122	376					374					(2)

Statement 14: Renewals volumes, unit costs and expenditure, England and Wales - continued

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Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m		unit	£m	£m	£m		unit	£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	61	n/a	n/a	n/a	n/a	74	n/a	n/a	n/a	n/a	13		
	wiring	wire runs	200	50	10	-	10	n/a	84	n/a	n/a	-	n/a	34	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	123	n/a	n/a	-	n/a	123	n/a	n/a	-		
	Structure Renewals	No.	102	196	20	-	20	n/a	267	n/a	n/a	-	n/a	71	n/a	n/a	-		
	Other		-	-	-	31	31	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	313	67	21	-	21	393	61	n/a	n/a	24	n/a	(6)	n/a	n/a	3		
	AC distribution		-	-	-	-	3	n/a	-	n/a	n/a	24	n/a	n/a	n/a	n/a	21		
	HV Switchgear Renewal	No.	37	27	1	-	1	n/a	24	n/a	n/a	-	n/a	(3)	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	41	n/a	n/a	-	n/a	41	n/a	n/a	-		
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	63	n/a	-	n/a	n/a	93	n/a	n/a	n/a	n/a	30		
	HV Switchgear Renewal	No.	1,200	5	6	-	6	n/a	38	n/a	n/a	-	n/a	33	n/a	n/a	-		
	HV Cables	km	654	26	17	-	17	n/a	60	n/a	n/a	-	n/a	34	n/a	n/a	-		
	LV Switchgear Renewal	No.	80	113	9	-	9	n/a	150	n/a	n/a	-	n/a	37	n/a	n/a	-		
	LV Cables	km	237	59	14	-	14	n/a	36	n/a	n/a	-	n/a	(23)	n/a	n/a	-		
	Transformer Rectifiers	No.	200	10	2	-	2	n/a	4	n/a	n/a	-	n/a	(6)	n/a	n/a	-		
	Other		-	-	-	15	15	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	64	n/a	-	n/a	n/a	143	n/a	n/a	n/a	n/a	79		
	Signalling Power Cable Renewal	km	330	91	30	-	30	n/a	476	n/a	n/a	-	n/a	385	n/a	n/a	-		
	Principle Supply Point Renewal	No.	106	113	12	-	12	n/a	36	n/a	n/a	-	n/a	(77)	n/a	n/a	-		
	Other		-	-	-	22	22	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	41	222	9	-	9	n/a	482	n/a	n/a	-	n/a	n/a	n/a	n/a	(9)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	35	n/a	n/a	n/a	n/a	n/a	35	
	Energy efficiency		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(4)	
	System capability / capacity		-	-	-	8	8	n/a	-	n/a	n/a	21	n/a	n/a	n/a	n/a	n/a	13	
	Other electrical power		-	-	-	20	20	n/a	-	n/a	n/a	29	n/a	n/a	n/a	n/a	n/a	9	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Total				151	102	253					443						190	
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	10	n/a	-	n/a	n/a	46	n/a	-	n/a	n/a	36		
	Customer Information Systems	No.	15	132	2	-	2	n/a	917	n/a	n/a	-	n/a	785	n/a	n/a	-		
	Public Address	No.	5	590	3	-	3	n/a	4,992	n/a	n/a	-	n/a	4,402	n/a	n/a	-		
	CCTV	No.	13	302	4	-	4	n/a	2,679	n/a	n/a	-	n/a	2,377	n/a	n/a	-		
	Clocks	No.	125	8	1	-	1	n/a	84	n/a	n/a	-	n/a	76	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	10	n/a	-	n/a	n/a	10	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	2	1,088	2	-	2	n/a	2,297	n/a	n/a	-	n/a	1,209	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	95	21	2	-	2	n/a	347	n/a	n/a	-	n/a	326	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	114	44	5	-	5	n/a	67	n/a	n/a	-	n/a	23	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	31	-	-	-	n/a	109	n/a	n/a	-	n/a	78	n/a	n/a	-		
	System	No.	29	35	1	-	1	n/a	1	n/a	n/a	-	n/a	(34)	n/a	n/a	-		
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	17	n/a	n/a	-	n/a	6	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-		
	Radio System	No.	-	3	-	-	-	n/a	3	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	7	-	-	-	n/a	2	n/a	n/a	-	n/a	(5)	n/a	n/a	-		
	Network		n/a	n/a	n/a	10	10	n/a	-	n/a	n/a	17	n/a	n/a	n/a	n/a	7		
	Projects and other		n/a	n/a	n/a	5	5	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(5)		
	Non route capex		n/a	n/a	n/a	78	78	n/a	-	n/a	n/a	93	n/a	n/a	n/a	n/a	15		
	Total				20	93	113					166					53		

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Cumulative		Actual						Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Wheeled plant and machinery	High output		n/a	n/a	n/a	58	58	n/a	n/a	n/a	86	86	n/a	n/a	n/a	28	28		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5		
	Infrastructure monitoring		n/a	n/a	n/a	7	7	n/a	n/a	n/a	8	8	n/a	n/a	n/a	1	1		
	Intervention		n/a	n/a	n/a	16	16	n/a	n/a	n/a	75	75	n/a	n/a	n/a	59	59		
	Materials delivery		n/a	n/a	n/a	32	32	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(29)	(29)		
	On track plant		n/a	n/a	n/a	14	14	n/a	n/a	n/a	26	26	n/a	n/a	n/a	12	12		
	Seasonal		n/a	n/a	n/a	4	4	n/a	n/a	n/a	31	31	n/a	n/a	n/a	27	27		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	12	12	n/a	n/a	n/a	12	12		
	Road vehicles		n/a	n/a	n/a	16	16	n/a	n/a	n/a	12	12	n/a	n/a	n/a	(4)	(4)		
S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total					147	147				258	258				111	111			
IT	IM delivered renewals		n/a	n/a	n/a	237	237	n/a	n/a	n/a	209	209	n/a	n/a	n/a	(28)	(28)		
	Traffic management		n/a	n/a	n/a	23	23	n/a	n/a	n/a	57	57	n/a	n/a	n/a	34	34		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					260	260				266	266				6	6			
Property	MDUs/offices		n/a	n/a	n/a	16	16	n/a	n/a	n/a	35	35	n/a	n/a	n/a	19	19		
	Commercial estate		n/a	n/a	n/a	12	12	n/a	n/a	n/a	13	13	n/a	n/a	n/a	1	1		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					28	28				48	48				20	20			
Other renewals	Asset information strategy		n/a	n/a	n/a	69	69	n/a	n/a	n/a	96	96	n/a	n/a	n/a	27	27		
	Intelligent infrastructure		n/a	n/a	n/a	19	19	n/a	n/a	n/a	27	27	n/a	n/a	n/a	8	8		
	Faster isolations		n/a	n/a	n/a	18	18	n/a	n/a	n/a	65	65	n/a	n/a	n/a	47	47		
	LOWS		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)		
	Small plant		n/a	n/a	n/a	5	5	n/a	n/a	n/a	20	20	n/a	n/a	n/a	15	15		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	266	266	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(266)	(266)		
Other		n/a	n/a	n/a	3	3	n/a	n/a	n/a	50	50	n/a	n/a	n/a	47	47			
Total					382	382				258	258				(124)	(124)			
Total Renewals							5,477										5,697	220	

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered in the year are broadly in line with Network Rail's published CP5 Business Plan, with extra Conventional units offsetting lower High Output activity.
 - a. Conventional – volumes delivered this year are higher than the plan which included a catch-up of the under delivery witnessed in the opening year of the control period, notably in East Midlands, London North West, Wales and Wessex.
 - b. High Output – the programme has fallen behind the plan due to issues experienced with contractor delivery, plant failures, and access restrictions (including priorities being given to more strategically important enhancements programmes). Shortfalls in London North East and London North West accounted for the majority of the variance to plan.
- (5) Track - Switches & Crossings – volumes delivered in the current year are lower than the plan. There were notable shortfalls in Anglia (knock on impact of delays in Norwich Yarmouth & Lowestoft Re-signalling scheme), London North West (plan rationalisation due to resource constraints meaning alternative asset management strategies have been implemented) and Western (resource shortages and planning delays).
- (6) Signalling - volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (7) Signalling - Full Conventional Re-signalling - volume delivery in the current year is behind plan. Volume variances are driven by when planned programmes are completed, many of which are large, multi-year projects which introduces some uncertainty. This year the under delivery consists of lower delivery in London North East (cost increases in the portfolio and across the organisation has meant that scarce resource utilisation has been re-planned to achieve optimal results), Western (delays in the commissioning dates of Swindon, Bristol and Reading) and Kent (Medway Valley element of East Kent Phase 2 being deferred to future years following project cost uplifts prompting a scope review and change in asset management approach) which have been partly offset by extra volumes reported in London North West (Wolverhampton scheme originally planned for commissioning in the opening year of the control period) and Wales (catch up of activity from the opening year of the control period).
- (8) Signalling – Modular - volumes delivered in the current year is lower than the plan. This variance has largely arisen within Anglia (deferral of North London Line activity to develop more technology-based solution), Wales (impact of deferral of Newport-Shrewsbury and North Wales Coast schemes and other elements of the portfolio in light of increasing cost estimates and constrained resources) and London North East (deferral of activity to future control periods to meet resource constraints and adoption of alternative asset management strategies).
- (9) Signalling - Partial Conventional Re-signalling – volume reported in the year is lower than the plan due to signalling schemes being deferred due to contractor capacity, funding constraints and workbank prioritisation in East Midlands. There have also been deferrals in London North East due to a lack of contractor capacity, in Sussex due to resource and possession issues and in Western as large schemes such as Swindon, Bristol and Reading have had their commissioning dates postponed.
- (10) Signalling – Targeted Component – volumes delivered across most routes in lower than the plan assumed. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Alternative asset management strategies are being implemented to maintain assets at an appropriate level of quality.
- (11) Signalling - Level Crossings – volumes delivered were lower than the plan in most routes. This includes Kent (a number of level crossings deferred due to the slippage of the aforementioned Medway Valley work), London North East (including issues arising from lack of suitable resource) and London North West (deferrals due to access issues). Also, in light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (12) Civils - Underbridges – volumes delivered this year were lower than the plan due primarily to contractor performance, access availability and workbank development which has stemmed from a bottom up review of workbanks to assess priority in light of resource constraints facing the organisation. Thorald Bridge in London North East was a significant scheme in the plan which has now been deferred to later in the control period due to a change in scope. There were access issues on a number of schemes in London North West (including Eskmeal Viaduct and Reddish Viaduct). There were deferrals in Sussex as a result of ecological issues and challenges obtaining the necessary access. Delivery of the Old Lodge Lane bridge, on the Brighton Main Line, was due to be replaced over Christmas but was cancelled due to high winds and risk of possession overruns.
- (13) Civils - Overbridges - volumes delivered this year were lower than the plan due primarily to delays in design and tendering as well as resource availability resulting in a number of schemes slipping into future years in East Midlands. The River Aire bridge in London North East has been deferred to the next control period due to a re-assessment of the asset condition. The Kit Hill bridge in Wessex has been deferred into the next control period following resource re-prioritisation.
- (14) Civils - Tunnels - volumes delivered this year were lower than the plan due predominantly to works at Bishopsgate Tunnel having been deferred to the in the control period in Anglia. The Sevenoaks tunnel scheme in Kent has slipped due to access constraints and the need to align with other works being undertaken within the tunnel in order to optimise delivery. A number of schemes in Wessex (including Popham, Foxhill and Mickleham) have been deferred to the next control period as a result of resource prioritisations identified as part of updates to Network Rail's plans.
- (15) Civils – Culverts – volumes delivered in the current year were higher than the plan. The majority of this variance was in London North East and reflected a catch up of under delivery in the opening year of the control period and an acceleration of work from future years.

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (16)Civils - Footbridges - Footbridges – volumes delivered were lower than the plan with a large amount of work deferred to next year due to a mix of workbank re-profiling and review following the development of full bottom-up workbanks in light of re-prioritisations arising from resource constraints facing the organisation.
- (17)Civils - Retaining Walls – volumes delivered in the year were higher than the plan which includes incorporating shortfalls from the opening year of the control period into the current year's workbank, including, East Croydon (Sussex) and Fishguard (Wales). The volumes included in the plan were based on high level asset management assumptions and, as such, were always likely to be indicative in nature. The actual volumes required have proven difficult following a better understanding of asset condition and requirements with significant variances (either increases or decreases) across most routes.
- (18)Civils - Earthworks – volumes delivered in the current year were higher than the plan. This is predominantly the result of increasing levels of maintain interventions in year two; partially linked to the recovery of year one under-delivery and partly due to emerging asset condition requirements.
- (19)Civils – Earthworks Drainage – volumes delivered were lower than planned. The volumes included in the plan were based on high level asset management assumptions and, as such, were always likely to be indicative in nature. The actual volumes required have proven difficult following a better understanding of asset condition and requirements with significant variances (either increases or decreases) across most routes.
- (20)Buildings - Franchised Stations – Train Sheds – volumes delivered this year were higher than the plan which included a catch up of activity deferred from the opening year of the control period. There were additional volumes delivered in London North West (extra work undertaken as part of the Manchester Victoria station redevelopment which was not included in the original plan) and which was partly offset by reductions in Wales (re-profiling of Holyhead station to year four of the control period in order to optimise delivery).
- (21)Buildings - Franchised Stations – Platforms –volumes delivered this year were lower than the plan. The majority of this variance occurred in London North West (due to re-scoping of the requirements of the Liverpool Underground Moorfields project), Sussex (re-profiling of activity within the first two years of the control period with extra volumes being delivered in 2014/15) and East Midlands (resource constraints facing the organisation resulting in a re-prioritisation of funds to those projects and areas that can utilise them most effectively).
- (22)Buildings - Franchised Stations – Buildings –volumes delivered this year were higher than the plan. This variance was mostly in London North West (CP5 Business Plan underestimated the level of work required in this area to maintain the appropriate level of asset quality), Anglia (including the catch up of activity deferred from the opening year of the control period as well as volumes accelerated from future years of the control period) and East Midlands(mainly relates to work at Bedford station that was originally planned for 2016/17 but was accelerated to make use of available resource) partly offset in Western (revision of workbank following re-prioritisation of scarce resources in the organisation to optimise outputs).
- (23)Buildings - Franchised Stations – Lifts & Escalators –volumes delivered this year were lower than the plan.
- (24)Buildings - Managed Stations – Train Sheds – no volumes were included in the CP5 Business Plan for the current year. All of the volumes reported this year relate to activity in Sussex relating to works at London Victoria originally planned for later in the control period.
- (25)Buildings - Managed Stations – Canopies – volumes delivered this year were lower than the plan. The vast majority of this variance occurred in Sussex where there was a re-phasing of works between years two and three of the control period, with the volumes not delivered this year anticipated to be achieved in 2016/17.
- (26)Buildings - Managed Stations – Platforms – volumes delivered this year were lower than the plan. This variance all arose in Kent and was a consequence of re-profiling resurfacing works at Charing Cross station which have been rescheduled for 2016/17 due to external resource issues.

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (27) Buildings - Managed Stations – Buildings – volumes delivered this year were lower than the plan which is due to under delivery in Anglia (deferral of works at Liverpool Street station until 2016/17 due to priority given to Crossrail enhancement programme works in this region), partly offset by extra volumes delivered in London North East (acceleration of works from future years to utilise available resource), and Wessex (unplanned repairs to the concourse roof at Waterloo station).
- (28) Buildings - Light Maintenance Depots – volumes delivered were higher than the plan which partly offset the shortfall in volumes delivered in the first year of the control period. Extra volumes were required following asset quality concerns (London North East following a crane failure, Plymouth shed roof in Western and Stewart's Lane in Sussex).
- (29) Buildings - Lineside Buildings - volume delivery this year is higher than the CP5 Business Plan which includes a catch up of activity deferred from the opening year of the control period. The largest variance in the year is in London North West where no volumes were planned for CP5 but asset condition has required some intervention at Crewe Power Signal Box works.
- (30) Buildings – MDU buildings – volumes delivered were lower than the plan which reflected re-profiling of activity to later in the control period (London North West) partly offset by underestimates of the level of activity required for this type of asset in the original CP5 Business Plan (London North East and Wales).
- (31) Electrification – Mid-life Refurbishment – no volumes have been delivered this year, a trend that is expected to continue for the remainder of the control period. Alternative asset management strategies are being implemented to maintain the asset at an appropriate level of quality. Also, In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (32) Electrification - Structures Renewals – volumes delivered this year are lower than the plan which includes the impact of the pausing and subsequent restarting of the Midland Mainline Enhancement programme which led to fluctuations in delivery resource availability which has ultimately delayed the programme. In addition, volumes in Anglia are higher than the plan which was based on some high level assumptions about the number of volumes that would be required to maintain asset condition which now appear to be inaccurate, as better asset management information becomes available
- (33) Electrification - Conductor Rail Renewal – volumes delivered in the year are higher than the plan assumed which is mostly due to the recovery of volumes deferred from last year's plan following improved delivery.
- (34) Electrification – Booster Transformers – no volumes were delivered in the year which is a pattern expected to continue for the remainder of the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (35) Electrification - HV Switchgear Renewal DC - volumes delivered this year are lower than the plan mostly due to a fundamental re-planning of activity in Wessex as a result of safety concerns. Network Rail takes the safety of staff, passengers and contractors very seriously which increases the need to complete such works carefully.
- (36) Electrification - LV Switchgear Renewal – volumes delivered this year are lower than the plan due to items being re-profiled from current year due to access availability and the intention to drive greater financial efficiency through more effective planning.
- (37) Electrification – LV Cables – volumes delivered were higher than the plan which was a mixture of some over and under delivery throughout various routes as activity was re-phased within the control period or the high level assumptions in the CP6 Business Plan have been superseded by a more detailed asset management strategy following the emergence of better information.
- (38) Electrification - Signalling Power Cables – volumes delivered were lower than the plan which is mainly due to lower contractor resource availability, caused in part by delays engaging with and understanding the new framework contracts introduced this control period. Shortfalls in London North West and Western account for most of the variance in the year.

Statement 14: Renewals volumes, unit costs and expenditure, England & Wales – continued

in £m 2015-16 prices unless stated

- (39) Electrification - Principle Supply Point Renewal – volumes reported in the year were higher than the plan. There were notable increases in volumes in Kent (the CP5 Business Plan assumed no activity in this area but improved asset information has required volumes to be delivered) and Sussex (which includes a catch up of activity deferred from the opening year of the control period).
- (40) Telecoms – Customer Information Systems – volumes delivered in the year were lower than planned. There were notable reductions in volume in Wessex, Sussex (both mostly due to activity deferred into future control periods in light of the resource constraints facing the organisation and the requirement to prioritise projects which can utilise the available funds most effectively) and London North East (where a change in train operator franchise has led to delays agreeing the scope of works to be undertaken).
- (41) Telecoms – Public Address – volumes delivered in the year were lower than planned. This is due to a re-profiling of activity within the control period to allow better planning and optimise delivery (Kent, Sussex and Wessex) and a deferral of activity into future control periods to ensure that scarce resources are used optimally in areas that can use the funds most effectively (London North West).
- (42) Telecoms – CCTV – volumes delivered in the year were lower than planned, which is a trend across most routes. These shortfalls are mainly due to the impact of resource constraints facing the organisation meaning that funds have to be re-prioritised to those areas which can use them most effectively. In addition, a policy change for London Managed Stations CCTV renewals has been implemented which favours partial renewals rather than full renewals as the preferred asset management solution.
- (43) Telecoms – Clocks – volumes delivered in the current year were lower than planned. The shortfall in volumes is mainly in East Midlands and London North West where resource constraints facing the organisation has meant that plans have had to be revised to re-prioritise projects which can make the most effective use of resources.
- (44) Telecoms – Processor Controlled Concentrator – no volumes were delivered in the current year. The shortfall compared to the CP5 Business Plan was predominately in London North West where activity has been re-profiled to later years of the control period to optimise delivery.
- (45) Telecoms - Driver-Only Operation: CCTV – volumes delivered in the current year were higher than the plan which included a catch up of activity deferred from the opening year of the control period. The majority of the variance this year arose in Anglia where works have been re-profiled within the control period to optimise delivery.
- (46) Telecoms - Driver-Only Operation: Mirrors – volumes delivered in the current year were lower than the plan assumed. The majority of this shortfall was in London North West where activity has been re-profiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been re-planned to achieve optimal results.
- (47) Telecoms - Public Emergency Telephone System – volumes delivered in the current year were higher than the plan. This was largely due to an acceleration of activity into earlier years of the control period compared to the assumptions in the CP5 Business Plan. Total volumes across the control period are expected to be line with the plan set at the start of CP5.

Statement 1: Summary regulatory financial performance, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	447	440	7	877	868	9	430
Fixed Income	90	89	1	183	182	1	93
Variable Income	79	80	(1)	151	147	4	72
Other Single Till Income	50	57	(7)	104	112	(8)	54
Opex memorandum account	1	-	1	1	-	1	-
Total Income	667	666	1	1,316	1,309	7	649
Operating expenditure							
Network operations	49	41	(8)	94	82	(12)	45
Support costs	49	47	(2)	93	96	3	44
Traction electricity, industry costs and rates	49	50	1	95	94	(1)	46
Network maintenance	114	115	1	221	226	5	107
Schedule 4	28	26	(2)	39	47	8	11
Schedule 8	1	-	(1)	4	1	(3)	3
Total operating expenditure	290	279	(11)	546	546	-	256
Capital expenditure							
Renewals	308	346	38	580	627	47	272
PR13 enhancement expenditure	254	364	110	573	860	287	319
Non PR13 enhancement expenditure	9	-	(9)	16	-	(16)	7
Total capital expenditure	571	710	139	1,169	1,487	318	598
Other expenditure							
Financing costs	126	178	52	256	339	83	130
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	126	178	52	256	339	83	130
Total expenditure	987	1,167	180	1,971	2,372	401	984

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher traction electricity charges and higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income was lower than the determination mostly due to adverse freight market conditions as set out in more detail in Statement 6a. Income is lower than the previous year for the same reason.
- (6) Income – Opex memorandum account – the amounts reported this year are disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support Costs are broadly in line with the determination. Costs are higher than last year which included the benefit of some non-recurring transactions.
- (9) Operating expenditure - Traction electricity, industry costs and rates are generally in line with the determination but consist of lower electricity costs (offset by lower income as these costs are largely recovered from operators) offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year due to higher market electricity prices which is mostly recovered through additional income.
- (10) Operating expenditure - Network Maintenance costs are broadly in line with the determination but higher than last year mostly as a result of additional reactive maintenance costs which, by their nature, can fluctuate year on year. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather damaging the infrastructure, most notably as Lamington viaduct. These variances are set out in more detail in Statement 10. The variance to the prior year is due to additional renewals activity (which necessitates possessions) and the impact of disruptive weather events in the current year.
- (12) Operating expenditure - Schedule 8 costs are slightly higher than the determination because train performance did not meet the regulator's targets. These variances are set out in more detail in Statement 10. However, there has been an improvement in compensation costs compared to the previous year.
- (13) Capital expenditure - Renewals expenditure is lower than the determination which is due to efficient overspends which is more than offset by re-phasing of activity. These variances are set out in more detail in Statement 9a. Expenditure is higher than the previous year due to the delivery of more projects.
- (14) Capital expenditure - PR13 Enhancements expenditure is significantly less than the determination due to re-profiling of programme delivery, notably Edinburgh Glasgow Improvement Programme. These variances are set out in more detail in Statement 3. Expenditure is lower than the previous year largely due to decreases in Border Railway Project as the project is now substantially complete.

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2015-16 prices unless stated

- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. Expenditure is broadly in line with the prior year.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Scotland

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	5,080	5,315	(235)
Indexation to 2013-14 prices	238	249	(11)
Opening RAB for the year (2014-15 prices)	5,318	5,564	(246)
Indexation for the year	55	58	(3)
Opening RAB (2015-16 prices)	5,373	5,622	(249)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	291	346	(55)
PR13 enhancements	231	411	(180)
Non-PR13 enhancements	9	-	9
Total enhancements	240	411	(171)
Amortisation	(260)	(260)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	5,644	6,119	(475)

RAB Regulatory financial position - cumulative, Scotland

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	5,106	5,373	5,106
Adjustments for the actual capital expenditure outturn in CP4	(53)	-	(53)
Renewals	261	291	552
PR13 enhancements	314	231	545
Non-PR13 enhancements	6	9	15
Total enhancements	320	240	560
Amortisation	(260)	(260)	(520)
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB	5,373	5,644	5,644

Statement 2a: RAB - Regulatory financial position, Scotland – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (May 2016) the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is lower than the regulator anticipated in its determination. This is mostly due to lower enhancement expenditure in 2014/15 than the regulator assumed (notable Edinburgh Glasgow Improvement Plan. In addition, the opening RAB at the start of the control period was lower than the ORR assumed due to lower capital investment at towards the end of CP4.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was a combination of re-profiling activity to future years partly offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was a combination of re-profiling activity to future years partly offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM) and the previous year the regulator has not yet made any indication that it will adjust the RAB for this in relation to the 31 March 2016 position. The amount recognised in the previous year relates to the estimated impact of missed enhancement milestones on the Rutherglen and Coatbridge element of the Rolling programme of electrification. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2a: RAB - Regulatory financial position, Scotland – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Lower project expenditure – during the final year of control period 4 the level of capital expenditure undertaken by Network Rail was lower than the assumption in the regulator's determination. This resulted in lower expenditure being logged up to the RAB.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Scotland

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	281	346	627
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	7	-	7
Capitalised financing on CP4 deferrals	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	288	346	634
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(66)	(94)	(160)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(6)
Adjustments for efficient overspend	44	52	96
Capitalised financing on efficient overspend	1	3	4
25% retention of efficient overspend	(11)	(13)	(24)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	10
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	(1)	(2)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	1	-	1
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	261	291	552
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	3	3
Adjustment for 25% retention of efficient overspend	12	14	26
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	(1)	-	(1)
Total actual renewals expenditure (see statement 9)	272	308	580

Statement 2b: RAB - reconciliation of expenditure, Scotland - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	495	411	906
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	2	-	2
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	(48)	(48)
Capitalised financing on Baseline adjustments	-	(1)	(1)
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	497	362	859
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(179)	(157)	(336)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(11)	(15)
Adjustments for efficient overspend	-	48	48
Capitalised financing on efficient overspend	-	1	1
25% retention of efficient overspend	-	(12)	(12)
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-
agreements - retention of efficient overspend	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	314	231	545
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	9	15
overspend	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	9	15
Total enhancements (added to the RAB - see statement 2a)	320	240	560
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	4	11	15
Adjustment for 25% retention of efficient overspend	-	12	12
Other adjustments	1	-	1
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	6	18	24
Other adjustments	1	-	1
Total actual enhancement expenditure (see statement 3)	332	281	613

Statement 2b: RAB - reconciliation of expenditure, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements – ECAM adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancement Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes.

Statement 2b: RAB - reconciliation of expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements - Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend retained by Network Rail. This is, therefore, not eligible for logging up to the RAB.
- (14) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to enhancement expenditure on items not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Scotland

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
Scottish stations fund	-	7	7	3	15	12
Scottish strategic rail freight investment fund	(1)	7	8	2	13	11
Scottish network improvement fund	11	12	1	13	26	13
Future network development fund	2	2	-	2	4	2
Level crossings fund	1	3	2	3	6	3
Total funds	13	31	18	23	64	41
Committed projects						
Edinburgh Glasgow Improvements Programme (EGIP)	-	-	-	9	16	7
Electrification of Springburn to Cumbernauld						
Edinburgh Glasgow Improvements Programme (EGIP)	162	62	(100)	217	134	(83)
Edinburgh to Glasgow Electrification						
Edinburgh Glasgow Improvements Programme (EGIP)	-	-	-	7	39	32
Edinburgh Gateway Station						
Edinburgh Glasgow Improvements Programme (EGIP)	10	87	77	30	160	130
Infrastructure Projects						
IEP Programme	2	-	(2)	2	-	(2)
Border Railway Project	20	18	(2)	184	178	(6)
Total committed projects	194	167	(27)	449	527	78
Named Schemes						
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	12	74	62	18	113	95
Rolling programme of electrification (Scotland)	26	37	11	55	49	(6)
Carstairs journey time improvements	(2)	1	3	-	1	1
Highland main line journey time improvements (phase 2)	2	36	34	3	70	67
Motherwell area stabling	-	3	3	-	5	5
Motherwell resignalling enhancements	-	1	1	-	2	2
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland:	38	152	114	76	240	164
Other projects						
Seven day railway projects	6	4	(2)	6	9	3
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	1	1	-	1	2	1
Income generating property schemes	2	5	3	18	10	(8)
Other income generating investment framework schemes	-	4	4	-	8	8
Total other projects	9	14	5	25	29	4
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	254	364	110	573	860	287
B) Investments not included in PR13						
Government sponsored schemes						
Borders New Railway	10	-	(10)	10	-	(10)
Other government sponsored schemes	(2)	-	2	4	-	(4)
Total Government sponsored schemes	8	-	(8)	14	-	(14)
Network Rail spend to save schemes						
Other spend to save schemes	1	-	(1)	1	-	(1)
Total Network Rail spend to save schemes	1	-	(1)	1	-	(1)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	9	-	(9)	16	-	(16)
Total Network Rail funded enhancements (see Statement 1)	263	364	101	589	860	271
Third Party PAYG	18	-	(18)	24	-	(24)
Total enhancements (see statement 2b)	281	364	83	613	860	247

Statement 3: Analysis of enhancement capital expenditure, Scotland

in £m 2015-16 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent the regulator's latest expected cost by programme as provided to Network Rail and so may differ from those included in the published final determination.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to the latest assumption by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £263m (as shown in Statement 1). This comprises the total enhancement figure in the table above £281m less the PAYG schemes funded by third parties (£18m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Scottish stations fund – this fund will be invested in improving the public's access to railway services. Progress in utilising this fund has been slower than the regulator assumed for the control period to date as Network Rail planned to invest the available fund in a different profile across the control period. There has been minimal expenditure on this fund in the year and control period to date
 - (b) Scottish strategic rail freight investment fund – the fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. There has been minimal expenditure on this fund in the year and control period to date. Work on projects in this fund is expected to increase over the remainder of the control period but is not expected to exceed the regulator's allowances.
 - (c) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was in line with the regulatory expectation but remains behind the control period to date allowance as underspends in the first year of the control period have been re-profiled into later years.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Edinburgh Glasgow Improvements Programme - 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. Network Rail's internal targets assumed a different profile of programme deliver to that in the PR13, so there is a small overspend compared to the regulator's allowance in the year but an underspend in the control period to date. However negative FPM has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Aberdeen to Inverness journey time improvements and other enhancements - This project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure in the year was and the control period to date much lower than the regulator's assumption but was close to what Network Rail planned as the plan is to deliver this later on in the five year cycle.
 - (b) Rolling programme of electrification (Scotland) - This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been lower than the regulator assumed for the year but slightly higher for control period to date. Financial underperformance has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (c) Highland main line journey time improvements (phase 2) - This project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. In line with Network Rail's internal plan there was minimal activity on this programme in the first two years of the control period.
 - (d) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (e) Seven day railway projects – Expenditure is slightly below the control period target.
 - (f) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first two years of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (a) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed in the control period to date. This was largely due to additional one-off items such as purchases of a site in Glasgow.
 - (b) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (8) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – year. Most of the large programmes funded through this mechanism in the last control period (such as EGIP) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Discretionary investment – the control period to date expenditure relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (c) PAYGO – the year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. The main programme included in this category this year was Hitachi Depots.

Statement 4: Net debt and financial ratios, Scotland

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	3,336	3,638	302			
Adjustment for opening control period debt	-	(55)	(55)			
Opening net debt	3,336	3,583	247	2,965	3,025	60
Income						
Grant income	(447)	(440)	7	(873)	(864)	9
Fixed charges	(90)	(89)	1	(182)	(180)	2
Variable charges	(79)	(80)	(1)	(150)	(147)	3
Other single till income	(50)	(57)	(7)	(104)	(111)	(7)
Total income	(666)	(666)	-	(1,309)	(1,302)	7
Expenditure						
Network operations	49	41	(8)	94	82	(12)
Support costs	49	47	(2)	93	96	3
Traction electricity, industry costs and rates	49	50	1	95	93	(2)
Network maintenance	114	115	1	220	226	6
Schedule 4	28	26	(2)	39	47	8
Schedule 8	1	-	(1)	4	-	(4)
Renewals	308	346	38	578	624	46
PR13 enhancement	254	411	157	569	901	332
Non-PR13 enhancement	9	-	(9)	16	-	(16)
Total expenditure	861	1,036	175	1,708	2,069	361
Financing						
Interest expenditure on nominal debt - FIM covered	31	59	28	77	111	34
Interest expenditure on index linked debt - FIM covered	22	26	4	44	50	6
Expenditure on the FIM	29	42	13	62	79	17
Interest expenditure on government borrowing	25	-	(25)	33	-	(33)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(2)	(3)	(1)
Total interest costs	106	125	19	214	237	23
Accretion on index linked debt - FIM covered	20	53	33	40	102	62
Total financing costs	126	178	52	254	339	85
Corporation tax	-	-	-	-	-	-
Other	(51)	-	51	(12)	-	12
Movement in net debt	270	548	278	641	1,106	465
Closing net debt	3,606	4,131	525	3,606	4,131	525

B) Analysis of the movement in Network Rail's net debt

(£m, nominal prices)	2015-16 £m	2014-15 £m
Increase in net debt	270	371
Represented by:		
New debt issued		
Market issued debt	-	-
Borrowing from government	679	591
Accretion on index linked debt	20	20
Debt repaid	(279)	(218)
Decrease in net cash balances	(87)	23
Other	(63)	(45)
Increase in net debt	270	371

Statement 4: Net debt and financial ratios, Scotland - continued

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

(£m, nominal prices)	2015-16		2014-15	
	£m	% of total borrowing	£m	% of total borrowing
Market issued debt				
Nominal borrowings (GBP)	511	13%	687	20%
Nominal borrowings (Foreign currency)	428	11%	544	16%
Total nominal borrowings	939	25%	1,231	36%
Index linked borrowings (GBP)	1,594	42%	1,594	47%
Borrowing from government	1,263	33%	591	17%
Total regulatory borrowings	3,796	100%	3,416	100%
Uncleared cash items	-		-	
Obligations under finance lease	-		-	
Net cash balances	(189)		(79)	
Regulatory net debt as at 31 March 2016	3,606		3,336	

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	1.23	1.09	1.02
FFO/interest	3.61	3.53	3.10
Net debt/RAB (gearing)	62.7%	63.9%	67.5%
FFO/debt	11.7%	10.4%	9.4%
RCF/debt	8.5%	7.5%	6.3%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to Scotland has increased by £0.3bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2016 is £0.5bn lower than the regulator assumed. This is mostly due to lower than expected opening net debt for the year (largely as a result of lower enhancement investments in 2014/15 than the regulator assumed) compounded by lower enhancement expenditure this year and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these type of debt instruments with through government borrowing this year. This trend is expected to continue over the remainder of the control period.
 - b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
 - c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
 - d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
 - e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.
- (13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The reduction in debt this year as a result of these movements more than offsets the increases in debt that occurred in 2014/15. As Network Rail manages its' cashflow at a network-wide level the amount in the route represents an allocation of the Great Britain position. The control period to date position accounts for less than 0.5 per cent of the total debt value.
- (14) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Scotland – continued

in £m nominal unless otherwise stated

(15) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

(16) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the regulator expected Network Rail to be slightly over 1. AICR ratio was favourable to the regulator's assumption primarily as a result of lower interest expenses than the regulator assumed which more than offset the higher operating costs and schedule 4 expenses. There was a noticeable decrease in this ratio compared to the previous year, mainly due to higher schedule 4 costs (including impact of incident at Lamington Viaduct) and maintenance (driven by additional network traffic and reactive maintenance activity).

(18) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a lower RAB at the start of the control period than the regulator expected, which more than offset the lower than assumed RAB at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, especially enhancements (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines (May 2016), in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio. The ratio is higher than the previous year. The size of the increase is in line with the regulator's assumptions and is expected to continue for the rest of the control period as both components of the calculation are increasing at the same absolute value.

(19) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the positive variance is the much lower debt than the regulator assumes as discussed above.

Statement 5a: Total financial performance, Scotland

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	447	440	7	7	-	-	-	-
Fixed Income	90	89	1	1	-	-	-	-
Variable Income	59	56	3	-	-	-	3	3
Other Single Till Income	50	57	(7)	-	-	-	(7)	(7)
Opex memorandum account	1	-	1	-	-	-	1	1
Total Income	647	642	5	8	-	-	(3)	(3)
Expenditure								
Network operations	49	41	(8)	-	-	-	(8)	(8)
Support costs	49	47	(2)	-	-	-	(2)	(2)
Industry costs and rates	28	26	(2)	-	-	-	(2)	(2)
Traction electricity	1	-	(1)	-	-	-	(1)	(1)
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	114	115	1	-	3	-	(2)	(2)
Schedule 4 costs	28	26	(2)	-	5	-	(7)	(7)
Schedule 8 costs	1	-	(1)	-	-	-	(1)	(1)
Renewals	308	346	38	-	90	-	(52)	(13)
PR13 Enhancements	254	364	110	-	158	-	(48)	(12)
Non PR13 Enhancements	9	-	(9)	-	(9)	-	-	-
Financing Costs	126	178	52	52	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	967	1,143	176	52	247	-	(123)	(48)
Total:			181	60	247	-	(126)	(51)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(51)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								-
Under-delivery of train performance requirements (CaSL)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								-
Total financial out / (under) performance to be recognised								(51)

Statement 5a: Total financial performance, Scotland - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	877	868	9	9	-	-	-	-
Fixed Income	183	182	1	1	-	-	-	-
Variable Income	114	108	6	-	-	-	6	6
Other Single Till Income	104	112	(8)	-	-	-	(8)	(8)
Opex memorandum account	1	-	1	(1)	-	-	2	2
Total Income	1,279	1,270	9	9	-	-	-	-
Expenditure								
Network operations	94	82	(12)	-	-	-	(12)	(12)
Support costs	93	96	3	2	-	-	1	1
Industry costs and rates	56	53	(3)	-	-	-	(3)	(3)
Traction electricity	2	1	(1)	-	-	-	(1)	(1)
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	221	226	5	-	10	-	(5)	(5)
Schedule 4 costs	39	47	8	-	8	-	-	-
Schedule 8 costs	4	1	(3)	-	-	-	(3)	(3)
Renewals	580	627	47	-	143	-	(96)	(24)
PR13 Enhancements	573	860	287	-	335	-	(48)	(12)
Non PR13 Enhancements	16	-	(16)	-	(16)	-	-	-
Financing Costs	256	339	83	83	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,934	2,333	399	85	481	-	(167)	(59)
Total:			408	94	481	-	(167)	(59)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(59)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(4)
Under-delivery of train performance requirements (CaSL)								-
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(5)
Total financial out / (under) performance to be recognised								(64)
Breakdown of variance not included in total financial performance - Variable income:	2015-16			Variance not included in total financial performance	Cumulative			Variance not included in total financial performance
	Actual	Adjusted PR13			Actual	Adjusted PR13		
Adjustments for external traction electricity	(20)	(24)		4	(37)	(39)		2
Total variance not included in total	(20)	(24)		4	(37)	(39)		2
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	-	-		-	-	-		-
Release of CP4 long distance financial penalty provision	-	-		-	2	-		2
Total variance not included in total	-	-		-	2	-		2
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	20	24		(4)	37	39		(2)
Total variance not included in total	20	24		(4)	37	39		(2)

Statement 5a: Total financial performance, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be manifestly inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Borders) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – the outperformance recognised in Other single till income is mainly the result of lower than expected freight income due to a substantial decrease in the freight traffic (largely driven by demand for coal transportation) as well as fewer property sales than the regulator assumed.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable Industry costs and rates or Other single till income variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 Opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Scotland – continued

in £m 2015-16 prices unless stated

- (6) Network operations – costs are approximately 20 per cent higher than the regulator's assumptions, which is broadly consistent with the overspend witnessed across the network as a whole. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs this year also include the impact of extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, there are extra costs due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination
- (7) Support costs – costs are in line with the PR13 assumption this year. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the prior year not all of the favourable variance to the determination was included as financial outperformance. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a release of some for the provision. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this was not been counted as financial outperformance. Similarly, when the investment activities occur these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs in excess of the regulator's assumption when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. Once more, these net costs are broadly in line with the regulatory assumption.
- (10) Network maintenance - the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved with ORR. Underlying Network maintenance costs are slightly higher than the determination which includes the impact of additional expenditure on tidy railway and vegetation management projects as well as higher staff costs (arising from higher than RPI pay awards in increased staff numbers).

Statement 5a: Total financial performance, Scotland – continued

in £m 2015-16 prices unless stated

- (11) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule baseline 4 so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). This financial underperformance includes the impact of weather events damaging the network, necessitating possessions to undertake the required remediation works. This includes significant incidents at Lamington viaduct which necessitated a lengthy possession and so compensation to operators.
- (12) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn and lower than expected punctuality in 2014/15. Train performance was once more lower than the regulator's targets which resulted in higher compensation payments to operators.
- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) As advised by ORR, there have been no missed regulatory outputs in Scotland in 2015/16.

Statement 5b: Total financial performance - renewals variance analysis, Scotland

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(8)	20	(28)	(7)		(5)	(2)	-
Signalling	72	80	(8)	(2)		(2)	-	-
Civils	(14)	(2)	(12)	(3)		-	(3)	-
Buildings	(2)	(2)	-	-		(1)	1	-
Electrical power and fixed plant	2	2	-	-		-	-	-
Telecoms	-	4	(4)	(1)		-	(1)	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	(2)	(2)	-	-		-	-	-
Other renewals	(11)	(11)	-	-		-	-	-
Total	38	90	(52)	(13)		(8)	(5)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(5)	51	(56)	(14)		(12)	(2)	-
Signalling	111	123	(12)	(3)		(4)	1	-
Civils	(31)	(15)	(16)	(4)		3	(7)	-
Buildings	-	-	-	-		(1)	1	-
Electrical power and fixed plant	9	13	(4)	(1)		-	(1)	-
Telecoms	9	13	(4)	(1)		-	(1)	-
Wheeled plant and machinery	12	12	-	-		-	-	-
IT	(10)	(10)	-	-		-	-	-
Property	(9)	(5)	(4)	(1)		-	(1)	-
Other renewals	(39)	(39)	-	-		-	-	-
Total	47	143	(96)	(24)		(14)	(10)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. The vast majority of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. This year, the cost associated with the implementation of a new connection at Anniesland was higher than expected which was partially offset by the favourable settlement of commercial claims for jobs completed in the first year of the control period.
- (3) Signalling – as with the previous year, financial underperformance was recognised for this asset category. The efficiencies assumed in the determination for signalling have proved to be overoptimistic. The volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability, whereas the regulator assumed that contractor costs would decrease this control period.
- (4) Civils – financial underperformance was reported this year, continuing the pattern from the previous year. The current year result was materially impacted by the damage to Lamington viaduct caused by the weather. Due to changes in insurance policies enacted this control period to meet the regulator's targets (refer to Statement 7), this event was not insured. In addition, the criticality of this route for the West Coast main line passengers necessitated swift repair which drove the costs of the project even higher. Financial performance was also adversely affected by difficulties achieving the efficiency targets in the determination which appear to have assumed savings which current experiences suggest were too optimistic.

Statement 5c: Total financial performance - enhancement variance analysis, Scotland

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)					
Electrification of Springburn to Cumbernauld	(23)	9	-	(32)	(8)
Rolling programme of electrification (Scotland)	11	27	-	(16)	(4)
Other Enhancements	113	113	-	-	-
Total	101	149	-	(48)	(12)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)					
Electrification of Springburn to Cumbernauld	86	118	-	(32)	(8)
Rolling programme of electrification (Scotland)	(6)	10	-	(16)	(4)
Other Enhancements	191	191	-	-	-
Total	271	319	-	(48)	(12)

Statement 5c: Total financial performance - enhancement variance analysis, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance. The funding for some enhancement programmes do not need to go through the ECAM process as the baselines were set in the PR13 or are subject to their own protocol.
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Edinburgh-Glasgow Improvements Programme (EGIP) – total programme costs have increased resulting a portion of this financial underperformance being recognised this year. The extra programme costs include a re-assessment of contractor costs following variation orders and higher than expected tenders from suppliers, additional costs increasing the heights of parapets to accommodate modern overhead line electrification equipment, extra legislation compliance costs and supplementary design costs.
- (2) Rolling programme of electrification (Scotland) – underperformance has been recognised in the year due to higher programme costs arising from several structures which were originally proposed for demolition and removal that have had to be retained due to beneficiary rights and rights of way. This was augmented by unplanned changes in wire heights in stations which had to be increased to meet interoperability regulation requirements.
- (3) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Performance, Scotland

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	38	38	-	-	-	-	-	-
Capacity charge	39	37	2	-	-	-	-	2
Electricity asset utilisation charge	2	2	-	-	-	-	-	-
Property income	31	33	(2)	-	-	-	-	(2)
Expenditure								
Network operations	94	82	(12)	-	-	-	-	(12)
Support costs	93	96	3	-	2	-	-	1
RSSB and BT Police	20	17	(3)	-	-	-	-	(3)
Network maintenance	221	226	5	5	-	-	-	-
Schedule 4 costs	39	48	9	9	-	-	-	-
Schedule 8 costs	4	-	(4)	-	-	-	-	(4)
Renewals	580	610	30	126	-	(72)	-	(24)
Total REBS performance			28	140	2	(72)		(42)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(4)
Under-delivery of train performance requirements (CaSL)								-
Total adjustment for under delivery of outputs and reduced sustainability								(4)
Cumulative performance to end of 2015-16								(46)
Less cumulative outperformance recognised up to the end of 2014-15								(16)
Net REBS performance for 2015-16								(30)

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	447	440	7	877	868	9	430
Franchised track access income							
Fixed charges	90	89	1	183	182	1	93
Variable charges							
Variable usage charge	14	13	1	29	26	3	15
Traction electricity charges	20	24	(4)	37	39	(2)	17
Electrification asset usage charge	1	1	-	2	2	-	1
Capacity charge	20	18	2	39	36	3	19
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	24	24	-	44	44	-	20
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	79	80	(1)	151	147	4	72
Total franchised track access income	169	169	-	334	329	5	165
Total franchised track access and grant income	616	609	7	1,211	1,197	14	595
Other single till income							
Property income	15	18	(3)	31	37	(6)	16
Freight income	4	9	(5)	12	17	(5)	8
Open access income	-	-	-	-	-	-	-
Stations income	22	22	-	43	41	2	21
Facility and financing charges	1	1	-	2	2	-	1
Depots Income	8	7	1	16	14	2	8
Other income	-	-	-	-	1	(1)	-
Total other single till income	50	57	(7)	104	112	(8)	54
Total income	666	666	-	1,315	1,309	6	649

Statement 6a: Analysis of income, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Transport Scotland (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is largely offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges are lower than last year but as the amount received is contractual as discussed above and is set in the determination prior year comparisons are not particularly useful. The decrease from last year is largely offset by increased government grant receipts.

Statement 6a: Analysis of income, Scotland – continued

in £m 2015-16 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are higher than the previous year largely due to the increases in wholesale electricity prices but also reflecting an increased number of electrified routes in Scotland. This increase has been partly offset by unfavourable settlement of commercial claims. As the regulator assumed a high increase in prices the current year there is now an adverse variance in the control period to date. Again, this is largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption as extra train paths have been provided in response to passenger demand. Increased capacity is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 12). The favourable control period to date position reflects extra income generated from additional train paths on the network provided during the Glasgow Commonwealth Games in 2014.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as explained above). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is higher than 2014/15 in line with the regulator's expectation.
- (7) Property income – whilst this is in line with the prior year it is lower than the ORR's assumption. This is due to a combination of lower property sales and lower property rental income. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property rental income is slightly higher than the previous year as Network Rail provides improved commercial offerings but the rate of growth has been slightly slower than the regulator assumed.
- (8) Freight income - this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulting in around a significant decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. These amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.

Statement 6b: Analysis of other single till income, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	15	18	(3)	29	36	(7)	14
Property sales	-	2	(2)	2	5	(3)	2
Adjustment for commercial opex	-	(2)	2	-	(4)	4	-
Total property income	15	18	(3)	31	37	(6)	16
Freight income							
Freight variable usage charge	3	6	(3)	9	11	(2)	6
Freight traction electricity charges	-	1	(1)	-	2	(2)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	1	1	-	2	2	-	1
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	1	1	-	1
Total freight income	4	9	(5)	12	17	(5)	8
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	3	3	-	6	5	1	3
Qualifying expenditure	5	5	-	9	9	-	4
Total managed stations income	8	8	-	15	14	1	7
Franchised stations income							
Long term charge	12	12	-	24	23	1	12
Stations lease income	2	2	-	4	4	-	2
Total franchised stations income	14	14	-	28	27	1	14
Total stations income	22	22	-	43	41	2	21
Facility and financing charges							
Facility charges	1	1	-	2	2	-	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	1	-	2	2	-	1
Depots income	8	7	1	16	14	2	8
Other	-	-	-	-	1	(1)	-
Total other single till income	50	57	(7)	104	112	(8)	54

Statement 6b: Analysis of other single till income, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property but also from other areas such as freight. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation. Property rental income is slightly higher than the previous year as Network Rail provides improved commercial offerings but the rate of growth has been slightly slower than the regulator assumed hence the slight underperformance compared to the PR13 target.
- (2) Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Sales this year are marginally lower than the regulator assumed and the previous year.
- (3) Freight income - this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulting in around a significant decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. These amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.

Statement 6c: Analysis of income by operator, Scotland

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Cross Country			
Variable Usage Charges	0.8	0.8	1.6
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	1.6	1.7	3.3
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	0.2	0.2	0.4
Station QX	0.3	0.3	0.6
Other Charges	-	-	-
Total income	2.9	3.0	5.9

	2014-15	2015-16	CP5 Total
East Coast Main Line Rail			
Variable Usage Charges	2.0	-	2.0
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	0.1	-	0.1
Capacity Charges	3.3	-	3.3
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	0.3	-	0.3
Station QX	0.5	-	0.5
Other Charges	1.3	-	1.3
Total income	7.5	-	7.5

	2014-15	2015-16	CP5 Total
Virgin East Coast			
Variable Usage Charges	0.2	2.2	2.4
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	0.1	0.1
Capacity Charges	0.4	3.5	3.9
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	0.3	0.3
Station QX	-	0.6	0.6
Other Charges	0.1	1.5	1.6
Total income	0.7	8.2	8.9

	2014-15	2015-16	CP5 Total
Scotrail			
Variable Usage Charges	7.9	7.7	15.6
Traction Electricity Charges	11.9	12.8	24.7
Electrification Asset Usage Charges	0.8	0.8	1.6
Capacity Charges	9.5	9.8	19.3
Fixed Charges	93.4	86.4	179.8
Station Facility Charge	0.6	0.8	1.4
Station Long Term Charges	16.0	14.3	30.3
Station QX	3.5	0.8	4.3
Other Charges	6.4	6.1	12.5
Total income	150.0	139.5	289.5

Statement 6c: Analysis of income by operator, Scotland - continued

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Serco Sleeper			
Variable Usage Charges	-	0.2	0.2
Traction Electricity Charges	-	0.1	0.1
Electrification Asset Usage Charges	-	-	-
Capacity Charges	-	0.1	0.1
Fixed Charges	-	1.0	1.0
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	-	-	-
Total income	-	1.4	1.4

	2014-15	2015-16	CP5 Total
Transpennine			
Variable Usage Charges	0.4	0.4	0.8
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	0.1	0.1	0.2
Capacity Charges	0.4	0.3	0.7
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	0.1	0.1
Station QX	0.1	0.1	0.2
Other Charges	-	-	-
Total income	1.0	1.0	2.0

	2014-15	2015-16	CP5 Total
Virgin West Coast			
Variable Usage Charges	2.8	2.4	5.2
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	0.3	0.2	0.5
Capacity Charges	4.3	3.8	8.1
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	0.3	0.3	0.6
Station QX	0.4	0.4	0.8
Other Charges	-	-	-
Total income	8.1	7.1	15.2

	2014-15	2015-16	CP5 Total
Consolidated Freight Operating Companies			
Variable Usage Charges	6.2	-	6.2
Traction Electricity Charges	-	-	-
Electrification Asset Usage Charges	-	-	-
Capacity Charges	0.3	-	0.3
Fixed Charges	-	-	-
Station Facility Charge	-	-	-
Station Long Term Charges	-	-	-
Station QX	-	-	-
Other Charges	1.7	-	1.7
Total Turnover	8.2	-	8.2

6c: Analysis of income by operator, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amount reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, income for East Coast Main Line Rail is significantly lower this year compared to last and, conversely, income for Virgin East Coast is significantly higher this year compared to last.
- (5) In 2015/16 Caledonian Sleeper started to operate services as a new franchise from 31 March 2015 and so are shown in Statement 6c in the Regulatory financial statements for the first time this year. Previously, these services were operated by Scotrail and so in 2014/15 the associated income will also have been reported within the Scotrail figures.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	24	23	(1)	47	46	(1)	23
Signalling shift managers	2	1	(1)	4	2	(2)	2
Local operations managers	2	1	(1)	4	2	(2)	2
Controllers	2	2	-	4	4	-	2
Electrical control room operators	1	1	-	2	2	-	1
Total signaller expenditure	31	28	(3)	61	56	(5)	30
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	6	4	(2)	3
Managed stations	6	4	(2)	11	8	(3)	5
Performance	4	1	(3)	8	2	(6)	4
Customer relationship executives	-	1	1	1	1	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	3	3	-
Other	1	3	2	1	6	5	-
Operations delivery	(1)	-	1	(2)	-	2	(1)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	8	3	(5)	12	6	(6)	4
Other operating income	(3)	(2)	1	(4)	(4)	-	(1)
Total non-signaller expenditure	18	13	(5)	33	26	(7)	15
Total network operations expenditure	49	41	(8)	94	82	(12)	45
Support costs							
Core support costs							
Human resources	3	6	3	6	12	6	3
Information management	6	6	-	12	12	-	6
Government and corporate affairs	1	2	1	2	3	1	1
Group strategy	1	1	-	2	2	-	1
Finance	2	3	1	4	5	1	2
Business services	1	1	-	2	3	1	1
Accommodation	11	7	(4)	20	13	(7)	9
Utilities	4	4	-	9	9	-	5
Insurance	6	5	(1)	11	10	(1)	5
Legal and inquiry	1	1	-	2	1	(1)	1
Safety and sustainable development	2	1	(1)	4	2	(2)	2
Strategic sourcing	1	1	-	2	2	-	1
Business change	-	-	-	-	1	1	-
Other corporate functions	6	-	(6)	12	1	(11)	6
Core support costs	45	38	(7)	88	76	(12)	43
Other support costs							
Asset management services	4	6	2	8	12	4	4
Network Rail telecoms	5	4	(1)	10	9	(1)	5
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(4)	-	4	(2)
Commercial property	-	-	-	-	(1)	(1)	-
Group costs	(3)	(1)	2	(9)	(1)	8	(6)
Total other support costs	4	9	5	5	20	15	1
Total support costs	49	47	(2)	93	96	3	44
Traction electricity, industry costs and rates							
Traction electricity	21	24	3	39	40	1	18
Business rates	16	16	-	32	33	1	16
British transport police costs	9	7	(2)	18	15	(3)	9
RSSB costs	1	1	-	2	2	-	1
ORR licence fee and railway safety levy	2	2	-	4	3	(1)	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	-	-	-	-
Total traction electricity, industry costs and rates	49	50	1	95	94	(1)	46
Total network operations expenditure, support costs, traction electricity, industry costs and rates	147	138	(9)	282	272	(10)	135

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 20 per cent higher than the regulator’s assumptions, which is broadly consistent with the overspend witnessed across the network as a whole. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Support costs are in line with determination but slightly higher than the previous year (which included the benefit of one-off savings in Group).
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As responsibility for these services had largely transferred in at the end of CP4 year-on-year costs are broadly consistent. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance – costs were slightly lower than the determination. As noted in last year’s Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail’s operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.
- (7) Accommodation – these property expenses are in line with the prior year but, once more, higher than the determination. This is largely due to extra costs arising from route head office relocation which was unforeseen in the determination.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Scotland – continued

in £m 2015-16 prices unless stated

- (8) Insurance - costs are only slightly higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are slightly higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (9) Safety and sustainable development - costs are in line with the previous year but are, once more, slightly higher than the determination mainly due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas.
- (10) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b. Expenditure is in line with the previous year.
- (11) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area for both the year and the control period to date.
- (12) Network Rail Telecoms - costs for the year and the control period to date are marginally higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers.
- (13) National Delivery Services – costs are in line with the previous year and determination. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities.
- (14) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance is in line with the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Scotland – continued

in £m 2015-16 prices unless stated

- (15) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would have a marginal credit resulting from Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination. Savings were made in reorganisation costs where the costs were around half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements and the favourable settlement of commercial claims. The net credit position in Group is lower than the credit recognised in the prior year, which benefitted from a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network and from the reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were partly offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (16) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its' cost base. This group of costs is in line with the regulator's allowance with lower Traction electricity costs (arising from lower market rates) offset by higher British Transport Police expenses.
- (17) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are slightly lower than the regulator assumed, again with this saving being largely offset by lower traction electricity income received. Costs are higher than the previous year reflecting market prices for electricity.
- (18) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges (and hence adverse variance to the determination in the control period to date) are based on the latest valuations (and so costs) provided by the Valuation Office Agency. These variances are not included as part of the assessment of Network Rail's financial performance (refer to Statement 5). Network Rail expects to be compensated for these additional costs in Scotland through the Opex memorandum account mechanism (refer to Statement 10).
- (19) British Transport Police (BTP) – costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Scotland

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	25	24	27
MOMS	3	3	3
Control	4	3	3
Planning & Performance Staff Costs	2	5	4
Managed Stations Staff Costs	1	2	2
Operations Management Staff Costs	3	2	2
Other	5	6	8
Total operations & customer services costs	43	45	49
Total Network Operations	43	45	49
Support			
Human resources			
Functional support	3	1	1
Training (inc Westwood)	2	1	1
Graduates	-	-	-
Apprenticeships	1	1	1
Other	-	-	-
Total human resources	6	3	3
Information management			
Support	1	-	-
Projects	-	-	-
Licences	-	-	-
Business operations	5	6	6
Other	-	-	-
Total information management	6	6	6
Finance	2	2	2
Business Change	1	-	-
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	1
Planning & development	1	1	1
Safety & compliance	1	-	-
Other corporate services	5	2	2
Commercial property	6	9	11
Infrastructure Projects	(6)	(2)	(2)
Route Services	2	3	3
Asset management & Engineering/Asset heads	15	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	5	4
Network Rail Telecoms	-	5	5
Digital Railway	-	2	2
Safety Technical & Engineering	-	4	4
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	1	1
Legal and inquiry	-	1	1
Group/central			
Pensions	-	-	-
Insurance	4	5	6
Redundancy/reorganisation costs	7	2	1
Staff incentives/Bonus Reduction	1	(2)	(1)
Accommodation & Support Recharges	-	(3)	(2)
Commercial claims settlements	-	-	(1)
ORR financial penalty	8	(2)	-
Other	-	(1)	-
Total group/central costs	20	(1)	3
Total support	60	44	49
Total network operations and support costs	103	89	98

Statement 7b: Analysis of network operations expenditure and support costs by activity, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) 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 rest of the business areas. Support costs are higher than last year which is largely a result of non-recurring benefits in the previous year within Group costs, although there are notable fluctuations in the costs of different functions.
- (4) Network Operations – whilst there has been some reclassification of costs as responsibilities move to different teams within the local management structure, there has been a noticeable increase in overall costs since the previous year. This includes extra consultancy and training costs for the implementation of new working practices in the year, such as LEAN and visualisation. These initiatives are expected to generate significant operational improvements and efficiencies across the company (not just in Network Operations costs) but will require some investment to introduce them successfully. Also, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the overall industry there is an associated increase in costs. Finally, the move towards a more devolved organisation, working more closely with train operating partners has necessitated some extra costs.
- (5) Utilities - costs are slightly lower than the previous year as a result of improved utility procurement strategies and favourable movements in market prices.
- (6) Group – Insurance - costs are only slightly higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are slightly higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (7) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this reorganisation initiative there was also substantial costs in 2014/15 too. This year costs were lower due to fewer restructures. As part of the pay and conditions negotiations with trade unions in Summer 2015, it was agreed that there would be no compulsory redundancies for union members in 2015/16 which limited the opportunity for reorganisations in the current year.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Scotland – continued

in £m 2015-16 prices unless stated

- (8) Group – staff incentives - in 2014/15 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifested itself in higher Maintenance costs as a result of the additional costs but a large Support cost saving as a result of the lower payouts under long-term incentive plans. This year, the credit balance relates to lower expected payouts for long-term incentive plans to be made following performance compared to corporate targets. The planned costs of these schemes are included within the appropriate function and the release of the difference between the planned costs and expected costs based on performance compared to the corporate targets is recognised in Group.
- (9) Group – ORR financial penalty – in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. When assessing the appropriate level of financial penalty in 2014/15 the regulator reduced the cost, thus resulting in a release of the unrequired provision, which manifested itself in a credit in the 2014/15 results which was not included as financial outperformance (refer to Statement 5).

Statement 7c: Insurance reconciliation, Scotland

in £m 2015-16 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised by the captive				Total
Risk	Underlying cost	Claims paid	Market premiums A	Underlying cost	by the captive B	Captive premiums	Other C	Total cost D
Property	0	0	0	7	5	1	0	5
Business interruption	0	0	0	7	4	1	0	4
Terrorism	0	0	1	0	0	0	0	1
Employer's liability	0	0	0	0	0	1	0	0
Public & products liability	0	0	1	1	1	1	0	2
Motor	0	0	0	0	0	0	0	0
Construction all risks	0	0	0	0	0	0	0	0
Other cover	0	0	1	0	0	0	0	1
Investment return	0	0	0	0	0	0	0	0
Total	0	0	3	15	10	4	0	13

Total insurance recognised in:

Schedule 4 & 8	0	0	0	7	4	1	0	4
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	4	8	6	4	0	10
Maintenance	0	0	0	0	0	0	0	0
Renewals	0	0	0	0	0	0	0	0
Enhancements	0	0	0	0	0	0	0	0
Total	0	0	4	15	10	5	0	14

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2015-16	Cumulative	2014-15
Operations	(5)	(8)	(3)
Investment revenues	0	0	0
Finance costs	0	0	0
Profit/(loss) before tax	(5)	(8)	(3)
Tax	0	0	0
Profit/(loss) attributable to shareholders	(5)	(8)	(3)

Statement 7c: Insurance reconciliation, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Total insurance cost: $A+B+C=D$
- (2) Other cover includes Directors and Officers Liability, Crime, Pension Trustees Liability, Personal Accident, Travel and Broker Fees.
- (3) Premiums include Insurance Premium Tax, the rate of which increased this year following legislative changes.
- (4) Claims are the latest available records of known claims paid and outstanding, not an estimate of the expected ultimate claims incurred. The figures will therefore change as more claims are notified and settled.
- (5) For Stations and Depots, the primary policy cover is with QBE. However this is reinsured in full to the captive, hence the premium (except for QBE fronting fee) and the claims are logged against the captive.
- (6) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.
- (2) Losses incurred by Network Rail Insurance Limited (unaudited) were higher than the previous year. The profits or losses that an insurance company makes in a given year is a function of the differences between the insurance premiums it receives and the assessment of costs incurred for incidents that have taken place in that year, along with a re-assessment of expected costs for events that have occurred in previous years. There were a number of significant incidents this year which resulted in higher costs recognised in Network Rail Insurance Limited, such as those at Lamington viaduct, Dover seawall and Eden Brows. In addition, there are actuarial assessments made. In the previous year there were fewer large incidents (the only significant item was Harbury tunnel landslip) and so lower costs. Whilst not all of these incidents occurred in the Scotland route, the profits or losses made by Network Rail Insurance Limited (unaudited) are allocated to Scotland in proportion to the regulator's allocation of insurance costs in their determination.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	24	0	0	24	23	0	0	23	(1)	0	0	(1)
Signalling shift managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Local operations managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Controllers	3	(1)	0	2	2	0	0	2	(1)	1	0	0
Electrical control room operators	1	0	0	1	1	0	0	1	0	0	0	0
Total signaller expenditure	32	(1)	0	31	28	0	0	28	(4)	1	0	(3)
Non-signaller expenditure												
Mobile operations managers	3	0	0	3	2	0	0	2	(1)	0	0	(1)
Managed stations	6	0	0	6	4	0	0	4	(2)	0	0	(2)
Performance	4	0	0	4	1	0	0	1	(3)	0	0	(3)
Customer relationship executives	1	(1)	0	0	1	0	0	1	0	1	0	1
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	1	0	0	1	1	0	0	1
Other	1	0	0	1	3	0	0	3	2	0	0	2
Operations delivery	6	(7)	0	(1)	0	0	0	0	(6)	7	0	1
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	9	(1)	0	8	3	0	0	3	(6)	1	0	(5)
Other operating income	0	0	(3)	(3)	0	0	(2)	(2)	0	0	1	1
Total non-signaller expenditure	30	(9)	(3)	18	15	0	(2)	13	(15)	9	1	(5)
Total network operations	62	(10)	(3)	49	43	0	(2)	41	(19)	10	1	(8)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Actual spend in year

	2015-16				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	4	(1)	0	3	6	0	0	6	2	1	0	3
Information management	9	(3)	0	6	6	0	0	6	(3)	3	0	0
Government and corporate affairs	1	0	0	1	2	0	0	2	1	0	0	1
Group strategy	2	(1)	0	1	1	0	0	1	(1)	1	0	0
Finance	2	0	0	2	3	0	0	3	1	0	0	1
Business services	1	0	0	1	1	0	0	1	0	0	0	0
Accommodation	11	0	0	11	7	0	0	7	(4)	0	0	(4)
Utilities	6	0	(2)	4	4	0	0	4	(2)	0	2	0
Insurance	6	0	0	6	5	0	0	5	(1)	0	0	(1)
Legal and inquiry	1	0	0	1	1	0	0	1	0	0	0	0
Safety and sustainable developmen	3	(1)	0	2	1	0	0	1	(2)	1	0	(1)
Strategic sourcing	1	0	0	1	2	0	(1)	1	1	0	(1)	0
Business change	0	0	0	0	0	0	0	0	0	0	0	0
Other corporate functions	11	0	(5)	6	0	0	0	0	(11)	0	5	(6)
Core support costs	58	(6)	(7)	45	39	0	(2)	38	(19)	6	6	(7)
Other support costs												
Asset management services	9	(4)	(1)	4	9	0	(3)	6	0	4	(2)	2
Network Rail telecoms	8	(2)	(1)	5	4	0	0	4	(4)	2	1	(1)
National delivery service	0	0	0	0	3	0	(3)	0	3	0	(3)	0
Infrastructure projects	(2)	0	0	(2)	0	0	0	0	2	0	0	2
Commercial property	3	(1)	(2)	0	3	0	(3)	0	0	1	(1)	0
Group costs	(2)	0	(1)	(3)	0	0	(1)	(1)	2	0	0	2
Total other support costs	16	(7)	(5)	4	19	0	(10)	9	3	7	(5)	5
Total support costs	74	(13)	(12)	49	58	0	(12)	47	(16)	13	1	(2)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing	47	0	0	47	46	0	0	46	(1)	0	0	(1)
Signalling shift managers	4	0	0	4	2	0	0	2	(2)	0	0	(2)
Local operations managers	4	0	0	4	2	0	0	2	(2)	0	0	(2)
Controllers	7	(3)	0	4	4	0	0	4	(3)	3	0	0
Electrical control room operators	2	0	0	2	2	0	0	2	0	0	0	0
Total signaller expenditure	64	(3)	0	61	56	0	0	56	(8)	3	0	(5)
Non-signaller expenditure												
Mobile operations managers	6	0	0	6	4	0	0	4	(2)	0	0	(2)
Managed stations	12	(1)	0	11	8	0	0	8	(4)	1	0	(3)
Performance	8	0	0	8	2	0	0	2	(6)	0	0	(6)
Customer relationship executives	3	(2)	0	1	1	0	0	1	(2)	2	0	0
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	3	0	0	3	3	0	0	3
Other	1	0	0	1	6	0	0	6	5	0	0	5
Operations delivery	13	(15)	0	(2)	0	0	0	0	(13)	15	0	2
HQ - Operations services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Performance and planning	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Stations and customer	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	13	(1)	0	12	6	0	0	6	(7)	1	0	(6)
Other operating income	0	0	(4)	(4)	0	0	(4)	(4)	0	0	0	0
Total non-signaller expenditure	56	(19)	(4)	33	30	0	(2)	26	(26)	19	0	(7)
Total network operations	120	(22)	(4)	94	86	0	(2)	82	(34)	22	0	(12)

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative

	Cumulative actual				Cumulative PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	9	(2)	(1)	6	12	0	0	12	3	2	1	6
Information management	17	(5)	0	12	12	0	0	12	(5)	5	0	0
Government and corporate affairs	2	0	0	2	3	0	0	3	1	0	0	1
Group strategy	4	(2)	0	2	2	0	0	2	(2)	2	0	0
Finance	4	0	0	4	5	0	0	5	1	0	0	1
Business services	2	0	0	2	3	0	0	3	1	0	0	1
Accommodation	20	0	0	20	13	0	0	13	(7)	0	0	(7)
Utilities	12	0	(3)	9	9	0	0	9	(3)	0	3	0
Insurance	11	0	0	11	10	0	0	10	(1)	0	0	(1)
Legal and inquiry	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Safety and sustainable developmen	5	(1)	0	4	2	0	0	2	(3)	1	0	(2)
Strategic sourcing	2	0	0	2	3	0	(1)	2	1	0	(1)	0
Business change	0	0	0	0	1	0	0	1	1	0	0	1
Other corporate functions	17	0	(5)	12	1	0	0	1	(16)	0	5	(11)
Core support costs	107	(10)	(9)	88	77	0	(2)	76	(30)	10	8	(12)
Other support costs												
Asset management services	16	(7)	(1)	8	15	0	(3)	12	(1)	7	(2)	4
Network Rail telecoms	16	(4)	(2)	10	9	0	0	9	(7)	4	2	(1)
National delivery service	5	(1)	(4)	0	4	0	(3)	1	(1)	1	1	1
Infrastructure projects	34	(38)	0	(4)	0	0	0	0	(34)	38	0	4
Commercial property	4	(2)	(2)	0	2	0	(3)	(1)	(2)	2	(1)	(1)
Group costs	(1)	0	(8)	(9)	0	0	(1)	(1)	1	0	7	8
Total other support costs	74	(52)	(17)	5	30	0	(10)	20	(44)	52	7	15
Total support costs	181	(62)	(26)	93	107	0	(12)	96	(74)	62	15	3

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are approximately 20 per cent higher than the regulator's assumptions, which is broadly consistent with the overspend witnessed across the network as a whole. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased by more than 10 per cent this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Support costs are in line with determination but slightly higher than the previous year (which included the benefit of one-off savings in Group).
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As responsibility for these services had largely transferred in at the end of CP4 year-on-year costs are broadly consistent. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance – costs were slightly lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.
- (7) Accommodation – these property expenses are in line with the prior year but, once more, higher than the determination. This is largely due to extra costs arising from route head office relocation which was unforeseen in the determination.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (8) Insurance - costs are only slightly higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are slightly higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (9) Safety and sustainable development - costs are in line with the previous year but are, once more, slightly higher than the determination mainly due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas.
- (10) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b. Expenditure is in line with the previous year.
- (11) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area for both the year and the control period to date.
- (12) Network Rail Telecoms - costs for the year and the control period to date are marginally higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers.
- (13) National Delivery Services – costs are in line with the previous year and determination. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities.
- (14) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance is in line with the previous year.

Statement 7d: Network operations and support costs reconciliation from gross expenditure to net expenditure, Scotland – continued

in £m 2015-16 prices unless stated

(15) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would have a marginal credit resulting from Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination. Savings were made in reorganisation costs where the costs were around half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements and the favourable settlement of commercial claims. The net credit position in Group is lower than the credit recognised in the prior year, which benefitted from a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network and from the reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were partly offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.

Statement 8a: Summary analysis of network maintenance expenditure, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	45	46	1	88	87	(1)	43
Signalling	17	15	(2)	34	30	(4)	17
Civils	22	25	3	39	51	12	17
Buildings	6	4	(2)	6	8	2	-
Electrical power and fixed plant	6	4	(2)	12	9	(3)	6
Telecoms	2	3	1	5	5	-	3
Other network operations	13	11	(2)	33	23	(10)	20
Asset management services	5	4	(1)	8	7	(1)	3
National Delivery Service	(1)	5	6	(2)	9	11	(1)
Property	1	-	(1)	2	1	(1)	1
Group	(2)	(2)	-	(4)	(4)	-	(2)
Total maintenance expenditure	114	115	1	221	226	5	107

Statement 8a: Summary analysis of network maintenance expenditure, Scotland – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs

Comments:

- (1) Overall, maintenance costs are broadly in line with the regulator's assumption for the year as efficiencies have largely offset extra expenditure on reactive maintenance, buildings inspections and projects (vegetation management and tidy railway). Costs are higher than last year which is largely due to additional reactive maintenance (which is treated as neutral when assessing financial performance (refer to Statement 5)) and increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) partly offset by reductions in project expenditure (vegetation management and tidy railway).
- (2) Track – costs are broadly in line with the regulator's determination for the year and the control period to date. However, this does not reflect the full picture. Savings have been achieved in the National Delivery Services cost category as the costs of this department have been recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. The route has been able to make efficiency savings in track to offset these additional costs. Most of these efficiencies were delivered in the previous control period meaning that the route entered the control period with a lower cost base than the regulator expected. Costs have increased this year which was expected in the regulator's determination which also had a corresponding increase to reflect the additional traffic causing wear and tear to the network assets.
- (3) Signalling – although costs are in line with the previous year they are higher than the regulator's assumption once more this year. This is partly due to lower delivery of signalling renewals activity (Statement 14 shows that delivery in Scotland is slower than planned across the applicable signalling categories) necessitating additional maintenance intervention works to safeguard asset condition and performance. In addition, efficiency plans in the regulator's determination for signalling maintenance works have proven to be over-optimistic.
- (4) Civils – costs were lower than the determination mainly as a result of lower than expected reactive maintenance activity and fewer structures inspections than required. 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. These extra costs have been partly offset by a transfer of some activities and costs to Asset Management Services (which has contributed to the increased costs in that area). Costs in the control period to date are lower than the determination assumption which is due to significantly less reactive maintenance required in the first year of the control period. The increase in costs compared to the previous year are due to a combination of increased reactive maintenance and inspection costs partly offset by a movement of some responsibilities to Asset Management Services.
- (5) Buildings – all 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. This year, expenditure is more than the regulator assumed but for the control period to date it is lower. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – although expenditure was in line with the previous year it was higher than the regulator's determination, continuing the pattern from 2014/15. This was largely due to difficulties achieving the efficiencies assumptions in the PR13 targets.

Statement 8a: Summary analysis of network maintenance expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (7) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving. Despite this, costs are still higher than the regulator's assumption this year which is mostly due to the trailing costs of the tidy railway and vegetation management programmes referenced above, extra investment in opex projects to improve performance and efficiencies and additional local activity as part of the move towards a devolved, more accountable railway resulting in increased capabilities and responsibilities of the local asset management team.
- (8) Asset management services - costs are higher than the regulator's assumption this year. This is due a multitude of factors including: transfer of responsibilities from Civils (which has led to a reduction in costs in that category), additional activity undertaken by the routes to understand and manage the assets in their area, slower than planned telecoms efficiency savings and additional expenditure on specialist contractors and consultants. The same factors are responsible for the increase in costs compared to the previous year.
- (9) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 8b: Summary analysis of network maintenance headcount, Scotland

	2014-15	2015-16
Track	792	749
Signalling	341	349
Civils	-	-
Buildings	-	-
Electrical power and fixed plant	135	146
Telecoms	56	54
Other network operations	139	176
Asset management services	-	-
National delivery service	74	108
Property	-	-
Group	-	-
Other maintenance	-	-
Total network maintenance headcount	1,537	1,582

Statement 8b: Summary analysis of network maintenance headcount, Scotland – continued

Notes:

- (1) The data in this statement represents the headcount for functions specifically employed to deliver Network maintenance activities (including capital works delivered by Network maintenance staff). The information in Statement 8a contains the company-wide Network maintenance costs some of which are borne by functions who undertake both Network operations and opex (Network operations and Support). Therefore, the two sets of data are not comparable.
- (2) This statement refers to the average heading during the year.
- (3) This statement records the full time equivalent staff rather than the total number of employees.
- (4) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount attributed to network operations activities has remained broadly in line with previous year although there has been some movement between the various categories reflecting changes to the staffing requirements to need to the maintenance needs of the route.
- (3) Other network operations – headcount increase includes recruitment to the central OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset. In addition, the number of staff involved in delivering minor capital works has increased. This solution allows the route greater discretion and flexibility over certain types of works that they want to undertake on their routes
- (4) National Delivery Service - increase in headcount compared to the last year was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change

Statement 8c: Analysis of network maintenance expenditure by MDU, Scotland

in £m 2015-16 prices unless stated

	2014-15	2015-16	CP5 Total
Edinburgh	21	22	43
Glasgow	15	15	30
Motherwell	27	26	53
Perth	14	14	28
Centrally managed			
Structures examinations	12	13	25
Major items of maintenance plant	-	-	-
HQ managed activities	4	3	7
Other	14	22	36
Total network maintenance	107	115	222

Statement 8c: Analysis of network maintenance expenditure by MDU, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule
- (3) As the scope and activities of each MDU are different, a comparison of costs between MDUs does not provide much insight into the relative performance or efficiency of each unit.

Comments:

- (1) Maintenance costs are higher than last year which is largely due to additional reactive maintenance (which is treated as neutral when assessing financial performance (refer to Statement 5)) and increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) partly offset by reductions in project expenditure (vegetation management and tidy railway).
- (2) Overall, depots costs are in line with the previous year with some slight changes between the individual depots reflecting the workbanks and challenges facing the individual depot this year compared to the prior year.
- (3) Other – costs in this category are higher than 2014/15 largely due to additional reactive maintenance work required this year. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8d: Analysis of network maintenance headcount by MDU, Scotland

	2014-15			2015-16		
	Permanent	Agency	Total	Permanent	Agency	Total
Edinburgh	327	-	327	348	-	348
Glasgow	250	-	250	253	-	253
Motherwell	402	-	402	413	-	413
Perth	216	-	216	221	-	221
Centrally managed						
Route HQ	266	2	268	236	3	239
Other HQ	62	12	74	96	12	108
Total network maintenance	1,523	14	1,537	1,567	15	1,582

Statement 8d: Analysis of network maintenance headcount by MDU, Scotland – continued

Notes:

- (1) This statement refers to the average heading during the year.
- (2) This statement records the full time equivalent staff rather than the total number of employees.
- (3) No PR13 comparison has been provided by the ORR for this schedule.

Comments:

- (1) Maintenance headcount has increased compared to the last year, with the largest contribution arising from extra staff in National Delivery Services.
- (2) Headcount in the depots has increased compared to the previous year which is partly the result of a change in responsibilities between Route HQ and individual depots. Across the network operations function there has been a strategy of reducing the number of unfilled roles in the organisational hierarchy to improve responsiveness and reduce reliance on overtime or external contractors.
- (3) Route HQ – the net reduction in headcount is largely due to the transfer of responsibilities to the local depots to allow greater local autonomy and flexibility to help improve decision making and so train performance. This is offset by increases for recruitment to the OCR (Overhead Condition Renewals) team to improve resource capability for overhead line electrification equipment in light of performance and the network's increasing reliance on this type of asset.
- (4) Other HQ – the noticeably increase compared to the previous year is due to extra staff recruited into the National Delivery Services function. This was largely the result of in-sourcing activity from a supplier to generate both financial and operational efficiencies. The transfer of staff occurred at the end of 2014/15 and so the current year's numbers represent the full impact of this change.

Statement 9a: Summary analysis of renewals expenditure, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	115	107	(8)	200	195	(5)	85
Signalling	31	103	72	57	168	111	26
Civils	90	76	(14)	182	151	(31)	92
Buildings	15	13	(2)	30	30	-	15
Electrical power and fixed plant	10	12	2	17	26	9	7
Telecoms	14	14	-	22	31	9	8
Wheeled plant and machinery	8	12	4	15	27	12	7
Information Technology	12	9	(3)	28	18	(10)	16
Property	3	1	(2)	11	2	(9)	8
Other renewals	10	(1)	(11)	18	(21)	(39)	8
Total renewals expenditure	308	346	38	580	627	47	272

Statement 9a: Summary analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is lower than the determination expected mainly due to lower signalling costs which was partly offset by extra Civils costs. Overall financial underperformance has been recognised in the current year (as reported in Statement 5) as renewals costs have been higher than regulatory target on a like-for-like basis.
- (2) Track – track costs are higher than the regulator assumed which is a combination of increased like-for-like costs partly offset by a deferral of activity. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Compared to Network Rail's CP5 Business Plan (which included this adjustment for the CP4 exit position) like-for-like costs were slightly higher than Network Rail planned which included the impact of extra work to facilitate the introduction of Anniesland connection. Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, in line with Network Rail's own plan. Costs for the control period to date are slightly higher than the regulator assumed. This includes the impact of financial underperformance inherent in Network Rail's CP5 Business Plan owing to the exit rate differences noted above partly offset by deferral of activity compared to the regulator's assumption, notably for non-volume activity. However, non-volume activity for the control period to date is in line with Network Rail's CP5 Business Plan (as set out in Statement 14). Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient underspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 25 per cent of these savings are eligible for addition to the RAB. Expenditure is higher than the previous year which includes extra delivery of volumes across Plain line refurbishment, S&C as well additional slab track activity this year.
- (3) Signalling – expenditure was significantly lower than the determination expected this year which is nearly all due to deferral of activity. Notable deferrals in the year include most of the NOS programme which is being rescheduled for future control periods (this saving has been treated as neutral when assessing financial performance). Some signalling financial underperformance has been recognised in the current year (refer to Statement 5) which has mainly arisen from higher than planned rates in national framework contracts as the efficiencies assumed in the determination have not been achieved. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year mostly due to increased activity on Motherwell resignalling project, activity on which is expected to ramp up over the next two years.
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- (5) Buildings – investment is broadly in line with the regulatory target for both the current year and the control period to date. Notable projects in the current year included canopy projects at Sterling and Wemyss Bay stations. Expenditure is in consistent with the previous year.
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Statement 9a: Summary analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

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- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (10) Property – costs are higher than the determination for the year and the control period to date mostly due to the expense of fitting out the new route HQ office in Glasgow. The route HQ has had to relocate following structural issues in the former premises which were identified after the determination was finalised and so there was no funding for these works in the PR13. This additional cost is included as financial underperformance (refer to Statement 5a) For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances (included in the CP4 Rollover category in the above table). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.

Statement 9a: Summary analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
- c. Small plant – expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. Expenditure in the year and the control period to date relates to an allocation of the national ORBIS programme. As expected, investment is lower in the current year compared to the previous year as most of the elements of the scheme rolled over from CP4 will have been completed at the start of CP5. There are still some minor costs this year as the rolled over aspects of the project are completed.

Statement 9b: Detailed analysis of renewals expenditure, Scotland

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	51	38	(13)	98	80	(18)
High output renewal	1	-	(1)	1	-	(1)
Plain line refurbishment	14	6	(8)	20	12	(8)
S&C renewal	15	14	(1)	32	28	(4)
S&C refurbishment	6	4	(2)	7	7	-
Track non-volume	12	34	22	19	45	26
Off track	16	11	(5)	23	23	-
Total track	115	107	(8)	200	195	(5)
Signalling						
Full conventional resignalling	10	53	43	18	85	67
Modular resignalling	1	9	8	2	11	9
ERTMS resignalling	1	-	(1)	3	-	(3)
Partial conventional resignalling	11	20	9	13	29	16
Targeted component renewal	1	2	1	2	5	3
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	-	6	6	2	9	7
Level crossings	-	2	2	4	6	2
Minor works	6	7	1	11	14	3
Centrally managed costs	1	4	3	2	9	7
Other	-	-	-	-	-	-
Total signalling	31	103	72	57	168	111
Civils						
Underbridges	38	28	(10)	70	60	(10)
Overbridges	2	3	1	8	7	(1)
Bridgeguard 3	3	-	(3)	9	-	(9)
Major structures	10	8	(2)	19	15	(4)
Tunnels	3	2	(1)	6	4	(2)
Other assets	12	11	(1)	20	17	(3)
Structures other	1	7	6	7	14	7
Earthworks	21	17	(4)	43	34	(9)
Other	-	-	-	-	-	-
Total civils	90	76	(14)	182	151	(31)
Buildings						
Managed stations	-	2	2	1	4	3
Franchised stations	13	9	(4)	23	20	(3)
Light maint depots	1	1	-	3	3	-
Depot plant	-	1	1	-	2	2
Lineside buildings	1	-	(1)	2	-	(2)
MDU buildings	-	-	-	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	15	13	(2)	30	30	-

Statement 9b: Detailed analysis of renewals expenditure, Scotland - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	3	3	-	3	3
Overhead Line	1	2	1	2	3	1
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	4	4
Energy efficiency	-	-	-	1	1	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	3	3
Fixed plant	9	6	(3)	14	12	(2)
Total electrical power and plant	10	12	2	17	26	9
Telecoms						
Operational communications	2	1	(1)	2	3	1
Network	3	1	(2)	4	5	1
SISS	1	2	1	2	3	1
Projects and other	6	8	2	12	15	3
Non-route capital expenditure	2	2	-	2	5	3
Total telecoms	14	14	-	22	31	9
Wheeled plant and machinery						
High output	4	1	(3)	6	9	3
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	-	1	1
Intervention	1	5	4	2	8	6
Materials delivery	1	-	(1)	3	-	(3)
On track plant	1	3	2	2	3	1
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	1	1	-	2	1	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	8	12	4	15	27	12
Information Technology						
IM delivered renewals	11	8	(3)	25	16	(9)
Traffic management	1	1	-	3	2	(1)
Total information technology	12	9	(3)	28	18	(10)
Property						
MDUs/offices	3	1	(2)	8	1	(7)
Commercial estate	-	-	-	3	1	(2)
Corporate services	-	-	-	-	-	-
Total property	3	1	(2)	11	2	(9)
Other renewals						
Asset information strategy	7	5	(2)	7	11	4
Intelligent infrastructure	1	2	1	2	4	2
Faster isolations	1	2	1	1	3	2
LOWS	-	-	-	-	1	1
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(11)	(11)	-	(42)	(42)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	8	-	(8)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	10	(1)	(11)	18	(21)	(39)
Total renewals	308	346	38	580	627	47

Statement 9b: Detailed analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is lower than the determination expected mainly due to lower signalling costs which was partly offset by extra Civils costs. Overall financial underperformance has been recognised in the current year (as reported in Statement 5) as renewals costs have been higher than regulatory target on a like-for-like basis.
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Statement 9b: Detailed analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

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Statement 9b: Detailed analysis of renewals expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
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Statement 10: Other information, Scotland

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	28	26	(2)	39	47	8	11
Access charge supplement Income	(24)	(24)	-	(44)	(44)	-	(20)
Net (income)/cost	4	2	(2)	(5)	3	8	(9)
Schedule 8							
Performance element income	(1)	-	1	(2)	-	2	(1)
Performance element costs	2	-	(2)	6	1	(5)	4
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	1	-	(1)	4	1	(3)	3

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	1	2	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	-	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(1)	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	1	1	-

Statement 10: Other information, Scotland – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including a notable incident at Lamington Viaduct. As noted in Statement 7, there were a number of high-profile storms in 2013/14 which adversely affected the railway infrastructure. As a result Network Rail is unable to obtain the same level of insurance cover for the funding including in the determination. Therefore, less insurance was purchased meaning that, ceteris paribus, schedule 4 costs will be higher than the regulator assumed in CP5. In addition, there has been some negative financial performance recognised for Schedule 4 costs this year (refer to Statement 5), suggesting that possessions have been more expensive than the regulator assumed. The regulatory allowances are based on a series assumptions which supposes that the possessions required to deliver renewals works are standard in nature. The financial underperformance is also impacted by the disruptive weather events, such as the Lamington Viaduct incident noted above. Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (such as Track - Plain line and Track - Switches & crossings and Civils activity, and the impact of weather events upon the network (notably Lamington Viaduct). The Access charge supplement income is in line with the determination. This is expected as this is largely a contractually obliged payment made by operators. Increases in the Access charge supplement compared to last year are in proportion to the regulatory expectation.
- (2) Schedule 8 costs are marginally adverse to the determination. This is mostly due to train performance falling short of the regulator's targets for 2015/16 largely due to delays caused by infrastructure failings and additional network congestion. The level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network in Scotland at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. Schedule 8 costs are better than the prior year partly due to a slight improvement in train performance. The adverse position for the control period to date reflects two years' worth of missed train punctuality targets including the impact of additional traffic generated during the Glasgow Commonwealth Games in 2015.
- (3) The opex memorandum currently shows a net income position. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6. The opex memorandum includes the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4. This meant that the regulator is compensating Network Rail for income shortfalls in CP4 during this control period. This is offset by the amounts Network Rail have earned in the current year under the volume incentive mechanism from increased traffic on the railway (refer to Statement 12).

Statement 12: Volume incentives, Scotland

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	4	1	33	32	0.4%	1.47	pence per passenger train mile
Passenger farebox (millions)	2	0	464	438	2.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	1	1	2.0%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(2)	0	1,087	1,184	3.0%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	3	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Scotland – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent or a reflection of the amounts earned under the measure in the first year of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result, adding to the positive result witnessed in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger train miles this year had to compete with a higher prior year comparison which included the extra traffic as a result of the Glasgow Commonwealth Games, whereas this year also suffered from line closure at Lamington. Despite this, Passenger train mile growth in the year was 0.25 per cent, which, although lower than the ORR's expectation for growth in 2015/16, was sufficient to keep the total score above the regulator's determination owing to strong performance in the first year of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, Scotland

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m
					Unit cost x volume £m	£m				Unit cost x volume £m	£m				Unit cost x volume £m	£m	
Track	Track plain line	km	303	218	66	-	66	352	199	70	-	70	49	(19)	4	-	4
	Conventional		580	88	51	-	51	611	95	58	-	58	31	7	7	-	7
	High Output		-	-	1	-	1	-	-	-	-	-	-	(1)	-	(1)	
	Refurbishment		108	130	14	-	14	115	104	12	-	12	8	(26)	(2)	-	(2)
	S&C	point ends	191	110	21	-	21	236	110	26	-	26	45	-	5	-	5
	Track Drainage		4	2,210	9	-	9	-	-	7	-	7	(4)	(2,210)	(2)	-	(2)
	Renewal	lm	n/a	2,080	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(2,080)	n/a	n/a	n/a
	Refurbishment	lm	n/a	130	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(130)	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a
	Fencing	km	19	161	3	-	3	23	215	5	-	5	5	54	2	-	2
	Slab Track		n/a	n/a	n/a	9	9	n/a	n/a	n/a	30	30	n/a	n/a	n/a	21	21
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(5)	(5)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					99	16	115			108	32	140			9	16	25
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	75	n/a	n/a	n/a	-	51
	Full conventional resignalling	SEU	-	-	10	-	10	-	-	49	-	49	-	-	39	-	39
	Modular resignalling	SEU	-	-	1	-	1	-	-	8	-	8	-	-	7	-	7
	ERTMS resignalling	SEU	-	-	1	-	1	-	-	-	-	-	-	(1)	-	(1)	
	Partial conventional resignalling	SEU	-	-	11	-	11	516	31	16	-	16	516	31	5	-	5
	Targeted component renewal	SEU	125	8	1	-	1	250	8	2	-	2	125	-	1	-	1
	Level crossings	No.	-	-	-	-	-	1,667	3	5	-	5	1,667	3	5	-	5
	Signalling other		-	-	-	7	7	-	-	-	19	19	-	-	-	12	12
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	7	7	n/a	n/a	n/a	7	7
	Minor works		n/a	n/a	n/a	6	6	n/a	n/a	n/a	7	7	n/a	n/a	n/a	1	1
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					24	7	31			80	19	99			56	12	68
Civils	Key structures		n/a	n/a	n/a	-	56	n/a	n/a	n/a	-	55	n/a	n/a	n/a	-	(1)
	Underbridges	m2	1	25,560	38	-	38	2	21,109	38	-	38	0	(4,451)	-	-	-
	Overbridges (incl BG3)	m2	2	2,284	5	-	5	2	2,261	4	-	4	(0)	(23)	(1)	-	(1)
	Tunnels	m2	2	1,766	3	-	3	2	1,766	3	-	3	-	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	10	10	n/a	n/a	n/a	10	10	n/a	n/a	n/a	-	-
	Other structures assets		n/a	n/a	n/a	-	12	n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	1
	Culverts	m2	5	591	3	-	3	6	773	5	-	5	1	182	2	-	2
	Footbridges	m2	2	472	1	-	1	2	421	1	-	1	0	(51)	-	-	-
	Coastal & Estuary Defences	m	10	700	7	-	7	9	700	6	-	6	(1)	-	(1)	-	(1)
	Retaining Walls	m2	1	697	1	-	1	8	133	1	-	1	6	(564)	-	-	-
	Earthworks	5-chain	27	729	20	-	20	30	439	13	-	13	2	(290)	(7)	-	(7)
	EW Drainage		0	2,182	1	-	1	1	4,721	6	-	6	1	2,539	5	-	5
	Renewal	lm	n/a	585	n/a	n/a	n/a	n/a	1,480	n/a	n/a	n/a	n/a	895	n/a	n/a	n/a
	Refurbishment	lm	n/a	12	n/a	n/a	n/a	n/a	335	n/a	n/a	n/a	n/a	323	n/a	n/a	n/a
	Maintenance	lm	n/a	1,395	n/a	n/a	n/a	n/a	2,906	n/a	n/a	n/a	n/a	1,511	n/a	n/a	n/a
	New Build	lm	n/a	190	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(190)	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	5	5	n/a	n/a	n/a	4	4
Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(8)	(8)	n/a	n/a	n/a	(8)	(8)	
Total					79	11	90			77	7	84			(2)	(4)	(6)

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m				
			£k/unit	Volume unit			£m	£m			£k/unit	Volume unit			£m	£m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	(3)	
	Footbridges	m2	3	303	1	-	1	n/a	672	n/a	n/a	-	n/a	369	n/a	n/a	-	
	Train Sheds	m2	-	4,800	-	-	-	n/a	2,300	n/a	n/a	-	n/a	(2,500)	n/a	n/a	-	
	Canopies	m2	2	3,230	6	-	6	n/a	229	n/a	n/a	-	n/a	(3,001)	n/a	n/a	-	
	Platforms	m2	1	815	1	-	1	n/a	1,900	n/a	n/a	-	n/a	1,085	n/a	n/a	-	
	Buildings	m2	-	-	-	-	-	n/a	573	n/a	n/a	-	n/a	573	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	1	-	1	n/a	67	n/a	n/a	-	n/a	67	n/a	n/a	-	
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Managed Stations		n/a	n/a	n/a	-	-	n/a	-	n/a	-	2	n/a	n/a	n/a	n/a	2	
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Buildings	m2	-	809	-	-	-	n/a	265	n/a	n/a	-	n/a	(544)	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	7	n/a	n/a	-	n/a	7	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Light Maintenance Depots		-	-	1	-	1	-	-	n/a	-	-	2	n/a	-	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Lineside Buildings	m2	1	1,440	1	-	1	4	265	n/a	n/a	1	n/a	(1,175)	n/a	n/a	-	
	MDU Buildings	m2	-	-	-	-	-	-	56	n/a	n/a	-	n/a	56	n/a	n/a	-	
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	1	
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(6)	n/a	n/a	n/a	n/a	(6)	
Total					11	4	15					10					(5)	

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan								
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	
					£m	£m					£m	£m									
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	1	n/a	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	-	1	
	wiring	wire runs	-	25	-	-	-	n/a	1	n/a	n/a	n/a	-	n/a	(24)	n/a	n/a	n/a	-	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	3	n/a	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	-	
	Conductor rail	km	-	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	-	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	3	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	2	n/a	n/a	n/a	-	n/a	2	n/a	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-
	Fixed plant		-	-	-	-	9	n/a	-	n/a	n/a	n/a	6	n/a	n/a	n/a	n/a	n/a	n/a	(3)	-
	Signalling Power Cable Renewal	km	-	-	3	-	3	n/a	27	n/a	n/a	n/a	-	n/a	27	n/a	n/a	n/a	n/a	-	-
	Principle Supply Point Renewal	No.	333	3	1	-	1	n/a	-	n/a	n/a	n/a	-	n/a	(3)	n/a	n/a	n/a	n/a	-	-
	Other		-	-	-	5	5	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	3	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	n/a	1	-
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-	
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-	
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	n/a	1	-	
Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	-	
Total				4	6	10						13							3	-	
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	n/a	n/a	-	-	
	Customer Information Systems	No.	-	-	-	-	-	n/a	6	n/a	n/a	-	n/a	6	n/a	n/a	n/a	n/a	-	-	
	Public Address	No.	-	-	1	-	1	n/a	43	n/a	n/a	-	n/a	43	n/a	n/a	n/a	n/a	-	-	
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-	
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-	
	Operational Comms		n/a	n/a	n/a	-	2	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	n/a	(1)	-	
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	82	n/a	n/a	-	n/a	82	n/a	n/a	n/a	n/a	-	-	
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	n/a	-	-	
	Driver-Only Operation: CCTV	No.	125	8	1	-	1	n/a	11	n/a	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	-	
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	7	n/a	n/a	n/a	-	n/a	7	n/a	n/a	n/a	-	-	
	System	No.	-	-	-	-	-	n/a	3	n/a	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	-	
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	-	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	-	
	Radio System	No.	-	73	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	(73)	n/a	n/a	n/a	-	-	
	Power Systems	No.	-	46	-	-	-	n/a	1	n/a	n/a	n/a	-	n/a	(45)	n/a	n/a	n/a	-	-	
	Network		n/a	n/a	n/a	3	3	n/a	-	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	n/a	(1)	-
	Projects and other		n/a	n/a	n/a	6	6	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	(6)	-
	Non route capex		n/a	n/a	n/a	2	2	n/a	-	n/a	n/a	n/a	12	n/a	n/a	n/a	n/a	n/a	n/a	10	-
Total				3	11	14						16							2	-	

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m								
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(3)	(3)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4		
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						8	8				10	10				2	2		
IT	IM delivered renewals		n/a	n/a	n/a	11	11	n/a	n/a	n/a	10	10	n/a	n/a	n/a	(1)	(1)		
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						12	12				14	14				2	2		
Property	MDUs/offices		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(2)	(2)		
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						3	3				1	1				(2)	(2)		
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5	n/a	n/a	n/a	(2)	(2)		
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
Total						10	10				14	14				4	4		
Total Renewals							308	401							93				

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	331	360	119	-	119	316	459	145	-	-	145	(15)	99	26	-	-	26
	Conventional		566	173	98	-	98	555	209	116	-	-	116	(11)	36	18	-	-	18
	High Output		-	-	1	-	1	-	-	-	-	-	-	-	(1)	-	-	-	(1)
	Refurbishment		107	187	20	-	20	116	250	29	-	-	29	9	63	9	-	-	9
	S&C	point ends	228	171	39	-	39	251	199	50	-	-	50	23	28	11	-	-	11
	Track Drainage		7	2,210	16	-	16	5,333	3	16	-	-	16	5,326	(2,207)	-	-	-	-
	Renewal	lm	n/a	2,080	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(2,080)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	130	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(130)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a
	Fencing	km	21	387	8	-	8	26	430	11	-	-	11	5	43	3	-	-	3
	Slab Track		n/a	n/a	n/a	11	11	n/a	n/a	n/a	37	37	n/a	n/a	n/a	n/a	26	-	26
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	(3)	-	(3)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				182	18	200			222	41	263				40	23	63	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	38	n/a	n/a	n/a	-	-	118	n/a	n/a	n/a	-	-	80
	Full conventional resignalling	SEU	4,500	4	18	-	18	20,000	4	80	-	-	80	15,500	-	62	-	-	62
	Modular resignalling	SEU	-	-	2	-	2	-	-	10	-	-	10	-	-	8	-	-	8
	ERTMS resignalling	SEU	-	-	3	-	3	-	-	-	-	-	-	-	-	(3)	-	-	(3)
	Partial conventional resignalling	SEU	-	-	13	-	13	774	31	24	-	-	24	774	31	11	-	-	11
	Targeted component renewal	SEU	250	8	2	-	2	333	12	4	-	-	4	83	4	2	-	-	2
	Level crossings	No.	800	5	4	-	4	1,286	7	9	-	-	9	486	2	5	-	-	5
	Signalling other		-	-	-	15	15	-	-	-	34	34	-	-	-	-	19	-	19
	ERTMS train fitment	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex	n/a	n/a	n/a	n/a	2	2	n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	8	-	8
	Minor works	n/a	n/a	n/a	n/a	11	11	n/a	n/a	n/a	14	14	n/a	n/a	n/a	n/a	3	-	3
	Centrally managed costs	n/a	n/a	n/a	n/a	2	2	n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	8	-	8
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				42	15	57			127	34	161				85	19	104	
Civils	Key structures		n/a	n/a	n/a	-	112	n/a	n/a	n/a	-	-	108	n/a	n/a	n/a	-	-	(4)
	Underbridges	m2	2	36,420	70	-	70	2	35,187	73	-	-	73	0	(1,233)	3	-	-	3
	Overbridges (incl BG3)	m2	5	3,569	17	-	17	3	3,728	10	-	-	10	(2)	159	(7)	-	-	(7)
	Tunnels	m2	2	3,126	6	-	6	2	3,126	5	-	-	5	(0)	-	(1)	-	-	(1)
	Major structures	m2	n/a	n/a	n/a	19	19	n/a	n/a	n/a	20	20	n/a	n/a	n/a	n/a	1	-	1
	Other structures assets		n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	-	20	n/a	n/a	n/a	-	-	-
	Culverts	m2	10	924	9	-	9	8	1,034	8	-	-	8	(2)	110	(1)	-	-	(1)
	Footbridges	m2	2	896	2	-	2	3	924	3	-	-	3	1	28	1	-	-	1
	Coastal & Estuary Defences	m	7	1,030	7	-	7	7	1,030	7	-	-	7	-	-	-	-	-	-
	Retaining Walls	m2	3	772	2	-	2	4	565	2	-	-	2	1	(207)	-	-	-	-
	Earthworks	5-chain	29	1,457	42	-	42	-	869	28	-	-	28	(29)	(588)	(14)	-	-	(14)
	EW Drainage		0	4,376	1	-	1	1	9,460	10	-	-	10	1	5,084	9	-	-	9
	Renewal	lm	n/a	595	n/a	n/a	n/a	n/a	2,963	n/a	n/a	n/a	n/a	n/a	2,368	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	222	n/a	n/a	n/a	n/a	675	n/a	n/a	n/a	n/a	n/a	453	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	1,672	n/a	n/a	n/a	n/a	5,822	n/a	n/a	n/a	n/a	n/a	4,150	n/a	n/a	n/a	n/a
	New Build	lm	n/a	1,887	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1,887)	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	7	7	n/a	-	n/a	10	10	n/a	n/a	n/a	n/a	3	-	3
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(16)	(16)	n/a	n/a	n/a	n/a	(16)	-	(16)
	Total				156	26	182			146	14	160				(10)	(12)	(22)	

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost
					volume	volume				volume	volume				volume	volume	
				£m	£m	£m		£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m
Buildings	Franchised Stations		n/a	n/a	n/a	-	23	n/a	n/a	n/a	-	25	n/a	n/a	n/a	n/a	2
	Footbridges	m2	7	303	2	-	2	n/a	948	n/a	n/a	-	n/a	645	n/a	n/a	-
	Train Sheds	m2	-	5,260	-	-	-	n/a	2,884	n/a	n/a	-	n/a	(2,376)	n/a	n/a	-
	Canopies	m2	1	8,569	9	-	9	n/a	8,902	n/a	n/a	-	n/a	333	n/a	n/a	-
	Platforms	m2	1	3,395	2	-	2	n/a	4,334	n/a	n/a	-	n/a	939	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	n/a	1,126	n/a	n/a	-	n/a	1,126	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	n/a	134	n/a	n/a	-	n/a	134	n/a	n/a	-
	Other		-	-	-	8	8	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	3
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	1,089	-	-	-	n/a	585	n/a	n/a	-	n/a	(504)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	14	n/a	n/a	-	n/a	14	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	8,444	3	-	3	4	1,332	n/a	-	5	n/a	(7,112)	n/a	n/a	2
	Buildings	m2	-	11	-	-	-	n/a	899	n/a	n/a	-	n/a	888	n/a	n/a	-
	Depot Shed	m2	-	8,433	-	-	-	n/a	433	n/a	n/a	-	n/a	(8,000)	n/a	n/a	-
	Lineside Buildings	m2	1	1,440	2	-	2	4	530	n/a	n/a	2	n/a	(910)	n/a	n/a	-
	MDU Buildings	m2	0	3,750	1	-	1	-	112	n/a	n/a	-	n/a	(3,638)	n/a	n/a	(1)
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	2
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(12)	n/a	n/a	n/a	n/a	(12)
Total					21	9	30					26				(4)	

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume			volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	1	
	wiring	wire runs	-	62	-	-	-	n/a	2	n/a	n/a	-	n/a	(60)	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	4	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	14	n/a	-	n/a	n/a	11	n/a	n/a	n/a	n/a	n/a	(3)	
	Signalling Power Cable Renewal	km	-	-	6	-	6	n/a	54	n/a	n/a	-	n/a	54	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	154	13	2	-	2	n/a	-	n/a	n/a	-	n/a	(13)	n/a	n/a	n/a	-	
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	4	
Energy efficiency		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)		
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	2		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total				8	9	17					24						7		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	2	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	n/a	(1)	
	Customer Information Systems	No.	-	-	-	-	-	n/a	20	n/a	n/a	-	n/a	20	n/a	n/a	n/a	-	
	Public Address	No.	4	511	2	-	2	n/a	1,453	n/a	n/a	-	n/a	942	n/a	n/a	n/a	-	
	CCTV	No.	-	54	-	-	-	n/a	20	n/a	n/a	-	n/a	(34)	n/a	n/a	n/a	-	
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Operational Comms		n/a	n/a	n/a	-	2	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	1	
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	711	n/a	n/a	-	n/a	711	n/a	n/a	n/a	-	
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	n/a	-	
	Driver-Only Operation: CCTV	No.	125	8	1	-	1	n/a	11	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	7	n/a	n/a	-	n/a	7	n/a	n/a	n/a	-	
	System	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Radio System	No.	-	73	-	-	-	n/a	-	n/a	n/a	-	n/a	(73)	n/a	n/a	n/a	-	
	Power Systems	No.	-	46	-	-	-	n/a	1	n/a	n/a	-	n/a	(45)	n/a	n/a	n/a	-	
	Network		n/a	n/a	n/a	4	4	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	-	
	Projects and other		n/a	n/a	n/a	12	12	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(12)	
	Non route capex		n/a	n/a	n/a	2	2	n/a	-	n/a	n/a	23	n/a	n/a	n/a	n/a	n/a	21	
	Total				4	18	22					31						9	

Statement 14: Renewals volumes, unit costs and expenditure, Scotland - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan					Difference to Business Plan								
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-	Total Cost £m	Unit cost £k/unit	Volume unit	Other non-	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost £k/unit	Volume unit	Other non-	Total Cost £m	Unit cost £k/unit	Volume unit	Other non-	Total Cost £m	
					volume costs £m				volume costs £m						volume costs £m				volume costs £m		
Wheeled plant and machinery	High output		n/a	n/a	n/a	6	6	n/a	n/a	n/a	9	9	n/a	n/a	n/a	3	3				
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6				
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)				
	On track plant		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-				
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3				
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2				
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)				
S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-					
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-					
Total						15	15	25						25	10						10
IT	IM delivered renewals		n/a	n/a	n/a	25	25	n/a	n/a	n/a	23	23	n/a	n/a	n/a	(2)	(2)				
	Traffic management		n/a	n/a	n/a	3	3	n/a	n/a	n/a	7	7	n/a	n/a	n/a	4	4				
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
Total						28	28	30						30	2						2
Property	MDUs/offices		n/a	n/a	n/a	8	8	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(6)	(6)				
	Commercial estate		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)				
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
Total						11	11	2						2	(9)						(9)
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	11	11	n/a	n/a	n/a	4	4				
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2				
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	8	8	n/a	n/a	n/a	7	7				
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2				
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
	CP4 Rollover		n/a	n/a	n/a	8	8	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(8)	(8)				
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5					
Total						18	18	30						30	12						12
Total Renewals							580	752							172						

Statement 14: Renewals volumes, unit costs and expenditure, Scotland – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered in the year are higher than planned which partly represents a catch up of the volumes deferred from 2014/15 and comprises additional Refurbishment units offset by lower Conventional volumes
 - a. Conventional – Volumes delivered in the year were lower than the plan. Prioritisation of schemes such as EGIP, haulage issues experienced in the first year of the control period (which prevented materials being at site for planned works in the current year) and workbank smoothing over the control period to manage resources most effectively resulted in the reduced volumes.
 - b. Refurbishment – volumes delivered in the current year was higher the plan largely due to the more emergent status of work in this area; planning cycles can be more fluid in nature which may result in increasing levels of deviation from the CP5 Business Plan as the control period progresses. The extra volumes this year partially offset the deferrals experienced in the opening year of the control period. Additional Refurbishment volumes have helped offset reductions in Conventional volumes delivery reflecting a pragmatic approach to delivery and asset management requirements.
- (5) Track – Drainage – no volumes were expected in the CP5 Business Plan for the current year and only marginal volumes for the control period to date. These assumptions appear to have been incorrect given the level of work that has been required to date.
- (6) Track – Fencing – volumes delivered were lower than the plan, partly offsetting the extra delivery undertaken in the first year of the control period. The CP5 Business Plan made a simple assumption that Fencing volumes would be delivered evenly over the quinquennial control period which has proved to be unrealistic.
- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.

Statement 14: Renewals volumes, unit costs and expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (8) Signalling – Partial Conventional - volumes delivered in the year are lower than plan due to the cancellation of the Scotland Area National Operating Strategy programme; albeit that element of this scheme will be delivered through other works packages, as required based on asset condition. The Scotland Area National Operating Strategy programme is now planned for future control periods to optimise delivery.
- (9) Signalling – Level Crossings – the underdelivery of volumes in the current year is expected to continue over the remainder of the control period. Deferral of volumes is largely due to projects tied to recontrol works where asset deterioration has not been as quick as anticipated and the assets have yet to reach the end of their useful economic lives.
- (10) Civils - Underbridges - Volumes delivered in the year are higher than the plan. Current year activity included a catch up of works postponed from 2014/15 as well as emergency works taking place at sites such as Waterside, Newcraighall and Lamington which were required to maintain asset condition, and in the case of the latter, repair a viaduct which was damaged as a result of severe weather.
- (11) Civils – Culverts – volumes delivered were lower than the plan which was partly due to acceleration of activities into the opening year of the control period when the volumes delivered exceeded the plan. The remaining difference is due to deferral of planned units into future years with the total volumes for the control period expected to be in line with the plan. The plan included high level assumptions for some of the volumes to be undertaken based on an asset management view rather than a bottom up planned site for every volume.
- (12) Civils – Footbridges – volumes delivered were lower than the plan which was partly due to acceleration of activities into the opening year of the control period when the volumes delivered exceeded the plan. The remaining difference is due to deferral of planned units into future years with the total volumes for the control period expected to be in line with the plan. The plan included high level assumptions for some of the volumes to be undertaken based on an asset management view rather than a bottom up planned site for every volume.
- (13) Civils - Retaining Walls – volumes delivered in the year was higher than the plan mainly as a result of Ferryhill Lane being completed this year, a project that was initially planned for delivery in 2014/15.
- (14) Civils - Earthworks - volumes recognised in the year was higher than the plan mainly as a result of improved delivery, allowing lighter intervention jobs being completed by in-house Maintenance staff in Scotland at marginal extra cost. This is expected to contribute higher than planned volumes across the control period to improve asset condition and performance.
- (15) Civils – Earthworks Drainage – volumes delivered in the year were lower than the plan, although there is expected to be increased delivery over the remaining years of the control period, especially in the Renewal category. The plan included high level assumptions for some of the volumes to be undertaken based on an asset management view rather than a bottom up planned site for every volume.
- (16) Buildings - Franchised Stations – Footbridges – Volumes are below plan for the year but overall the control period volumes are expected to exceed the CP5 Business Plan with the bulk of activity planned for 2016/17.
- (17) Buildings - Franchised Stations – Train Sheds – volumes delivered were higher than the plan which included a catch up of work deferred from the opening year of the control period. Asset management considerations resulted in the acceleration of activity from future years.
- (18) Buildings - Franchised Stations – Canopies – volumes delivered in the year were higher than the plan which included a catch up of work deferred from the opening year of the control period.
- (19) Buildings - Franchised Stations – Platforms – volumes delivered in the year were lower than plan. Re-prioritisation of resources has resulted in volumes being re-profiled until later in the control period although total volumes across CP5 are expected to be broadly in line with the original plan.
- (20) Buildings - Franchised Stations – Buildings – no volumes have been reported in the current year which is due to a combination of deferral of activity into future years and a reduction in the overall level of volumes expected to be delivered across CP5. The need to utilise scarce resources optimally has contributed to this reduction.

Statement 14: Renewals volumes, unit costs and expenditure, Scotland – continued

in £m 2015-16 prices unless stated

- (21)Buildings – Managed stations – Buildings – volumes delivered in the current year were higher than planned due to an evolving works programme at Edinburgh Waverly and Glasgow Central stations compared to the original plan.
- (22)Buildings – Lineside Buildings – volumes delivered in the year were higher than the plan which included a catch up of work deferred from the opening year of the control period. The CP5 Business Plan assumed an even phasing of activity across the control period.
- (23)Buildings – MDU buildings – no volumes have been reported this year. The CP5 Business Plan assumed an even phasing of activity across the control period whereas Scotland delivered the required activities in the opening year of the control period.
- (24)Electrification - OLE Rewiring – volumes delivered in the current year are higher than Network Rail's published CP5 Business Plan with an additional wire runs reported within year. The plan underestimated the level of activities that would be required in this area across the control period.
- (25)Fixed Plant - Signalling Power Cables – no volume has been reported this year. Over the control period the level of activity is expected to be broadly in line with the plan but with more of the volumes being implemented towards the end of the control period.
- (26)Telecoms – Customer Information Systems - volumes are lower than plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (27)Telecoms – Public Address - volumes are lower than plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (28)Telecoms – PABX Concentrators – no volumes have been reported in the current year as activity has been rephased into the final two years of the control period to optimise delivery, notably the Buchanan House concentrator. In addition, total volumes for the control period are now anticipated to be lower than the plan due to resource re-prioritisation in light of the constraints facing the organisation.
- (29)Telecoms – Radio Systems – no volumes were included in the CP5 Business Plan for this category for the control period. However, asset management assessments have necessitated some activity this year.
- (30)Telecoms – Power Systems – minimal volumes were included in the CP5 Business Plan for this category for the control period. However, asset management assessments have necessitated some activity this year.

Statement 1: Summary regulatory financial performance, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	388	382	6	771	763	8	383
Fixed Income	26	26	-	60	60	-	34
Variable Income	106	113	(7)	206	209	(3)	100
Other Single Till Income	66	82	(16)	145	162	(17)	79
Opex memorandum account	-	-	-	-	-	-	-
Total Income	586	603	(17)	1,182	1,194	(12)	596
Operating expenditure							
Network operations	48	42	(6)	97	86	(11)	49
Support costs	41	48	7	83	95	12	42
Traction electricity, industry costs and rates	68	76	8	140	139	(1)	72
Network maintenance	130	110	(20)	260	223	(37)	130
Schedule 4	23	21	(2)	42	36	(6)	19
Schedule 8	4	1	(3)	14	1	(13)	10
Total operating expenditure	314	298	(16)	636	580	(56)	322
Capital expenditure							
Renewals	233	229	(4)	493	425	(68)	260
PR13 enhancement expenditure	113	65	(48)	203	121	(82)	90
Non PR13 enhancement expenditure	5	-	(5)	13	-	(13)	8
Total capital expenditure	351	294	(57)	709	546	(163)	358
Other expenditure							
Financing costs	108	132	24	221	263	42	113
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	108	132	24	221	263	42	113
Total expenditure	773	724	(49)	1,566	1,389	(177)	793

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was the same as the determination. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is lower than the determination due to lower property income (especially property sales) and lower stations rental income as facilities have been transferred to operators under long-term leases, reducing both income and on-going costs. Other single till income is lower than the previous year for the same reasons.
- (6) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are broadly in line with the previous year.
- (7) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are broadly in line with the previous year.
- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income). These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. In addition, more Reactive maintenance activity has been required compared to the regulatory assumption. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year and increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway).
- (10) Operating expenditure - Schedule 4 costs are higher than the determination mainly due to extra possessions costs on a like for like basis partly offset by a deferral of activity. These variances are set out in more detail in Statement 10.
- (11) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the early years of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to operational improvements which have reduced delay minutes.
- (12) Capital expenditure - Renewals expenditure is slightly higher than the determination which is a combination of efficient overspends partially negated by re-phasing of activity. These variances are set out in more detail in Statement 9a. Costs are lower than the previous year which is due to the cyclical nature of renewals activities across the control period.

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2015-16 prices unless stated

- (13) Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Anglia

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,994	3,808	186
Indexation to 2013-14 prices	187	178	9
Opening RAB for the year (2014-15 prices)	4,181	3,986	195
Indexation for the year	44	42	2
Opening RAB (2015-16 prices)	4,225	4,028	197
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	212	229	(17)
PR13 enhancements	111	64	47
Non-PR13 enhancements	5	-	5
Total enhancements	116	64	52
Amortisation	(196)	(196)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	4,357	4,125	232

RAB Regulatory financial position - cumulative, Anglia

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	3,969	4,225	3,969
Adjustments for the actual capital expenditure outturn in CP4	113	-	113
Renewals	243	212	455
PR13 enhancements	91	111	202
Non-PR13 enhancements	5	5	10
Total enhancements	96	116	212
Amortisation	(196)	(196)	(392)
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB	4,225	4,357	4,357

Statement 2a: RAB - Regulatory financial position, Anglia – continued

in £m 2015-16 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 it's final assessment of the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (May 2016) the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to deferrals of activity partly offset by efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was much higher than the regulator assumed. This was largely due to different assumptions around the share of the total Crossrail programme costs would be reported in this route in the year. The determination assumed that there would be minimal investment in Anglia in the early years of the control period but that assumption does not match the reality. Also, the amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that is expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation – this represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the first two years of the control period the regulator has not yet made any indication that it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, Anglia – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Anglia

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	197	229	426
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	33	-	33
Capitalised financing on CP4 deferrals	1	1	2
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	231	230	461
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(47)	(84)	(131)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(5)
Adjustments for efficient overspend	72	84	156
Capitalised financing on efficient overspend	2	5	7
25% retention of efficient overspend	(18)	(21)	(39)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	5	4	9
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	(1)	(2)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	243	212	455
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(2)	(1)	(3)
Adjustment for 25% retention of efficient overspend	19	22	41
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	-	-	-
Total actual renewals expenditure (see statement 9)	260	233	493

Statement 2b: RAB - reconciliation of expenditure, Anglia - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	58	64	122
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	1	(1)	-
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	(1)	(1)
Capitalised financing on Baseline adjustments	-	-	-
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	59	62	121
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	32	40	72
Capitalised financing on acceleration / (deferrals) of expenditure	1	2	3
Adjustments for efficient overspend	-	-	-
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	11	11
agreements - retention of efficient overspend	-	(4)	(4)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	91	111	202
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	5	11
overspend	(1)	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	5	5	10
Total enhancements (added to the RAB - see statement 2a)	96	116	212
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(1)	(2)	(3)
Adjustment for 25% retention of efficient overspend	1	4	5
Other adjustments	2	-	2
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	25	120	145
Other adjustments	1	-	1
Total actual enhancement expenditure (see statement 3)	124	238	362

Statement 2b: RAB - reconciliation of expenditure, Anglia – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals - Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancement – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).
- (11) Enhancements- Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the agreed outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Crossrail programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (13) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Crossrail programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances.
- (14) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	2	(1)	4	6	2
Stations - Access for All (AfA)	1	(4)	(5)	5	3	(2)
Development	5	18	13	15	21	6
Level crossing safety	6	9	3	6	11	5
Passenger journey improvement	2	(5)	(7)	2	2	-
The strategic rail freight network	6	19	13	28	29	1
Total funds	23	39	16	60	72	12
Committed projects						
Crossrail	65	1	(64)	105	2	(103)
IEP Programme	-	(1)	(1)	-	-	-
Thameslink	1	1	-	2	5	3
Total committed projects	66	1	(65)	107	7	(100)
Named schemes						
Ports and Airports						
Service Improvements in the Ely Area	1	1	-	1	2	1
Total Named Schemes	1	1	-	1	2	1
HLOS capacity metric schemes						
West Anglia main line capacity increase	5	5	-	7	5	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	3	1	4	4	-
Anglia traction power supply upgrade	4	-	(4)	7	7	-
Total HLOS capacity metric schemes	11	8	(3)	18	16	(2)
CP4 project rollovers						
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	-	-	-
Other projects						
Seven day railway projects	2	4	2	3	4	1
ERTMS Cab fitment	-	1	1	-	1	1
R&D allowance	-	-	-	-	1	1
Income generating property schemes	10	14	4	14	18	4
Other income generating investment framework schemes	-	(3)	(3)	-	-	-
Total other projects	12	16	4	17	24	7
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	113	65	(48)	203	121	(82)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	4	-	(4)	7	-	(7)
Total Government sponsored schemes	4	-	(4)	7	-	(7)
Network Rail spend to save schemes						
Other spend to save schemes	1	-	(1)	4	-	(4)
Total Network Rail spend to save schemes	1	-	(1)	4	-	(4)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	2	-	(2)
Total non PR13 enhancement expenditure	5	-	(5)	13	-	(13)
Total Network Rail funded enhancements (see Statement 1)	118	65	(53)	216	120	(96)
Third Party PAYG	120	-	(120)	146	-	(146)
Total enhancements (see statement 2b)	238	65	(173)	362	120	(242)

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.
- (2) The baseline for projects that are not subject to the Hendy review, have been updated to reflect the latest level of funding agreed with the regulator. This will incorporate changes arising through the ECAM (Enhancements Cost Adjustment Mechanism) process or from other agreed funding alterations.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £118m (as shown in Statement 1). This comprises the total enhancement figure in the table above £238m less the PAYG schemes funded by third parties (£120m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is more than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in control period to date is lower than the determination. This is partly due to the way the route split was set out by ORR.
 - (b) 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. Expenditure is more than the regulator's determination in the year and control period to date due to route split determined by ORR being different to expenditure profile within each route.
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Service Improvements in the Ely Area - this project is to develop a scheme which improves capacity in the Ely area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. Progress on this project is in line with the Hendy review expectations.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) West Anglia main line capacity increase – This project will develop a scheme targeted at increasing the frequency of Lea Valley line services to Stratford. Expenditure was very slightly higher than the baseline.
 - (a) Bow Junction upgrade with Chelmsford & Wickford turnbacks – Overcrowding on the Chelmsford and Southend Victoria routes is reduced by optimising capacity released on the Electric Lines into Liverpool Street following diversion of most peak suburban services through the Crossrail tunnel from 2019. The project comprises performance improvements, upgrade of Bow Junction and provision of turnbacks in the Chelmsford and Wickford areas. Expenditure in the control period to date is consistent with the baseline arising from the Hendy review.
 - (b) Anglia traction power supply upgrade - The aim of the project is to provide enhancements to the existing traction power infrastructure required to support the forecast increase in electrically operated rolling stock for CP5. Expenditure was on target with the baseline.

Statement 3: Analysis of enhancement capital expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is below target due to re-profiling of activity into future years.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Therefore the expenditure is below the regulator's determination for the year and control period to date.
 - (d) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (e) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) PAYGO – significant programmes in this category in the current year includes Crossrail and Cambridge North Station. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Anglia

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	2,874	2,760	(114)			
Adjustment for opening control period debt	-	(52)	(52)			
Opening net debt	2,874	2,708	(166)	2,645	2,577	(68)
Income						
Grant income	(388)	(382)	6	(767)	(759)	8
Fixed charges	(26)	(26)	-	(60)	(60)	-
Variable charges	(106)	(113)	(7)	(205)	(208)	(3)
Other single till income	(66)	(82)	(16)	(144)	(157)	(13)
Total income	(586)	(603)	(17)	(1,176)	(1,184)	(8)
Expenditure						
Network operations	48	42	(6)	96	85	(11)
Support costs	41	48	7	83	98	15
Traction electricity, industry costs and rates	68	76	8	139	139	-
Network maintenance	130	110	(20)	259	222	(37)
Schedule 4	23	21	(2)	42	36	(6)
Schedule 8	4	1	(3)	14	1	(13)
Renewals	233	229	(4)	490	424	(66)
PR13 enhancement	113	64	(49)	202	121	(81)
Non-PR13 enhancement	5	-	(5)	13	-	(13)
Total expenditure	665	591	(74)	1,338	1,126	(212)
Financing						
Interest expenditure on nominal debt - FIM covered	27	41	14	67	82	15
covered	19	20	1	38	40	2
Expenditure on the FIM	25	31	6	54	61	7
Interest expenditure on government borrowing	21	-	(21)	28	-	(28)
Interest on cash balances held by Network Rail	(1)	(1)	-	(2)	(2)	-
Total interest costs	91	91	-	185	181	(4)
Accretion on index linked debt - FIM covered	17	41	24	35	82	47
Total financing costs	108	132	24	220	263	43
Corporation tax	-	-	-	-	-	-
Other	(43)	-	43	(9)	46	55
Movement in net debt	144	120	(24)	373	251	(122)
Closing net debt	3,018	2,828	(190)	3,018	2,828	(190)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.80	0.83	1.21
FFO/interest	2.85	3.00	3.36
Net debt/RAB (gearing)	68.8%	69.3%	68.5%
FFO/debt	9.4%	9.0%	10.8%
RCF/debt	6.1%	6.0%	7.6%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Anglia has increased by £0.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is slightly higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Anglia – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations, Network maintenance costs and property sales shortfalls partly offset by savings in Support costs and interest cost savings. These variances are addressed in more detail in other statements of these Regulatory financial statements.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is higher than the regulatory comparative due to increased debt caused by higher than expected expenditure in both renewals and enhancements, including the impact efficient renewals overspends and of non-PR13 enhancements. Under the rules set out by ORR in the Regulatory Accounting Guidelines (May 2016), in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio. The ratio is slightly higher than the previous year partly as a result of efficient overspends on renewals and enhancements recognised in the current year.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, Anglia

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	388	382	6	6	-	-	-	-
Fixed Income	26	26	-	-	-	-	-	-
Variable Income	63	63	-	-	-	-	-	-
Other Single Till Income	66	82	(16)	-	-	-	(16)	(16)
Opex memorandum account	-	-	-	(1)	-	-	1	1
Total Income	543	553	(10)	5	-	-	(15)	(15)
Expenditure								
Network operations	48	42	(6)	-	-	-	(6)	(6)
Support costs	41	48	7	-	-	-	7	7
Industry costs and rates	24	24	-	1	-	-	(1)	(1)
Traction electricity	1	2	1	-	-	-	1	1
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	130	110	(20)	-	(7)	-	(13)	(13)
Schedule 4 costs	23	21	(2)	-	6	-	(8)	(8)
Schedule 8 costs	4	1	(3)	-	-	-	(3)	(3)
Renewals	233	229	(4)	-	80	-	(84)	(21)
PR13 Enhancements	113	65	(48)	-	(37)	-	(11)	(4)
Non PR13 Enhancements	5	-	(5)	-	(5)	-	-	-
Financing Costs	108	132	24	24	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	730	674	(56)	25	37	-	(118)	(48)
Total:			(66)	30	37	-	(133)	(63)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(63)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(11)
Under-delivery of train performance requirements (CaSL)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(15)
Total financial out / (under) performance to be recognised								(78)

Statement 5a: Total financial performance, Anglia - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
A	B	C	D	E	F			
Income								
Grant Income	771	763	8	8	-	-	-	-
Fixed Income	60	60	-	-	-	-	-	-
Variable Income	120	122	(2)	-	-	-	(2)	(2)
Other Single Till Income	145	162	(17)	-	-	-	(17)	(17)
Opex memorandum account	-	-	-	(2)	-	-	2	2
Total Income	1,096	1,107	(11)	6	-	-	(17)	(17)
Expenditure								
Network operations	97	86	(11)	-	-	-	(11)	(11)
Support costs	83	95	12	2	-	-	10	10
Industry costs and rates	50	49	(1)	-	-	-	(1)	(1)
Traction electricity	4	3	(1)	-	-	-	(1)	(1)
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	260	223	(37)	-	(6)	-	(31)	(31)
Schedule 4 costs	42	36	(6)	-	5	-	(11)	(11)
Schedule 8 costs	14	1	(13)	-	-	-	(13)	(13)
Renewals	493	425	(68)	-	92	-	(160)	(40)
PR13 Enhancements	203	121	(82)	-	(71)	-	(11)	(4)
Non PR13 Enhancements	13	-	(13)	-	(13)	-	-	-
Financing Costs	221	263	42	42	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,480	1,302	(178)	44	7	-	(229)	(102)
Total:			(189)	50	7	-	(246)	(119)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(119)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(19)
Under-delivery of train performance requirements (CaSL)								(7)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(26)
Total financial out / (under) performance to be recognised								(145)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(43)	(50)	7	(86)	(87)	1
Total variance not included in total	(43)	(50)	7	(86)	(87)	1
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	-	-	-	2	-	2
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	43	50	(7)	86	87	(1)
Total variance not included in total	43	50	(7)	86	87	(1)

Statement 5a: Total financial performance, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures of financial performance used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink and Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Other single till income – the underperformance recognised in Other single till income is mainly the result of lower property income (especially property sales) compared to the regulator's determination. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. In addition, less income was earned due to lower property rental income. Whilst this income is broadly in line with the previous year the determination assumed higher growth in rental income which assumed challenging increases in the expected level of income that could be earned but the assumption about rental yields and market-driven growth appears optimistic. In addition, the transfer of a Network Rail managed station (Fenchurch Street) to a train operator (C2C) means that property rental income and station rental income paid by the operator decreases.
- (3) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Anglia – continued

in £m 2015-16 prices unless stated

- (4) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate as well as expectations about efficiencies that could be achieved this control period. The regulator's determination assumed that Network Rail would exit the control period with a lower cost base. However, as efficiencies that were expected to occur in the final years of CP4 did not materialise, Network Rail started the control period with a cost base higher than the regulatory assumption. From this starting position, achieving the determination target for this control period was always going to be unlikely. In addition, Network Operations costs in 2014/15 were higher than the regulator's expectations, meaning that financial underperformance in 2015/16 was highly probable. In addition, this year Network Rail had additional costs relating to higher signaller costs as assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher due to extra investment in projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, there are also extra costs due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (5) Support costs – costs are lower than the PR13 assumption largely as a net result of non-recurring transactions, including lower re-organisation costs, reduction in incentive payments to senior staff, favourable settlement of commercial claims as well as from some efficiencies achieved throughout the various functions that comprise Support costs. In addition an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period. In the prior year not all of the favourable variance to the determination was included as financial outperformance either. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the financial penalty, resulting in a release of some of the provision. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this was not been counted as financial outperformance.
- (6) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period. The amounts included in Column D, Variances not included in total financial performance, relate to the amounts such as Business rate savings which are expected to be adjusted through the Opex memorandum (refer to Statement 10).
- (7) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (8) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved with ORR. Underlying Network maintenance costs are higher than the determination this year. This is a continuation of the trend witnessed in the first year of the control period when negative FPM was reported. The regulator's determination assumed a rate of efficiencies which has proven to be unachievable. In addition, following a decision made by the Office for National Statistics Network Rail is now included within the accounts of the government which has led to changes in the way the company is financed, resulting in cash constraints this control period. Consequently, renewals expenditure plans have been revised resulting in lower levels of activity which, in turn, has necessitated more maintenance activity to keep the assets at the required condition. Financial underperformance in the control period is driven by a combination of the above factors and from the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas in 2014/15 to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs financial outperformance in 2014/15.

Statement 5a: Total financial performance, Anglia – continued

in £m 2015-16 prices unless stated

- (9) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. In addition, costs this year were negatively affected by additional possessions on Great Eastern overhead line electrification re-wiring project and High Output jobs.
- (10) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn and continuation of the pattern from the first year of the control period where performance targets were also missed. The financial underperformance compared to the previous year was much improved suggesting that improvements have been made in this area this year.
- (11) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (12) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Financial underperformance has been recognised this year on Crossrail. The amount of financial outperformance/ underperformance retained by Network Rail is set out in the protocol arrangements for this programme.
- (13) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (14) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these type of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Anglia

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(19)	17	(36)	(9)		(9)	-	-
Signalling	24	32	(8)	(2)		(2)	-	-
Civils	(9)	3	(12)	(3)		(4)	1	-
Buildings	5	13	(8)	(2)		(2)	-	-
Electrical power and fixed plant	25	33	(8)	(2)		(2)	-	-
Telecoms	(2)	(2)	-	-		-	-	-
Wheeled plant and machinery	3	3	-	-		-	-	-
IT	(4)	(4)	-	-		-	-	-
Property	4	4	-	-		-	-	-
Other renewals	(31)	(19)	(12)	(3)		(2)	(1)	-
Total	(4)	80	(84)	(21)		(21)	-	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(36)	32	(68)	(17)		(15)	(2)	-
Signalling	12	32	(20)	(5)		(6)	1	-
Civils	(19)	5	(24)	(6)		(6)	-	-
Buildings	3	15	(12)	(3)		(3)	-	-
Electrical power and fixed plant	36	48	(12)	(3)		(2)	(1)	-
Telecoms	(2)	(2)	-	-		-	-	-
Wheeled plant and machinery	10	10	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	6	6	-	-		-	-	-
Other renewals	(70)	(46)	(24)	(6)		(4)	(2)	-
Total	(68)	92	(160)	(40)		(36)	(4)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. About one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Financial performance this year also suffered from lower volumes than planned being delivered, mostly due to access constraints. Reductions in the volumes delivered do not result in a proportionate decrease in costs as there are a number of fixed costs which are now spread over fewer volumes, leading to unit cost increases. The route has also been adversely affected by higher than planned market rates and an inability to achieve Switches & Crossings efficiencies that were included in the determination which now appear to have been overly optimistic. In addition, there have been extra non-volumes works required this year which had no corresponding allowances in the determination.
- (3) Signalling – financial underperformance was reported again this year, continuing the trend of the previous year. The level of financial underperformance was lower than the previous year (which suffered from the costs of completing CP4 projects for which the regulator provided no funding allowance). The largest contributor to the financial underperformance reported this year was the delivery of more non-volume activity for which there was no funding in the determination. In addition, framework contractor rates were negotiated and agreed earlier in the control period at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. This has been exacerbated by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs. Financial performance has also been impacted by the costs for completing Romford ROC (Regional Operating Centre), a project rolled over from CP4 for which the regulator did not provide any funding. The delay in completing this project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination.
- (4) Civils – as with the previous year, there was financial underperformance reported for Civils. This arose from a combination of additional structures and earthworks costs. There was extra, unfunded non-volume works required this year. These emergency and remediation works were in response to asset condition. In addition, contractor rates were negotiated and agreed earlier in the control period at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. Deferral of earthworks volumes (as shown in Statement 14) has also resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in costs.
- (5) Buildings – as with the previous year, there was financial underperformance reported for Buildings. This was a combination of higher contractor prices and a reduction in volumes. Contractor prices were higher than the determination assumed. The regulator used a modelled, hypothetical unit rate which is not consistent with the actual market position. Volumes were lower due to workbank reprofiling to accommodate significant enhancements programmes and design issues. This has resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in costs.

Statement 5b: Total financial performance - renewals variance analysis, Anglia – continued

in £m 2015-16 prices unless stated

- (6) Electrical power and fixed plant – as with the previous year financial underperformance was reported for 2015/16. This includes the impact of additional volumes required on certain projects, notably Shenfield rewiring, in order to deliver the required outputs of the projects. Access issues (with priority for possessions given to the strategically fundamental Crossrail programme) has also led to volume reductions which has resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in costs.
- (7) Other renewals – the vast majority of financial underperformance reported in this category relates to programmes rolled over from the previous control period. At the end of the prior control period a number of projects were in-flight which would require completion in CP5. The regulator and Network Rail agreed a list of these items. It soon became apparent that the amount of funding given to Anglia to complete the Great Eastern Electrification works was insufficient to finish the programme and so financial underperformance is being reported. This underperformance was included in Network Rail's CP5 Business Plan produced at the start of the control period.

Statement 5c: Total financial performance - enhancement variance analysis, Anglia

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	-	-	-	-	-
Crossrail	(64)	(53)	-	(11)	(4)
Other Enhancements	11	11	-	-	-
Total	(53)	(42)	-	(11)	(4)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	3	3	-	-	-
Crossrail	(103)	(92)	-	(11)	(4)
Other Enhancements	4	4	-	-	-
Total	(96)	(85)	-	(11)	(4)

Statement 5c: Total financial performance - enhancement variance analysis, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comment:

- (1) Crossrail - underperformance has been recognised this year in light of additional programme costs for due to extra station works, signalling contractor works, and impact of delays in the design details. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspend.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Anglia

in £m 2015-16 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2015-16 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	41	35	6	-	-	-	6
Capacity charge	49	51	(2)	-	-	-	(2)
Electricity asset utilisation charge	6	6	-	-	-	-	-
Property income	89	88	1	-	-	-	1
Expenditure							
Network operations	97	82	(15)	-	-	-	(15)
Support costs	83	99	16	-	2	-	14
RSSB and BT Police	18	15	(3)	-	-	-	(3)
Network maintenance	260	236	(24)	2	-	-	(26)
Schedule 4 costs	42	42	-	11	-	-	(11)
Schedule 8 costs	14	-	(14)	-	-	-	(14)
Renewals	493	413	(80)	80	-	(120)	(40)
Total REBS performance			(115)	93	2	(120)	(90)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(19)
Under-delivery of train performance requirements (CaSL)							(7)
Total adjustment for under delivery of outputs and reduced sustainability							(26)
Cumulative performance to end of 2015-16							(116)
Less cumulative outperformance recognised up to the end of 2014-15							(54)
Net REBS performance for 2015-16							(62)

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	388	382	6	771	763	8	383
Franchised track access income							
Fixed charges	26	26	-	60	60	-	34
Variable charges							
Variable usage charge	14	14	-	27	27	-	13
Traction electricity charges	43	50	(7)	86	87	(1)	43
Electrification asset usage charge	3	3	-	6	6	-	3
Capacity charge	24	25	(1)	48	50	(2)	24
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	22	21	1	39	39	-	17
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	106	113	(7)	206	209	(3)	100
Total franchised track access income	132	139	(7)	266	269	(3)	134
Total franchised track access and grant income	520	521	(1)	1,037	1,032	5	517
Other single till income							
Property income	38	52	(14)	89	102	(13)	51
Freight income	6	7	(1)	12	13	(1)	6
Open access income	6	2	4	9	4	5	3
Stations income	9	13	(4)	21	27	(6)	12
Facility and financing charges	1	2	(1)	3	4	(1)	2
Depots Income	6	5	1	11	11	-	5
Other income	-	1	(1)	-	1	(1)	-
Total other single till income	66	82	(16)	145	162	(17)	79
Total income	586	603	(17)	1,182	1,194	(12)	596

Statement 6a: Analysis of income, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is more than offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was in line with the determination. The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges mostly offset by higher Grant income.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now largely been mitigated meaning the control period to date position is in line with the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Anglia – continued

in £m 2015-16 prices unless stated

- (5) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as explained above). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is higher than 2014/15 in line with the regulator's expectation.
- (6) Property income – whilst this is in line with the prior year it is lower than the ORR's assumption. This is due to a combination of lower property sales and lower property rental income. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The lower sales this year more than offsets the result from 2014/15 when more property sales were higher than the regulator's assumption. The determination assumed that Network Rail would generate income from sales this year, whereas no sales were made and, instead costs associated with sales were incurred and losses were recognised on the disposal of some commercial interests. Property rental income is lower than the determination which assumed higher growth in rental income. The determination assumed challenging increases in the expected level of income that could be earned but the assumption about rental yields and market-driven growth appears optimistic. In addition, the transfer of a Network Rail managed station (Fenchurch Street) to a train operator (C2C) means that property rental income will be lost. However, by transferring the responsibility for running the station Network Rail should also have a reduction to managed station operating costs (which are shown in Statement 7a).
- (7) Open access – income is higher than the determination, continuing the trend from last year. Extra income has been received from customers mainly as a result of additional passenger demand for services in the London metropolitan area. More income has been earned this year due to extra services provided to London-centric operators. Also, the results last year were hindered by the settlement of a commercial disagreement which was not present this year.
- (8) Stations income – in 2014/15, a number of stations were transferred from Network Rail to a train operator (C2C). As a result, the operator no longer pays Network Rail charges for using the station but is responsible for future maintenance works required at the station, thus saving Network Rail costs in this area. Income is lower than the previous year due to this transfer. The control period to date position is now adverse to target as a result of this switch and this shortfall is expected to continue for the remainder of the control period.

Statement 6b: Analysis of other single till income, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	40	49	(9)	81	95	(14)	41
Property sales	(2)	6	(8)	8	12	(4)	10
Adjustment for commercial opex	-	(3)	3	-	(5)	5	-
Total property income	38	52	(14)	89	102	(13)	51
Freight income							
Freight variable usage charge	5	4	1	10	8	2	5
Freight traction electricity charges	1	1	-	2	2	-	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	-	1	(1)	-
Freight only line charge	-	1	(1)	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	6	7	(1)	12	13	(1)	6
Open access income							
Variable usage charge income	3	-	3	4	-	4	1
Open access capacity charge	1	-	1	1	-	1	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	2	2	-	4	4	-	2
Open access other income	-	-	-	-	-	-	-
Total open access income	6	2	4	9	4	5	3
Stations income							
Managed stations income							
Long term charge	4	4	-	8	8	-	4
Qualifying expenditure	3	3	-	6	7	(1)	3
Total managed stations income	7	7	-	14	15	(1)	7
Franchised stations income							
Long term charge	2	5	(3)	6	10	(4)	4
Stations lease income	-	1	(1)	1	2	(1)	1
Total franchised stations income	2	6	(4)	7	12	(5)	5
Total stations income	9	13	(4)	21	27	(6)	12
Facility and financing charges							
Facility charges	1	2	(1)	3	4	(1)	2
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	2	(1)	3	4	(1)	2
Depots income	6	5	1	11	11	-	5
Other	-	1	(1)	-	1	(1)	-
Total other single till income	66	82	(16)	145	162	(17)	79

Statement 6b: Analysis of income (unaudited), Anglia

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	23	22	(1)	47	46	(1)	24
Signalling shift managers	2	1	(1)	4	3	(1)	2
Local operations managers	2	2	-	4	3	(1)	2
Controllers	4	3	(1)	8	6	(2)	4
Electrical control room operators	1	1	-	2	2	-	1
Total signaller expenditure	32	29	(3)	65	60	(5)	33
Non-signaller expenditure							
Mobile operations managers	5	3	(2)	11	6	(5)	6
Managed stations	4	4	-	7	8	1	3
Performance	2	1	(1)	5	3	(2)	3
Customer relationship executives	1	1	-	-	1	1	(1)
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	4	4	-
Other	2	1	(1)	15	2	(13)	13
Operations delivery	5	-	(5)	9	-	(9)	4
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	1	3	2	2	6	4	1
Other operating income	(4)	(2)	2	(17)	(4)	13	(13)
Total non-signaller expenditure	16	13	(3)	32	26	(6)	16
Total network operations expenditure	48	42	(6)	97	86	(11)	49
Support costs							
Core support costs							
Human resources	4	6	2	8	12	4	4
Information management	6	6	-	12	13	1	6
Government and corporate affairs	1	2	1	2	3	1	1
Group strategy	1	1	-	2	2	-	1
Finance	2	3	1	4	5	1	2
Business services	1	1	-	2	2	-	1
Accommodation	11	12	1	25	24	(1)	14
Utilities	3	4	1	7	8	1	4
Insurance	5	4	(1)	8	9	1	3
Legal and inquiry	1	1	-	2	1	(1)	1
Safety and sustainable development	2	1	(1)	4	2	(2)	2
Strategic sourcing	1	1	-	2	2	-	1
Business change	-	-	-	-	1	1	-
Other corporate functions	3	-	(3)	5	1	(4)	2
Core support costs	41	42	1	83	85	2	42
Other support costs							
Asset management services	4	3	(1)	7	4	(3)	3
Network Rail telecoms	4	4	-	9	8	(1)	5
National delivery service	-	1	1	-	1	1	-
Infrastructure Projects	(3)	-	3	(5)	-	5	(2)
Commercial property	(2)	(1)	1	(3)	(1)	2	(1)
Group costs	(3)	(1)	2	(8)	(2)	6	(5)
Total other support costs	-	6	6	-	10	10	-
Total support costs	41	48	7	83	95	12	42
Traction electricity, industry costs and rates							
Traction electricity	44	52	8	90	90	-	46
Business rates	13	15	2	28	29	1	15
British transport police costs	8	7	(1)	16	14	(2)	8
RSSB costs	1	1	-	2	2	-	1
ORR licence fee and railway safety levy	2	1	(1)	4	3	(1)	2
Reporters fees	-	-	-	-	-	-	-
Other industry costs	-	-	-	-	1	1	-
Total traction electricity, industry costs and rates	68	76	8	140	139	(1)	72
Total network operations expenditure, support costs, traction electricity, industry costs and rates	157	166	9	320	320	-	163

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Anglia – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator’s assumptions, continuing the trend from the prior year. This was mostly due to the assumptions included in the regulatory determination for Network Rail’s cost base at the end of CP4. Efficiencies that were expected to occur in the final years of CP4 did not materialise making it unlikely that the cost targets in the determination could be achieved. Also, there have been delays implementing efficiency strategies in the control period. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Signaller costs are also higher than the determination due to the impact of three years’ worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that *ceteris paribus*, costs would exceed the regulatory allowance for 2015/16. In addition, the introduction of new national programmes for capacity planning initiatives which were not funded in the determination, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand, have added extra costs. Costs are consistent with the previous year which includes the impact of the extra national programmes noted above and costs associated with the implementation of LEAN techniques which have been offset by some modest efficiencies.
- (4) 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 rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and broadly in line with the previous year (which also contained a number of non-recurring items in Group).
- (5) Human Resources – costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As responsibility for these services had largely transferred in at the end of CP4 year-on-year costs are broadly consistent. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance – costs were slightly lower than the determination. This is due to the process of devolution as central activities were moved to Network Rail’s operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.
- (7) Insurance – costs are only slightly higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslide at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are slightly higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Anglia – continued

in £m 2015-16 prices unless stated

- (8) Safety and sustainable development – costs are in line with the previous year but are, once more, slightly higher than the determination mainly due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas.
- (9) Other corporate services - costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources or Finance or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources and Finance are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b. Expenditure is broadly in line with the previous year.
- (10) Infrastructure Projects – line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance is in line with the previous year.
- (11) Infrastructure Projects – line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance is in line with the previous year.
- (12) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its’ cost base. This group of costs is in line with the regulator’s allowance with lower Traction electricity costs (arising from lower market rates) offset by higher British Transport Police expenses.
- (13) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulator’s expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs in line with the regulatory assumption, again reflected in the income position in the control period to date. Costs are higher than the previous year reflecting market prices for electricity.
- (14) Business rates – costs are slightly lower than the determination assumed. The ORR assumed a different allocation of Business rates to the Anglia route than is the case. Business rates are allocated to different rates in line with individual property location and so provide a more accurate basis than the regulator’s assumptions. Network Rail expects to be have to forego these savings in Anglia through the Opex memorandum account mechanism (refer to Statement 10).
- (15) British Transport Police (BTP) costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail’s share has increased relative to the regulator’s expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Anglia

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	23	26	25
MOMS	2	6	5
Control	4	5	5
Planning & Performance Staff Costs	3	4	4
Managed Stations Staff Costs	2	1	1
Operations Management Staff Costs	2	1	1
Other	12	6	7
Total operations & customer services costs	48	49	48
Total Network Operations	48	49	48
Support			
Human resources			
Functional support	3	1	2
Training (inc Westwood)	2	1	1
Graduates	-	-	-
Apprenticeships	1	1	1
Other	-	1	-
Total human resources	6	4	4
Information management			
Support	1	1	1
Projects	-	-	-
Licences	-	-	-
Business operations	6	5	5
Other	-	-	-
Total information management	7	6	6
Finance	2	2	2
Business Change	-	-	-
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	1
Planning & development	1	1	1
Safety & compliance	1	-	-
Other corporate services	5	1	2
Commercial property	10	13	9
Infrastructure Projects	(5)	(2)	(3)
Route Services	1	2	1
Asset management & Engineering/Asset heads	14	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	4	3
Network Rail Telecoms	-	5	4
Digital Railway	-	2	2
Safety Technical & Engineering	-	4	4
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	(2)	-
Legal and inquiry	-	1	1
Group/central			
Pensions	-	-	-
Insurance	3	3	5
Redundancy/reorganisation costs	6	2	1
Staff incentives/Bonus Reduction	-	(2)	(1)
Accommodation & Support Recharges	-	(3)	(3)
Commercial claims settlements	-	-	(1)
ORR financial penalty	7	(2)	-
Other	-	-	1
Total group/central costs	16	(2)	2
Total support	59	42	41
Total network operations and support costs	107	91	89

Statement 7b: Analysis of network operations expenditure and support costs by activity, Anglia (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	62	40	(22)	123	81	(42)	61
Signalling	21	19	(2)	43	37	(6)	22
Civils	16	12	(4)	28	24	(4)	12
Buildings	2	4	2	3	7	4	1
Electrical power and fixed plant	13	12	(1)	26	24	(2)	13
Telecoms	2	2	-	4	4	-	2
Other network operations	12	16	4	28	32	4	16
Asset management services	4	3	(1)	7	7	-	3
National Delivery Service	(1)	4	5	(2)	9	11	(1)
Property	1	-	(1)	4	1	(3)	3
Group	(2)	(2)	-	(4)	(3)	1	(2)
Total maintenance expenditure	130	110	(20)	260	223	(37)	130

Statement 8a: Summary analysis of network maintenance expenditure, Anglia – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, about one-quarter of higher costs are due to higher reactive maintenance activity (which is treated as neutral when assessing financial performance (refer to Statement 5)). Also, higher than RPI pay awards as well difficulties achieving the regulator's efficiency targets (which is consistent with the trend across the network) have contributed to the higher cost base. Costs are higher broadly in line with the previous year as higher reactive maintenance works have been largely offset by the absence of non-recurring costs in 2014/15 relating to tidy railway and vegetation management projects.
- (2) Track – as noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even before considering the reclassification of National Delivery Services expenses. Part of the reason for the higher cost base is the transfer to responsibility (and so costs) for certain activities from Other network operations to Track. This presents additional expenditure in Track but a saving in Other network operations. The net level of overspend compared to the determination is in line with the previous year. Costs have increased marginally compared to the previous year reflecting extra network traffic (and so wear and tear on the assets).
- (3) Signalling – costs are higher than the determination continuing the trend from the previous year. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs, which has improved since the previous year (refer to Statement 10). Costs are broadly in line with the previous year.
- (4) Civils – costs were higher than the determination mainly as a result of additional Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Removing the impact of reactive maintenance, civils maintenance costs are slightly in line with the. Costs are higher than the previous year mainly resulting from the supplementary Reactive Maintenance works and additional structures inspections costs.

Statement 8a: Summary analysis of network maintenance expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (5) Buildings – costs are lower than the determination in both the current year and the control period as fewer Reactive Maintenance jobs were required. 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. The variance due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The increase in costs compared to the previous year is also due to variances in Reactive Maintenance activity.
- (6) Other network operations – costs are favourable to the determination targets. However, this is mainly due to a transfer of activity (and so costs) from this category to Track. As reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving.
- (7) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	81	62	(19)	159	123	(36)	78
Signalling	22	46	24	76	88	12	54
Civils	37	28	(9)	71	52	(19)	34
Buildings	11	16	5	21	24	3	10
Electrical power and fixed plant	22	47	25	52	88	36	30
Telecoms	6	4	(2)	15	13	(2)	9
Wheeled plant and machinery	9	12	3	16	26	10	7
Information Technology	12	8	(4)	25	17	(8)	13
Property	1	5	4	4	10	6	3
Other renewals	32	1	(31)	54	(16)	(70)	22
Total renewals expenditure	233	229	(4)	493	425	(68)	260

Statement 9a: Summary analysis of renewals expenditure, Anglia – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in the year is broadly in line with the determination. However, this reflects deferral of activity offset by higher underlying costs. This has resulted in financial underperformance in the current year as reported in Statement 5. Costs are lower than the prior year mainly due to decreased Signalling activity.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. The higher underlying costs were partly due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. There were also extra unit costs arising from lower volumes as reductions in volumes delivered do not result in a proportionate decrease in costs as there are a number of fixed costs which are now spread over fewer volumes. The route has also been adversely affected by higher than planned market rates and an inability to achieve Switches & Crossings efficiencies that were included in the determination which now appear to have been overly optimistic. In addition, there have been extra non-volumes works required this year which had no corresponding allowances in the determination. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was in line with the previous year.
- (3) Signalling – expenditure was lower than the determination expected which was mostly due to a deferral of activity being partly offset by higher underlying costs. The extra costs included delivery of more non-volume activity for which there was no funding in the determination. In addition, framework contractor rates were negotiated and agreed earlier in the control period at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. This has been exacerbated by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs. There were also extra costs for completing Romford ROC (Regional Operating Centre), a project rolled over from CP4 for which the regulator did not provide any funding. The delay in completing this project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year reflecting the different workbank and mix of projects. In 2014/15 a large proportion of the Signalling portfolio expenditure related to Romford ROC – a project that was largely completed in that year.
- (4) Civils – expenditure is higher than the regulator assumed which is due to deferral of activity more than offset by higher like-for-like costs. These extra costs arose from a combination of additional structures and earthworks costs. There was extra, unfunded non-volume works required this year. These emergency and remediation works were in response to asset condition. In addition, contractor rates were negotiated and agreed earlier in the control period at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. Deferral of earthworks volumes also resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in costs. As a result Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was broadly in line with the prior year.

Statement 9a: Summary analysis of renewals expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (5) Buildings – expenditure is lower than the regulator assumed which is due to deferral of activity being partly offset by higher like-for-like costs. These additional costs have arisen from a combination of higher contractor prices and a reduction in volumes. Volumes were lower due to workbank reprofiling to accommodate significant enhancements programmes and design issues. This has resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in total costs. As a result Buildings financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is in line with the previous year.
- (6) Electrical power and fixed plant – expenditure was lower than the determination assumed which is mostly due to deferrals of activity which is partly offset by higher underlying costs. Higher costs have arisen from additional volumes required on certain projects, notably Shenfield rewiring, in order to deliver the required outputs of the projects whilst access issues (with priority for possessions given to the strategically fundamental Crossrail programme) has also led to volume reductions which has resulted in higher unit costs for the activity delivered as there is not a linear relationship between the reduction in volumes and the reduction in costs. As a result Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Activity reduction has also been caused by overall concerns of portfolio costs in light of resource constraints and the need to invest in those areas which will be most effective. Expenditure was lower than the previous year mainly due to less activity on the Great Eastern Overhead Line programme.
- (7) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention and On track plant items than the regulator expected which was partly offset by higher expenditure on Materials delivery equipment and High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.
- (8) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (9) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances for RAB addition. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.

Statement 9a: Summary analysis of renewals expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
- c. Small plant – expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure on the Great Eastern overhead line electrification project has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). These extra costs were largely anticipated in the Network Rail's CP5 Business Plan. As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Anglia

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	26	23	(3)	55	45	(10)
High output renewal	27	12	(15)	35	16	(19)
Plain line refurbishment	2	-	(2)	4	1	(3)
S&C renewal	15	19	4	48	45	(3)
S&C refurbishment	4	4	-	5	8	3
Track non-volume	2	4	2	4	8	4
Off track	5	-	(5)	8	-	(8)
Total track	81	62	(19)	159	123	(36)
Signalling						
Full conventional resignalling	5	2	(3)	13	3	(10)
Modular resignalling	-	5	5	-	14	14
ERTMS resignalling	1	-	(1)	1	-	(1)
Partial conventional resignalling	2	11	9	2	13	11
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	5	5	-	42	21	(21)
Level crossings	3	15	12	9	18	9
Minor works	6	4	(2)	9	12	3
Centrally managed costs	-	4	4	-	7	7
Other	-	-	-	-	-	-
Total signalling	22	46	24	76	88	12
Civils						
Underbridges	19	16	(3)	33	28	(5)
Overbridges	2	3	1	3	7	4
Bridgeguard 3	-	-	-	-	-	-
Major structures	(2)	-	2	2	-	(2)
Tunnels	-	-	-	-	-	-
Other assets	3	2	(1)	4	4	-
Structures other	1	1	-	2	1	(1)
Earthworks	14	6	(8)	28	12	(16)
Other	-	-	-	(1)	-	-
Total civils	37	28	(9)	71	52	(19)
Buildings						
Managed stations	1	7	6	2	10	8
Franchised stations	3	3	-	7	7	-
Light maint depots	2	-	(2)	3	1	(2)
Depot plant	2	4	2	4	4	-
Lineside buildings	2	1	(1)	3	1	(2)
MDU buildings	1	1	-	2	1	(1)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	11	16	5	21	24	3

Statement 9b: Detailed analysis of renewals expenditure, Anglia - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	8	8	-	9	9
Overhead Line	18	29	11	42	57	15
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	2	2	-	5	5
Energy efficiency	-	1	1	2	2	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	2	1	2	3	1
Fixed plant	3	5	2	6	12	6
Total electrical power and plant	22	47	25	52	88	36
Telecoms						
Operational communications	4	-	(4)	6	5	(1)
Network	1	3	2	2	4	2
SISS	-	-	-	-	-	-
Projects and other	-	-	-	-	1	1
Non-route capital expenditure	1	1	-	7	3	(4)
Total telecoms	6	4	(2)	15	13	(2)
Wheeled plant and machinery						
High output	4	1	(3)	7	9	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	1	1	-	1	1	-
Intervention	1	5	4	2	8	6
Materials delivery	1	-	(1)	3	-	(3)
On track plant	1	2	1	1	3	2
Seasonal	-	1	1	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	1	1	-	2	1	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	9	12	3	16	26	10
Information Technology						
IM delivered renewals	11	7	(4)	23	15	(8)
Traffic management	1	1	-	2	2	-
Total information technology	12	8	(4)	25	17	(8)
Property						
MDUs/offices	-	4	4	3	7	4
Commercial estate	1	1	-	1	3	2
Corporate services	-	-	-	-	-	-
Total property	1	5	4	4	10	6
Other renewals						
Asset information strategy	7	5	(2)	7	10	3
Intelligent infrastructure	1	1	-	2	3	1
Faster isolations	1	3	2	1	7	6
LOWS	-	1	1	-	1	1
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(10)	(10)	-	(39)	(39)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	22	-	(22)	43	-	(43)
Other	1	-	(1)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	32	1	(31)	54	(16)	(70)
Total renewals	233	229	(4)	493	425	(68)

Statement 9b: Detailed analysis of renewals expenditure, Anglia (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Anglia

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	23	21	(2)	42	36	(6)	19
Access charge supplement Income	(22)	(21)	1	(39)	(39)	-	(17)
Net (income)/cost	1	-	(1)	3	(3)	(6)	2
Schedule 8							
Performance element income	(1)	-	1	(2)	-	2	(1)
Performance element costs	5	1	(4)	16	1	(15)	11
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	4	1	(3)	14	1	(13)	10

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	1	2	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(2)	(2)	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	1	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(1)	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	-	-	-

Statement 10: Other information, Anglia – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs were slightly higher than the regulator assumed which was mainly due to higher underlying possessions costs partly offset by lower renewals activity than the regulator expected. A significant contributor was the Colchester S&C renewal project where a planned shuttle service to Liverpool Street could not run, resulting in higher costs. In addition, costs include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Net Schedule 4 costs are in line with the previous year with extra compensation costs being offset by higher access charges supplements.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2015/16. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the control period due to infrastructure failures and fatalities, continuing the trend witnessed in the previous year. Given the 2014/15 Schedule 8 costs, achieving the regulatory target this year was extremely unlikely. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. Net Schedule 8 costs were lower than the previous years as operational performance improvements led to lower delay minutes.
- (3) The opex memorandum shows a £nil balance for the year which is a combination of amounts earned under the Volume Incentive (see Statement 12) being offset by net savings in the Business rates and ORR costs attributed to Anglia compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions.

Statement 12: Volume incentives, Anglia

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	0	28	28	0.2%	1.47	pence per passenger train mile
Passenger farebox (millions)	6	1	1,093	1,018	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	2	2	3.1%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	2,327	2,201	4.1%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	6	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Anglia – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result, compounding the outperformance reported in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.

Statement 14: Renewals volumes, unit costs and expenditure, Anglia

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	£m
					Unit cost x volume £m	£m				Unit cost x volume £m	£m				Unit cost x volume £m	£m		
Track	Track plain line	km	474	116	55	-	55	362	141	51	-	51	(112)	25	(4)	-	(4)	
	Conventional		650	40	26	-	26	600	40	24	-	24	(50)	-	(2)	-	(2)	
	High Output		429	63	27	-	27	318	85	27	-	27	(111)	22	-	-	-	
	Refurbishment		154	13	2	-	2	-	16	-	-	-	(154)	3	(2)	-	(2)	
	S&C	point ends	365	52	19	-	19	185	146	27	-	27	(180)	94	8	-	8	
	Track Drainage		11	87	1	-	1	2	484	1	-	-	(9)	397	-	-	-	
	Renewal	lm	n/a	78	n/a	n/a	n/a	n/a	364	n/a	n/a	n/a	n/a	286	n/a	n/a	n/a	
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	104	n/a	n/a	n/a	n/a	104	n/a	n/a	n/a	
	New Build	lm	n/a	9	n/a	n/a	n/a	n/a	16	n/a	n/a	n/a	n/a	7	n/a	n/a	n/a	
	Fencing	km	50	40	2	-	2	42	48	2	-	2	(8)	8	-	-	-	
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	
	Off track		n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(4)	(4)	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					77	4	81			81	1	82			4	(3)	1	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	13	
	Full conventional resignalling	SEU	-	-	5	-	5	-	-	3	-	3	-	-	(2)	-	(2)	
	Modular resignalling	SEU	-	-	-	-	-	58	154	9	-	9	58	154	9	-	9	
	ERTMS resignalling	SEU	-	-	1	-	1	-	-	-	-	-	-	-	(1)	-	(1)	
	Partial conventional resignalling	SEU	-	-	2	-	2	-	-	9	-	9	-	-	7	-	7	
	Targeted component renewal	SEU	-	2	-	-	-	-	1	-	-	-	-	(1)	-	-	-	
	Level crossings	No.	3,000	1	3	-	3	1,545	11	17	-	17	(1,455)	10	14	-	14	
	Signalling other		-	-	-	11	11	-	-	-	12	12	-	-	-	1	1	
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Operating strategy other capex		n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5	n/a	n/a	n/a	-	-	
	Minor works		n/a	n/a	n/a	6	6	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(2)	(2)	
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					11	11	22			38	12	50			27	1	28	
Civils	Key structures		n/a	n/a	n/a	-	19	n/a	n/a	n/a	-	25	n/a	n/a	n/a	-	6	
	Underbridges	m2	2	8,082	19	-	19	3	8,174	21	-	21	0	92	2	-	2	
	Overbridges (incl BG3)	m2	2	915	2	-	2	5	870	4	-	4	2	(45)	2	-	2	
	Tunnels	m2	-	50	-	-	-	-	600	-	-	-	-	550	-	-	-	
	Major structures	m2	n/a	n/a	n/a	(2)	(2)	n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	
	Other structures assets		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	(1)	
	Culverts	m2	3	355	1	-	1	10	98	1	-	1	7	(257)	-	-	-	
	Footbridges	m2	47	43	2	-	2	3	288	1	-	1	(43)	245	(1)	-	(1)	
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Retaining Walls	m2	-	-	-	-	-	-	160	-	-	-	-	160	-	-	-	
	Earthworks	5-chain	63	191	12	-	12	29	205	6	-	6	(34)	14	(6)	-	(6)	
	EW Drainage		13	156	2	-	2	1	1,122	1	-	1	(12)	966	(1)	-	(1)	
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	708	n/a	n/a	n/a	n/a	708	n/a	n/a	n/a	
	Refurbishment	lm	n/a	96	n/a	n/a	n/a	n/a	195	n/a	n/a	n/a	n/a	99	n/a	n/a	n/a	
	Maintenance	lm	n/a	50	n/a	n/a	n/a	n/a	200	n/a	n/a	n/a	n/a	150	n/a	n/a	n/a	
	New Build	lm	n/a	10	n/a	n/a	n/a	n/a	19	n/a	n/a	n/a	n/a	9	n/a	n/a	n/a	
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	-	-	n/a	n/a	n/a	(1)	(1)	
Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(4)	(4)	n/a	n/a	n/a	(4)	(4)		
Total					38	(1)	37			34	(4)	30			(4)	(3)		

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost x		Other non- volume costs	Total Cost	Unit cost x		Other non- volume costs	Total Cost	Unit cost x		Other non- volume costs	Total Cost				
			£k/unit	Volume unit			£m	£m			£k/unit	Volume unit			£m	£m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	4	n/a	n/a	n/a	n/a	-	1
	Footbridges	m2	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Canopies	m2	-	-	-	-	-	n/a	291	n/a	n/a	-	n/a	291	n/a	n/a	-	-
	Platforms	m2	-	-	-	-	-	n/a	3,365	n/a	n/a	-	n/a	3,365	n/a	n/a	-	-
	Buildings	m2	-	1,317	-	-	-	n/a	200	n/a	n/a	-	n/a	(1,117)	n/a	n/a	-	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	n/a	3
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Buildings	m2	-	-	-	-	-	n/a	5,100	n/a	n/a	-	n/a	5,100	n/a	n/a	-	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	-
	Light Maintenance Depots		2	828	2	-	2	2,000	1	n/a	-	2	n/a	(827)	n/a	n/a	-	-
	Buildings	m2	-	828	-	-	-	n/a	1	n/a	n/a	-	n/a	(827)	n/a	n/a	-	-
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	-
	Lineside Buildings	m2	0	-	2	-	2	9	225	n/a	n/a	2	n/a	225	n/a	n/a	-	-
	MDU Buildings	m2	3	375	1	-	1	-	-	n/a	n/a	-	n/a	(375)	n/a	n/a	-	(1)
	Depot Plant		-	-	-	2	2	n/a	-	n/a	n/a	5	n/a	-	n/a	n/a	-	3
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(3)	n/a	n/a	n/a	n/a	-	(3)
Total					6	5	11					14					3	

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	18	n/a	n/a	n/a	n/a	29	n/a	n/a	n/a	n/a	11		
	wiring	wire runs	583	12	7	-	7	n/a	22	n/a	n/a	-	n/a	10	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	35	115	4	-	4	n/a	141	n/a	n/a	-	n/a	26	n/a	n/a	-		
	Other		-	-	-	7	7	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	8	n/a	n/a	n/a	n/a	8		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	3	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	2		
	Signalling Power Cable Renewal	km	-	-	2	-	2	n/a	18	n/a	n/a	-	n/a	18	n/a	n/a	-		
	Principle Supply Point Renewal	No.	-	-	1	-	1	n/a	7	n/a	n/a	-	n/a	7	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	28	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	1	1	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total					14	8	22					45					23		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Customer Information Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	350	n/a	n/a	-	n/a	350	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(4)		
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	91	33	3	-	3	n/a	-	n/a	n/a	-	n/a	(33)	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Non route capex		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	2		
Total					4	2	6					5					(1)		

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan										
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	
					£m	£m				£m	£m				£m	£m				£m	£m		
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(3)	(3)						
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)						
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4						
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)						
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1						
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1						
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-						
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-							
Total						9	9				10	10				1	1						
IT	IM delivered renewals		n/a	n/a	n/a	11	11	n/a	n/a	n/a	9	9	n/a	n/a	n/a	(2)	(2)						
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3						
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
Total						12	12				13	13				1	1						
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4						
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-						
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
Total						1	1				5	5				4	4						
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5	n/a	n/a	n/a	(2)	(2)						
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-						
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2						
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1						
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-						
	CP4 Rollover		n/a	n/a	n/a	22	22	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(22)	(22)						
	Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1						
Total						32	32				12	12				(20)	(20)						
Total Renewals							233								266								33

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	528	178	94	-	94	399	223	89	-	89	(129)	45	(5)	-	-	-	(5)
	Conventional		733	75	55	-	55	598	92	55	-	55	(136)	17	-	-	-	-	-
	High Output		438	80	35	-	35	343	99	34	-	34	(94)	19	(1)	-	-	-	(1)
	Refurbishment		174	23	4	-	4	-	32	-	-	-	(174)	9	(4)	-	-	-	(4)
	S&C	point ends	427	124	53	-	53	219	278	61	-	61	(208)	154	8	-	-	-	8
	Track Drainage		2	447	1	-	1	1	1,764	2	-	2	(1)	1,317	1	-	-	-	1
	Renewal	lm	n/a	78	n/a	n/a	n/a	n/a	1,618	n/a	n/a	n/a	n/a	1,540	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	360	n/a	n/a	n/a	n/a	104	n/a	n/a	n/a	n/a	(256)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	9	n/a	n/a	n/a	n/a	42	n/a	n/a	n/a	n/a	33	n/a	n/a	n/a	n/a	n/a
	Fencing	km	26	156	4	-	4	40	100	4	-	4	14	(56)	-	-	-	-	-
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	-	-	2
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(7)	-	-	(7)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				152	7	159			156	2	158				4	(5)		(1)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	16	n/a	n/a	n/a	-	35	n/a	n/a	n/a	-	-	-	19
	Full conventional resignalling	SEU	-	-	13	-	13	-	-	4	-	4	-	-	(9)	-	-	-	(9)
	Modular resignalling	SEU	-	-	-	-	-	130	154	20	-	20	130	154	20	-	-	-	20
	ERTMS resignalling	SEU	-	-	1	-	1	-	-	-	-	-	-	-	(1)	-	-	-	(1)
	Partial conventional resignalling	SEU	-	-	2	-	2	-	-	11	-	11	-	-	9	-	-	-	9
	Targeted component renewal	SEU	-	9	-	-	-	-	1	-	-	-	-	(8)	-	-	-	-	-
	Level crossings	No.	9,000	1	9	-	9	1,818	11	20	-	20	(7,182)	10	11	-	-	-	11
	Signalling other		-	-	-	51	51	-	-	-	36	36	-	-	-	(15)	-	-	(15)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	42	42	n/a	n/a	n/a	21	21	n/a	n/a	n/a	(21)	-	-	(21)
	Minor works		n/a	n/a	n/a	9	9	n/a	n/a	n/a	9	9	n/a	n/a	n/a	-	-	-	-
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	-	-	6
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				25	51	76			55	36	91				30	(15)		15
Civils	Key structures		n/a	n/a	n/a	-	38	n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	-	-	8
	Underbridges	m2	3	12,339	33	-	33	3	11,266	34	-	34	0	(1,073)	1	-	-	-	1
	Overbridges (incl BG3)	m2	1	2,328	3	-	3	8	1,592	12	-	12	6	(736)	9	-	-	-	9
	Tunnels	m2	-	50	-	-	-	-	600	-	-	-	-	550	-	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	-	-	(2)
	Other structures assets		n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	-	-	-
	Culverts	m2	1	1,351	2	-	2	10	196	2	-	2	9	(1,155)	-	-	-	-	-
	Footbridges	m2	9	221	2	-	2	3	576	2	-	2	(6)	355	-	-	-	-	-
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	-	173	-	-	-	-	320	-	-	-	-	147	-	-	-	-	-
	Earthworks	5-chain	60	399	24	-	24	26	416	11	-	11	(34)	17	(13)	-	-	-	(13)
	EW Drainage		1	2,978	4	-	4	1	2,841	3	-	3	(0)	(137)	(1)	-	-	-	(1)
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	1,468	n/a	n/a	n/a	n/a	1,468	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	587	n/a	n/a	n/a	n/a	375	n/a	n/a	n/a	n/a	(212)	n/a	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	277	n/a	n/a	n/a	n/a	960	n/a	n/a	n/a	n/a	683	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	2,114	n/a	n/a	n/a	n/a	38	n/a	n/a	n/a	n/a	(2,076)	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	2	2	n/a	-	n/a	-	-	n/a	n/a	n/a	(2)	-	-	(2)
	Other		n/a	n/a	n/a	(1)	(1)	n/a	-	n/a	(8)	(8)	n/a	n/a	n/a	(7)	-	-	(7)
	Total				68	3	71			64	(8)	56				(4)	(11)		(15)

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m
					volume £m					volume £m					volume £m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	7	n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	3
	Footbridges	m2	24	41	1	-	1	n/a	656	n/a	n/a	-	n/a	615	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	441	n/a	n/a	-	n/a	441	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	6,128	n/a	n/a	-	n/a	6,128	n/a	n/a	-
	Buildings	m2	1	1,317	1	-	1	n/a	601	n/a	n/a	-	n/a	(716)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	5	5	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	2	n/a	-	n/a	-	7	n/a	n/a	n/a	n/a	5
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	66	-	-	-	n/a	6,195	n/a	n/a	-	n/a	6,129	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		4	828	3	-	3	3	1,102	n/a	-	3	n/a	274	n/a	n/a	-
	Buildings	m2	-	828	-	-	-	n/a	1,102	n/a	n/a	-	n/a	274	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	0	-	3	-	3	18	225	n/a	n/a	4	n/a	225	n/a	n/a	1
	MDU Buildings	m2	5	375	2	-	2	-	-	n/a	n/a	1	n/a	(375)	n/a	n/a	(1)
	Depot Plant		-	-	-	4	4	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	2
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(6)	n/a	n/a	n/a	n/a	(6)
Total					10	11	21					25					4

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	42	n/a	n/a	n/a	n/a	57	n/a	n/a	n/a	n/a	15		
	wiring	wire runs	750	28	21	-	21	n/a	32	n/a	n/a	-	n/a	4	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	57	193	11	-	11	n/a	241	n/a	n/a	-	n/a	48	n/a	n/a	-		
	Other		-	-	-	10	10	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	9	n/a	n/a	n/a	n/a	9		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	6	n/a	n/a	-	n/a	6	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	-	4	-	-	-	n/a	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	5	n/a	-	n/a	n/a	12	n/a	n/a	n/a	n/a	7		
	Signalling Power Cable Renewal	km	-	-	2	-	2	n/a	36	n/a	n/a	-	n/a	36	n/a	n/a	-		
	Principle Supply Point Renewal	No.	1,000	2	2	-	2	n/a	16	n/a	n/a	-	n/a	14	n/a	n/a	-		
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	31	32	1	-	1	n/a	37	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	5		
Energy efficiency		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	2	2	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	-			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total				37	15	52					85					33			
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Customer Information Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	350	n/a	n/a	-	n/a	350	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	6	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	(1)		
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	1,300	n/a	n/a	-	n/a	1,300	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	95	42	4	-	4	n/a	67	n/a	n/a	-	n/a	25	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	26	n/a	n/a	-	n/a	26	n/a	n/a	-		
	System	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	5	n/a	n/a	-	n/a	5	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	2	2	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	1		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Non route capex		n/a	n/a	n/a	7	7	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	-			
Total				6	9	15					15								

Statement 14: Renewals volumes, unit costs and expenditure, Anglia - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
			£k/unit	unit	volume	volume costs		£m	£m	£m	£k/unit		unit	volume	volume costs	£m		£m	£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	7	7	n/a	n/a	n/a	9	9	n/a	n/a	n/a	2	2		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6		
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(2)	(2)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						16	16				28	28				12	12		
IT	IM delivered renewals		n/a	n/a	n/a	23	23	n/a	n/a	n/a	22	22	n/a	n/a	n/a	(1)	(1)		
	Traffic management		n/a	n/a	n/a	2	2	n/a	n/a	n/a	6	6	n/a	n/a	n/a	4	4		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						25	25				28	28				3	3		
Property	MDUs/offices		n/a	n/a	n/a	3	3	n/a	n/a	n/a	6	6	n/a	n/a	n/a	3	3		
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						4	4				8	8				4	4		
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	10	10	n/a	n/a	n/a	3	3		
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-		
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	43	43	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(43)	(43)		
Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5			
Total						54	54				26	26				(28)	(28)		
Total Renewals							493										520	27	

Statement 14: Renewals volumes, unit costs and expenditure, Anglia – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered in the current year are lower than Network Rail's CP5 Business Plan mainly due to shortfalls in High Output delivery.
 - a. High Output – volumes delivered this year were lower than planned due to re-phasing of activity over the control period to rationalise the year by year plan in light of access constraints and a reducing five year workbank following a reassessment of the funds available and a consideration of the optimal method of investment.
- (5) Track - Switches & Crossings – volumes delivered in the current year are lower than the plan mainly due to Norwich Yarmouth & Lowestoft Re-signalling scheme which has suffered significant delays and as a result has had a knock-on effect on the associated Switches & Crossings works.
- (6) Track – Drainage – most of the work included in the CP5 Delivery Plan in this area across the control period has now been deferred until future control periods. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Alternatively asset management strategies are being pursued for this asset.
- (7) Track – Fencing – volumes this year were lower than the plan which reflects the acceleration of activity into the opening year of the control period.
- (8) Signalling - volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (9) Signalling – Modular – no volumes were reported for this category this year which is as result of volumes linked to the North London Line being deferred into future control periods. This is in light of funding constraints across the business but also to make sure that the project is delivered optimally using potential solutions which are not currently viable but which may produce a more efficiently delivered project.

Statement 14: Renewals volumes, unit costs and expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (10) Signalling – Level Crossings – volumes delivered in the current year are lower than planned and this situation is expected to continue for the remainder of the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (11) Civils – Tunnels – volumes delivered this year are lower than the plan due predominantly to works at Bishopgate Tunnel that has been deferred to the later stages of the control period in order to optimise delivery.
- (12) Civils – Culverts – volumes delivered this year are higher than the plan as activity has been accelerated into the earlier years of the control period to allow effective delivery of the required works.
- (13) Civils - Footbridges - volumes delivered this year are lower than the plan with a large amount of work deferred to next year due to a mix of workbank re-profiling and review following the development of full bottom-up workbanks to support the asset management strategy.
- (14) Civils – Retaining Walls – no volume has been reported this year. Under delivery of volumes across the control period is anticipated in the latest asset management plans. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (15) Civils – Earthworks Drainage – volumes delivered this year are lower than the plan. This reduction largely mitigates the extra units completed in the first year of the control period.
- (16) Buildings - Franchised Stations – Canopies – no volumes were reported in the current year, a trend which is expected to continue throughout the remainder of the control period. As part of the transfer of a number of stations to a train operator, the level of activity expected in Anglia for Franchised Stations is now considerably less than the determination assumed. In addition, a number of stations were transferred to a train operator in the previous control period meaning that activity for this type of asset is expected to be limited.
- (17) Buildings - Franchised Stations – Platforms – no volumes were reported in the current year, a trend which is expected to continue throughout the remainder of the control period. As part of the transfer of a number of stations to a train operator, the level of activity expected in Anglia for Franchised Stations is now considerably less than the determination assumed. In addition, a number of stations were transferred to a train operator in the previous control period meaning that activity for this type of asset is expected to be limited.
- (18) Buildings - Franchised Stations – Buildings – volumes delivered this year were higher than the CP5 Business Plan. This included the catch up of activity deferred from the opening year of the control period as well as volumes accelerated from future years of the control period. It is anticipated that the volumes delivered across the control period will be in line with the original plan.
- (19) Buildings - Managed Stations – Buildings - no volumes were reported in the current year. This is due to a deferral of activity relating to various works at Liverpool Street Station, including the refurbishment of public toilets, which are now scheduled for 2016/17. This delay was due the Crossrail enhancement programme work undertaken in the area this year which, given its strategic importance, was given precedence.
- (20) Buildings – Light Maintenance Depots – volumes delivered in the current year are higher than the plan, which assumed minimal activity. The CP5 Business Plan made some high level assumptions about the level of volumes that would need to be delivered in this category in order to maintain the assets at an appropriate condition which have proven to be inaccurate. Works this year include large scale replacement of windows completed by utilising available resources.
- (21) Buildings – Lineside Buildings - no volumes were reported in the current year. Based on an asset management assessment of the required works the planned activity for the current year has been deferred until future control periods in order to utilise the organisation's resources most effectively in light of the cost pressures facing the business.
- (22) Buildings – MDU Buildings - volumes delivered in the current year are higher than the plan, which assumed minimal activity. The CP5 Business Plan made some high level assumptions about the level of volumes that would need to be delivered in this category in order to maintain the assets at an appropriate condition which have proven to be inaccurate.

Statement 14: Renewals volumes, unit costs and expenditure, Anglia – continued

in £m 2015-16 prices unless stated

- (23) Electrification - OLE Rewiring – volumes delivered in the current year are lower than the plan reflecting acceleration of activity into the opening year of the control period, where progress on the Great Eastern programme was quicker than anticipated. In addition, issues with access and the complexity of the scheme have driven alterations in the asset management strategy in this area in the current year. As a consequence of limited access in the Stratford area, some activity is now expected to be deferred into future control periods.
- (24) Electrification – Structures Renewals – volumes delivered in the year were lower than the plan, mainly as a result of re-profiling of activity within the control period. Activity across the control period is now anticipated to be greater than the CP5 Business Plan assumed. The plan was based on some high level assumptions around the number of volumes that would be required to maintain asset condition which now appear to be inaccurate, as better asset management information becomes available.
- (25) Electrification – Signalling power cables – no volumes have been reported this year for this activity, a trend which is expected to continue throughout the remainder of the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (26) Electrification - Points Heaters - no volumes have been reported this year for this activity due to asset re-prioritisation based on Condition Reliability Index scores across the Electrification & Fixed Plant portfolio. In addition, in light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (27) Telecoms – CCTV - no volumes have been reported this year for this activity, a trend which is expected to continue throughout the remainder of the control period. This is due to a policy change for London Managed Stations CCTV renewals where partial renewals rather than full renewals will now be undertaken.
- (28) Telecoms - Driver-Only Operation: CCTV – volumes delivered this year are higher than the plan assumed which includes a catch up of activity deferred from the opening year of the control period. The original plan assumed that work would be delivered in the opening and final year of the control period but it is currently anticipated that works will be undertaken more evenly.

Statement 1: Summary regulatory financial performance, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	227	224	3	448	443	5	221
Fixed Income	16	15	1	36	35	1	20
Variable Income	60	58	2	121	116	5	61
Other Single Till Income	24	29	(5)	45	52	(7)	21
Opex memorandum account	5	-	5	7	-	7	2
Total Income	332	326	6	657	646	11	325
Operating expenditure							
Network operations	26	18	(8)	50	37	(13)	24
Support costs	16	22	6	34	46	12	18
Traction electricity, industry costs and rates	26	24	(2)	51	46	(5)	25
Network maintenance	65	60	(5)	130	121	(9)	65
Schedule 4	9	12	3	20	29	9	11
Schedule 8	7	-	(7)	19	1	(18)	12
Total operating expenditure	149	136	(13)	304	280	(24)	155
Capital expenditure							
Renewals	139	112	(27)	294	240	(54)	155
PR13 enhancement expenditure	119	118	(1)	267	258	(9)	148
Non PR13 enhancement expenditure	(1)	-	1	7	-	(7)	8
Total capital expenditure	257	230	(27)	568	498	(70)	311
Other expenditure							
Financing costs	73	91	18	148	178	30	75
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	73	91	18	148	178	30	75
Total expenditure	479	457	(22)	1,020	956	(64)	541

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was higher than the determination due to additional capacity charge income. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to lower than expected facility and station charges. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are adverse to the determination partly due to higher British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination and the prior year. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2015-16 prices unless stated

- (13)Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are lower than the previous year which is due to the cyclical nature of renewals activities across the control period.
- (14)Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15)Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. There was no expenditure in this category in the year.
- (16)Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, East Midlands

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,644	2,531	113
Indexation to 2013-14 prices	124	119	5
Opening RAB for the year (2014-15 prices)	2,768	2,650	118
Indexation for the year	30	28	2
Opening RAB (2015-16 prices)	2,798	2,678	120
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	131	112	19
PR13 enhancements	117	165	(48)
Non-PR13 enhancements	(1)	-	(1)
Total enhancements	116	165	(49)
Amortisation	(125)	(125)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	2,920	2,830	90

RAB Regulatory financial position - cumulative, East Midlands

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	2,555	2,798	2,555
Adjustments for the actual capital expenditure outturn in CP4	73	-	73
Renewals	142	131	273
PR13 enhancements	147	117	264
Non-PR13 enhancements	8	(1)	7
Total enhancements	155	116	271
Amortisation	(125)	(125)	(250)
Adjustments for under-delivery of regulatory outputs	(2)	-	(2)
Closing RAB	2,798	2,920	2,920

Statement 2a: RAB - Regulatory financial position, East Midlands – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (May 2016) the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to deferrals of activity into future years slightly offset by efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was mainly due to a re-profiling of CP5 activity. The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation – this represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the first two years of the control period the regulator has not yet made any indication that it will adjust the RAB for this in relation to the 31 March 2016 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
 - a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, East Midlands

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	128	112	240
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	7	-	7
Capitalised financing on CP4 deferrals	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	135	112	247
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(28)	(11)	(39)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(2)
Adjustments for efficient overspend	44	36	80
Capitalised financing on efficient overspend	1	3	4
25% retention of efficient overspend	(11)	(9)	(20)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	6
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	-	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	142	131	273
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	(1)	(1)
Adjustment for 25% retention of efficient overspend	12	9	21
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	1	-	1
Total actual renewals expenditure (see statement 9)	155	139	294

Statement 2b: RAB - reconciliation of expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	120	165	285
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	18	(18)	-
Capitalised financing on CP4 deferrals	-	1	1
Baseline adjustments	-	(27)	(27)
Capitalised financing on Baseline adjustments	-	(1)	(1)
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	138	120	258
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	4	(11)	(7)
Capitalised financing on acceleration / (deferrals) of expenditure	-	-	-
Adjustments for efficient overspend	5	4	9
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	(1)	(1)	(2)
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	6	6
agreements - retention of efficient overspend	-	(1)	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	1	-	1
Capitalised financing on other adjustments	-	0	0
Total PR13 enhancements (added to the RAB - see statement 2a)	147	117	264
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	8	(1)	7
overspend	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	8	(1)	7
Total enhancements (added to the RAB - see statement 2a)	155	116	271
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	(0)	(0)
Adjustment for 25% retention of efficient overspend	1	2	3
Other Adjustments	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	8	8	16
Other adjustments	-	-	-
Total actual enhancement expenditure (see statement 3)	164	126	290

Statement 2b: RAB - reconciliation of expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings .

Statement 2b: RAB - reconciliation of expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.
- (10) Enhancements - baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being those programmes with their own protocol (such as Thameslink).
- (11) Enhancements- Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the agreed outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements - Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. The credit amounts included in the current year represents reductions in the costs of projects included last year following reassessment of accruals and commercial claims.

Statement 3: Analysis of enhancement capital expenditure, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	(1)	(2)	1	1	-
Stations - Access for All (AfA)	1	-	(1)	1	1	-
Development	1	-	(1)	3	2	(1)
Level crossing safety	3	3	-	3	4	1
Passenger journey improvement	3	-	(3)	3	4	1
The strategic rail freight network	5	10	5	15	13	(2)
Total funds	14	12	(2)	26	25	(1)
Committed projects						
Thameslink	5	13	8	42	44	2
Total committed projects	5	13	8	42	44	2
Named schemes						
The Electric Spine:						
MML electrification	50	29	(21)	103	97	(6)
Derby station area remodelling	4	7	3	7	7	-
DfT SoFA amount	42	62	20	61	63	2
Total Electric Spine projects	96	98	2	171	167	(4)
HLOS capacity metric schemes						
MML long distance high speed services train lengthening	1	-	(1)	2	3	1
Total HLOS capacity metric schemes	1	-	(1)	2	3	1
CP4 project rollovers						
MML linespeed improvements	2	(2)	(4)	23	16	(7)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	2	(2)	(4)	23	16	(7)
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	1	1	-	1	1
Depots and stabling	1	2	1	2	2	-
Income generating property schemes	-	(3)	(3)	1	-	(1)
Other income generating investment framework schemes	-	(3)	(3)	-	-	-
Total other projects	1	(3)	(4)	3	3	-
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	119	118	(1)	267	258	(9)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	1	-	(1)
Total Government sponsored schemes	1	-	(1)	1	-	(1)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	(2)	-	2	4	-	(4)
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	(1)	-	1	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	118	118	-	274	258	(16)
Third Party PAYG	8	-	(8)	16	-	(16)
Total enhancements (see statement 2b)	126	118	(8)	290	258	(32)

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being programmes with their own protocol (such as Thameslink). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £118m (as shown in Statement 1). This comprises the total enhancement figure in the table above £126m less the PAYG schemes funded by third parties (£8m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure matches the baseline.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure matches the baseline.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is slightly more than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure to date is slightly lower than the baseline.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is slightly lower than the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is slightly higher than the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is lower than the determination but on target on control period to date basis. Financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Midland Mainline Electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure is slightly higher than the baseline for the control period to date as activity has progressed more swiftly than expected.
 - (b) Derby station area modelling – this programme is planned to deliver reduced journey times, improved performance and operational flexibility through the segregation of services through Derby Station. Expenditure for the control period to date is consistent with the baseline.
 - (c) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is slightly lower than the baseline as elements of the programme have been deferred into future years.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) MML long distance high speed services train lengthening - The project will relieve overcrowding by enabling the introduction of longer trains on the MML. In line with the baselines in the Hendy review there was minimal activity on this programme in the first two years of the control period. The project has been pushed towards the end of the control period following the outcome of the Hendy Review.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) MML Linespeed Improvements – this project aims to increase the linespeed on the Midlands Main Line. The expected costs to complete this programme are higher than the estimates prepared to support the aforementioned Hendy review. Consequently, financial underperformance has been recognised (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – The key projects in this fund are Balcombe to Copyhold Bi-directional Signalling Upgrade and Mobile Maintenance System. Expenditure matches the baseline.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure matches the baseline.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was rephased from the current control period to CP6. Therefore the expenditure is below the baseline for the year and control period to date.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure matches the baseline.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the spend to save framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly higher than the target baseline.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) PAYGO – investment activity this year relates mainly to investment in the Nottingham Hub programme. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, East Midlands

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	1,939	1,873	(66)			
Adjustment for opening control period debt	-	(26)	(26)			
Opening net debt	1,939	1,847	(92)	1,702	1,666	(36)
Income						
Grant income	(227)	(224)	3	(446)	(442)	4
Fixed charges	(16)	(15)	1	(36)	(35)	1
Variable charges	(60)	(58)	2	(120)	(114)	6
Other single till income	(24)	(29)	(5)	(45)	(54)	(9)
Total income	(327)	(326)	1	(647)	(645)	2
Expenditure						
Network operations	26	18	(8)	50	37	(13)
Support costs	16	22	6	34	44	10
Traction electricity, industry costs and rates	26	24	(2)	51	44	(7)
Network maintenance	65	60	(5)	129	120	(9)
Schedule 4	9	12	3	20	29	9
Schedule 8	7	-	(7)	19	-	(19)
Renewals	139	112	(27)	292	239	(53)
PR13 enhancement	119	165	46	265	284	19
Non-PR13 enhancement	(1)	-	1	7	-	(7)
Total expenditure	406	413	7	867	797	(70)
Financing						
Interest expenditure on nominal debt - FIM covered	18	29	11	44	57	13
Interest expenditure on index linked debt - FIM covered	12	14	2	25	27	2
Expenditure on the FIM	17	21	4	36	41	5
Interest expenditure on government borrowing	14	-	(14)	19	-	(19)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(2)	(1)
Total interest costs	61	63	2	123	123	-
Accretion on index linked debt - FIM covered	12	28	16	24	55	31
Total financing costs	73	91	18	147	178	31
Corporation tax	-	-	-	-	-	-
Other	(29)	-	29	(7)	29	36
Movement in net debt	123	178	55	360	359	(1)
Closing net debt	2,062	2,025	(37)	2,062	2,025	(37)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.69	0.84	1.00
FFO/interest	2.68	2.88	3.00
Net debt/RAB (gearing)	70.0%	70.7%	71.6%
FFO/debt	8.6%	8.6%	9.3%
RCF/debt	5.4%	5.6%	6.2%

Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to East Midlands has increased by £0.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.1bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Network maintenance costs partly offset by savings in Support costs and interest cost savings. These variances are addressed in more detail in other statements of these Regulatory financial statements.

(17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines (May 2016), in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio. The ratio is higher than the previous year. The size of the increase is in line with the regulator's assumptions and is expected to continue for the rest of the control period as both components of the calculation are increasing at the same absolute value.

(18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, East Midlands

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	227	224	3	3	-	-	-	-
Fixed Income	16	15	1	1	-	-	-	-
Variable Income	52	48	4	-	-	-	4	4
Other Single Till Income	24	29	(5)	-	-	-	(5)	(5)
Opex memorandum account	5	-	5	2	-	-	3	3
Total Income	324	316	8	6	-	-	2	2
Expenditure								
Network operations	26	18	(8)	-	-	-	(8)	(8)
Support costs	16	22	6	-	-	-	6	6
Industry costs and rates	17	13	(4)	(2)	-	-	(2)	(2)
Traction electricity	1	-	(1)	-	-	-	(1)	(1)
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	65	60	(5)	-	(1)	-	(4)	(4)
Schedule 4 costs	9	12	3	-	1	-	2	2
Schedule 8 costs	7	-	(7)	-	-	-	(7)	(7)
Renewals	139	112	(27)	-	9	-	(36)	(9)
PR13 Enhancements	119	118	(1)	-	9	-	(10)	(2)
Non PR13 Enhancements	(1)	-	1	-	1	-	-	-
Financing Costs	73	91	18	18	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	471	447	(24)	16	20	-	(60)	(25)
Total:			(16)	22	20	-	(58)	(23)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(23)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(2)
Under-delivery of train performance requirements (CaSL)								(1)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(3)
Total financial out / (under) performance to be recognised								(26)

Statement 5a: Total financial performance, East Midlands - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E- F	Financial out / (under) performance H = G or H = G*25%
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	448	443	5	5	-	-	-	-
Fixed Income	36	35	1	1	-	-	-	-
Variable Income	105	99	6	-	-	-	6	6
Other Single Till Income	45	52	(7)	-	-	-	(7)	(7)
Opex memorandum account	7	-	7	4	-	-	3	3
Total Income	641	629	12	10	-	-	2	2
Expenditure								
Network operations	50	37	(13)	-	-	-	(13)	(13)
Support costs	34	46	12	1	-	-	11	11
Industry costs and rates	33	28	(5)	(2)	-	-	(3)	(3)
Traction electricity	2	-	(2)	-	-	-	(2)	(2)
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	130	121	(9)	-	4	-	(13)	(13)
Schedule 4 costs	20	29	9	-	1	-	8	8
Schedule 8 costs	19	1	(18)	-	-	-	(18)	(18)
Renewals	294	240	(54)	-	26	-	(80)	(20)
PR13 Enhancements	267	258	(9)	-	5	-	(14)	(3)
Non PR13 Enhancements	7	-	(7)	-	(7)	-	-	-
Financing Costs	148	178	30	30	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,004	939	(65)	29	30	-	(124)	(53)
Total:			(53)	39	30	-	(122)	(51)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(51)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(6)
Under-delivery of train performance requirements (CaSL)								(2)
Missed Enhancement milestones								(2)
Total adjustment for under-delivery outputs								(10)
Total financial out / (under) performance to be recognised								(61)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(8)	(10)	2	(16)	(17)	1
Total variance not included in total	(8)	(10)	2	(16)	(17)	1
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	1	-	1
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	8	10	(2)	16	17	(1)
Total variance not included in total	8	10	(2)	16	17	(1)

Statement 5a: Total financial performance, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year and for the control period to date. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures of financial performance used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – underperformance recognised in Other single till income is mainly the result of lower than expected stations and facility income (income from extra investment works, such as those at Nottingham station, was lower than the regulator assumed) partly offset by extra property rental income.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates attributed to East Midlands have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, East Midlands – continued

in £m 2015-16 prices unless stated

- (6) Network operations – costs are higher than the regulator's assumptions, continuing the trend from the prior year. This was mostly due to the assumptions included in the regulatory determination for Network Rail's cost base at the end of CP4. Efficiencies that were expected to occur in the final years of CP4 did not materialise making it unlikely that the cost targets in the determination could be achieved. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (7) Support costs – financial outperformance has been recognised which includes one-off savings in Group (arising from lower payments to senior staff under performance related pay arrangements, lower re-organisation costs as well as a number of small net savings across a number of functions).
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. The amounts included in the Variances not included in total financial performance column refer to net overspends that are expected to be reimbursed through the Opex memorandum (refer to Statement 10).
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. There is some minor financial underperformance recognised this year, largely relating to unfavourable settlement of commercial claims.
- (10) Reporters fees - generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are also higher than the determination due to extra Reactive Maintenance required. This variance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator.
- (12) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Underlying costs are broadly in line with the regulator's expectation.
- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance, continuing the pattern of the first year of the control period. The variance compared to the determination is lower this year, suggesting improvements in delay minutes.

Statement 5a: Total financial performance, East Midlands – continued

in £m 2015-16 prices unless stated

- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these type of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, East Midlands

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(26)	(6)	(20)	(5)		(2)	(3)	-
Signalling	1	13	(12)	(3)		(3)	-	-
Civils	(7)	(3)	(4)	(1)		(1)	-	-
Buildings	4	4	-	-		-	-	-
Electrical power and fixed plant	3	3	-	-		-	-	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	(1)	(1)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	(4)	(4)	-	-		-	-	-
Total	(27)	9	(36)	(9)		(6)	(3)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(65)	(9)	(56)	(14)		(11)	(3)	-
Signalling	11	27	(16)	(4)		(5)	1	-
Civils	8	12	(4)	(1)		(1)	-	-
Buildings	4	4	-	-		-	-	-
Electrical power and fixed plant	4	4	-	-		-	-	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	6	6	-	-		-	-	-
IT	(4)	(4)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	(19)	(15)	(4)	(1)		-	(1)	-
Total	(54)	26	(80)	(20)		(17)	(3)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across many asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. About one-quarter of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Whilst there is underperformance compared to Network Rail's CP5 Business Plan this is lower than that reported in the previous year as some workbank and delivery efficiencies have been achieved. Financial performance this year also suffered from issues with High Output delivery. This included additional rail scrap clearance costs and impact of lost volumes arising from access constraints and plant failures (as reductions in work done does not manifest itself in a proportionate decrease in costs). In addition commercial claims from contractors have increased Plain Line costs whilst Switches & Crossings experienced financial underperformance from sunk costs on some jobs which have been deferred.
- (3) Signalling – as with the previous year, financial underperformance has been reported. A large part of this has arisen from a single project (East Nottingham modular resignalling) owing to contractor performance issues and lack of understanding of the costs and delivery of the emerging technology being used to deliver the programme (although this experience should supply some corporate knowledge for future projects). In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned. Reductions in planned programmes in the control period (owing to financial and operational resource constraints) has exacerbated financial underperformance as reductions in work done does not manifest itself in a proportionate decrease in costs.
- (4) Civils – some minor financial underperformance has been recognised this year. This has been caused by the pausing of enhancement programmes in the year resulting in significant workbank re-planning required (along with associated possession management and planning costs). In addition, contractor performance issues have added extra costs to some projects.

Statement 5c: Total financial performance - enhancement variance analysis, East Midlands

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML linespeed improvements	(4)	-	-	(4)	(1)
Thameslink	8	14	-	(6)	(1)
Other Enhancements	(4)	(4)	-	-	-
Total	-	10	-	(10)	(2)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML linespeed improvements	(7)	1	-	(8)	(2)
Thameslink	2	8	-	(6)	(1)
Other Enhancements	(11)	(11)	-	-	-
Total	(16)	(2)	-	(14)	(3)

Statement 5c: Total financial performance - enhancement variance analysis, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exception being those programmes with their own protocol (such as Thameslink).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) MML linespeed improvements – some minor underperformance has been recognised this year as total programme costs are now expected to be slightly higher than the Hendy review assumed.
- (2) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mainly due to overall programme cost increases including traffic management expenditure which has led to negative FPM being declared in the current year. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (3) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, East Midlands

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	D Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	27	28	(1)	-	-	-	(1)	
Capacity charge	55	51	4	-	-	-	4	
Electricity asset utilisation charge	2	1	1	-	-	-	1	
Property income	5	4	1	-	-	-	1	
Expenditure								
Network operations	50	36	(14)	-	-	-	(14)	
Support costs	34	44	10	-	1	-	9	
RSSB and BT Police	11	9	(2)	-	-	-	(2)	
Network maintenance	130	125	(5)	6	-	-	(11)	
Schedule 4 costs	20	29	9	1	-	-	8	
Schedule 8 costs	19	-	(19)	-	-	-	(19)	
Renewals	294	273	(21)	59	-	(60)	(20)	
Total REBS performance			(37)	66	1	(60)	(44)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(6)	
Under-delivery of train performance requirements (CaSL)							(2)	
Total adjustment for under delivery of outputs and reduced sustainability							(8)	
Cumulative performance to end of 2015-16								(52)
Less cumulative outperformance recognised up to the end of 2014-15								(34)
Net REBS performance for 2015-16								(18)

Where: $C = B - A$
And: $F = (C - D - E) \times 75\%$
And: $G = (C - D - E - F)$

Statement 5d: Total financial performance – REBS performance, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	227	224	3	448	443	5	221
Franchised track access income							
Fixed charges	16	15	1	36	35	1	20
Variable charges							
Variable usage charge	11	10	1	21	19	2	10
Traction electricity charges	8	10	(2)	16	17	(1)	8
Electrification asset usage charge	1	-	1	2	1	1	1
Capacity charge	27	25	2	54	51	3	27
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	13	13	-	28	28	-	15
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	60	58	2	121	116	5	61
Total franchised track access income	76	73	3	157	151	6	81
Total franchised track access and grant income	303	297	6	605	594	11	302
Other single till income							
Property income	3	1	2	5	4	1	2
Freight income	4	5	(1)	7	10	(3)	3
Open access income	-	-	-	-	-	-	-
Stations income	8	10	(2)	17	18	(1)	9
Facility and financing charges	6	10	(4)	10	15	(5)	4
Depots Income	3	3	-	6	5	1	3
Other income	-	-	-	-	-	-	-
Total other single till income	24	29	(5)	45	52	(7)	21
Total income	327	326	1	650	646	4	323

Statement 6a: Analysis of income, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is more than offset by lower fixed track access charges received from train operator.

- (3) Fixed charges – fixed charge income was in line with the determination. The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges mostly offset by higher Grant income.
- (4) Variable usage charge - this is slightly favourable to the determination and the prior year as Network Rail offered additional train paths, responding to the demand from operators for extra services. This is also demonstrated in Statement 12 which shows passenger traffic growing quicker than the regulatory target.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). Traction electricity charges are in line with the previous year, as were the corresponding costs (as shown in Statement 7a).
- (6) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption. This is also demonstrated in Statement 12 which shows passenger traffic growing quicker than the regulatory target. These extra capacity charges are more than negated by additional Schedule 8 costs this year (as shown in Statement 10).

Statement 6a: Analysis of income, East Midlands – continued

in £m 2015-16 prices unless stated

- (7) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set. The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is lower than 2014/15 in line with the regulator's expectation.
- (8) Property income – the favourable performance in the year compared to the determination was largely driven by additional property rental income, more than offsetting the adverse position in the first year of the control period. The earnings in this category were broadly in line with the previous year.
- (9) Freight income – income earned was lower than the regulator expected mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulted in around a massive decrease in the volume of coal moved compared to the regulator's expectation. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance.
- (10) Facility and finance charges – whilst facility charges increases compared to the previous year (mainly due to the extra charges for the enhanced facilities at Nottingham station), the rate of increase was slower than the regulatory assumption. The baseline assumed increases in station facility fees arising from planned investment works at stations which would be repaid by operators through the investment framework. However, investment (and so returns) have been lower than planned.

Statement 6b: Analysis of other single till income, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	3	2	1	5	5	-	2
Property sales	-	-	-	-	1	(1)	-
Adjustment for commercial opex	-	(1)	1	-	(2)	2	-
Total property income	3	1	2	5	4	1	2
Freight income							
Freight variable usage charge	3	4	(1)	6	9	(3)	3
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	1	-	1	1	-	-
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	4	5	(1)	7	10	(3)	3
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	-	1	(1)	-	1	(1)	-
Qualifying expenditure	-	1	(1)	1	2	(1)	1
Total managed stations income	-	2	(2)	1	3	(2)	1
Franchised stations income							
Long term charge	4	4	-	8	7	1	4
Stations lease income	4	4	-	8	8	-	4
Total franchised stations income	8	8	-	16	15	1	8
Total stations income	8	10	(2)	17	18	(1)	9
Facility and financing charges							
Facility charges	6	10	(4)	10	15	(5)	4
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	6	10	(4)	10	15	(5)	4
Depots income	3	3	-	6	5	1	3
Other	-	-	-	-	-	-	-
Total other single till income	24	29	(5)	45	52	(7)	21

Statement 6b: Analysis of other single till income, East Midlands (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	16	10	(6)	34	20	(14)	18
Signalling shift managers	-	1	1	1	1	-	1
Local operations managers	1	1	-	1	1	-	-
Controllers	2	1	(1)	3	3	-	1
Electrical control room operators	-	-	-	-	1	1	-
Total signaller expenditure	19	13	(6)	39	26	(13)	20
Non-signaller expenditure							
Mobile operations managers	-	1	1	-	3	3	-
Managed stations	-	1	1	-	3	3	-
Performance	-	1	1	-	1	1	-
Customer relationship executives	-	-	-	1	1	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	2	2	-
Other	3	1	(2)	6	1	(5)	3
Operations delivery	2	-	(2)	2	-	(2)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	2	1	(1)	2	2	-	-
Other operating income	-	(1)	(1)	-	(2)	(2)	-
Total non-signaller expenditure	7	5	(2)	11	11	-	4
Total network operations expenditure	26	18	(8)	50	37	(13)	24
Support costs							
Core support costs							
Human resources	1	3	2	3	6	3	2
Information management	3	3	-	7	7	-	4
Government and corporate affairs	-	1	1	1	2	1	1
Group strategy	1	1	-	2	2	-	1
Finance	1	1	-	2	3	1	1
Business services	1	1	-	2	2	-	1
Accommodation	1	1	-	3	1	(2)	2
Utilities	2	2	-	4	4	-	2
Insurance	3	3	-	6	6	-	3
Legal and inquiry	-	1	1	-	1	1	-
Safety and sustainable development	1	-	(1)	2	-	(2)	1
Strategic sourcing	-	-	-	-	1	1	-
Business change	-	1	1	-	1	1	-
Other corporate functions	-	-	-	-	-	-	-
Core support costs	14	18	4	32	36	4	18
Other support costs							
Asset management services	3	2	(1)	5	6	1	2
Network Rail telecoms	2	2	-	5	4	(1)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(1)	-	1	(2)	-	2	(1)
Commercial property	-	-	-	(1)	-	1	(1)
Group costs	(2)	-	2	(5)	(1)	4	(3)
Total other support costs	2	4	2	2	10	8	-
Total support costs	16	22	6	34	46	12	18
Traction electricity, industry costs and rates							
Traction electricity	9	10	1	18	17	(1)	9
Business rates	10	8	(2)	18	17	(1)	8
British transport police costs	5	4	(1)	10	8	(2)	5
RSSB costs	-	-	-	1	1	-	1
ORR licence fee and railway safety levy	1	1	-	3	2	(1)	2
Reporters fees	-	1	1	-	1	1	-
Other industry costs	1	-	(1)	1	-	(1)	-
Total traction electricity, industry costs and rates	26	24	(2)	51	46	(5)	25
Total network operations expenditure, support costs, traction electricity, industry costs and rates	68	64	(4)	135	129	(6)	67

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, East Midlands – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator’s assumptions, continuing the trend from the prior year. This was mostly due to the assumptions included in the regulatory determination for Network Rail’s cost base at the end of CP4. Efficiencies that were expected to occur in the final years of CP4 did not materialise making it unlikely that the cost targets in the determination could be achieved. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Costs are higher than the previous year for largely the same reasons.
- (4) 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 rest of the business areas. Support costs are lower than the determination (arising from net savings across a number of functions, one-off savings in Group and local route services efficiencies) and favourable to the prior year (arising from net savings across a number of functions and local route services efficiencies).
- (5) Human Resources – costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As responsibility for these services had largely transferred in at the end of CP4 year-on-year costs are broadly consistent. Further breakdown of HR costs can be found in Statement 7.
- (6) Insurance – whilst costs are in line with the determination this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10) as higher excess rates mean that only major incidents are now insured.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, East Midlands – continued

in £m 2015-16 prices unless stated

- (7) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would have a marginal credit resulting from Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination. Savings were made in reorganisation costs where the costs were around half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements and the favourable settlement of commercial claims. The net credit position in Group is lower than the credit recognised in the prior year, which benefitted from a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network and from the reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were partly offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (8) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its' cost base. This group of costs is higher than the regulator's allowance with lower Traction electricity costs (arising from lower market rates) more than offset by higher British Transport Police expenses and Business rates.
- (9) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6). Control period to date costs in line with the regulatory assumption, again reflected in the income position in the control period to date.
- (10) Business rates – costs are higher than the determination assumed. The ORR assumed a different allocation of Business rates to the East Midlands route than is the case. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions. Network Rail expects to be compensated for the extra costs in East Midlands through the Opex memorandum account mechanism (refer to Statement 10).
- (11) British transport police costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, East Midlands

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	13	15	12
MOMS	1	-	-
Control	2	1	1
Planning & Performance Staff Costs	2	-	-
Managed Stations Staff Costs	1	-	-
Operations Management Staff Costs	1	-	-
Other	6	8	13
Total operations & customer services costs	26	24	26
Total Network Operations	26	24	26
Support			
Human resources			
Functional support	2	2	1
Training (inc Westwood)	1	-	-
Graduates	-	-	-
Apprenticeships	-	-	-
Other	-	-	-
Total human resources	3	2	1
Information management			
Support	-	-	-
Projects	-	-	-
Licences	-	-	-
Business operations	3	4	3
Other	-	-	-
Total information management	3	4	3
Finance	1	1	1
Business Change	-	-	-
Contracts & Procurement	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-
Planning & development	1	1	1
Safety & compliance	1	-	-
Other corporate services	3	1	-
Commercial property	6	1	1
Infrastructure Projects	(3)	(1)	(1)
Route Services	1	-	-
Asset management & Engineering/Asset heads	9	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	2	2
Network Rail Telecoms	-	3	2
Digital Railway	-	1	1
Safety Technical & Engineering	-	2	3
Government & Corporate Affairs	-	1	-
Business Services	-	1	1
Route Asset Management	-	(1)	-
Legal and inquiry	-	-	-
Group/central			
Pensions	-	-	-
Insurance	2	3	3
Redundancy/reorganisation costs	4	1	-
Staff incentives/Bonus Reduction	-	(1)	-
Accommodation & Support Recharges	-	(2)	(1)
Commercial claims settlements	-	-	-
ORR financial penalty	4	(1)	-
Other	-	-	(1)
Total group/central costs	10	-	1
Total support	35	18	16
Total network operations and support costs	61	42	42

Statement 7b: Analysis of network operations expenditure and support costs by activity, East Midlands (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	24	24	-	49	48	(1)	25
Signalling	11	8	(3)	21	16	(5)	10
Civils	7	6	(1)	12	13	1	5
Buildings	4	2	(2)	4	4	-	-
Electrical power and fixed plant	3	5	2	7	8	1	4
Telecoms	1	1	-	2	2	-	1
Other network operations	11	10	(1)	22	22	-	11
Asset management services	5	2	(3)	13	4	(9)	8
National Delivery Service	-	3	3	-	5	5	-
Property	-	-	-	2	1	(1)	2
Group	(1)	(1)	-	(2)	(2)	-	(1)
Total maintenance expenditure	65	60	(5)	130	121	(9)	65

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. In addition, a higher level of Reactive maintenance works was required this year. These extra costs have been partly mitigated by some efficiencies generated. Costs are in line with the prior year reflecting increased Reactive maintenance activity required offset by successful implementation of cost saving initiatives.
- (2) Track – costs are level with the determination which includes a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a corresponding saving in the National Delivery Services category). In addition, certain activities regarding plain line and switches & crossings grinding are the responsibility of the local asset management team and, consequently, the associated expenses are reported under the Asset management services category.
- (3) Civils – costs were consistent with the determination which was the result of higher structures inspection costs offset by a lower level 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the previous year due to extra Reactive maintenance investment required.
- (4) Buildings – all 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. Expenditure in the current year is higher than the regulator expected which mitigates the underspend in the opening year of the control period. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the previous year reflecting the extra work required in this area this year.
- (5) Asset Management Services – costs are higher than the determination and the prior year. As noted above, this was mostly due to a transfer of responsibility (and so costs) from Track to the local asset management team to undertake plain line and switches & crossings grinding activities. This reclassification has no overall impact on the Maintenance costs reported in the route.
- (6) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	57	31	(26)	152	87	(65)	95
Signalling	26	27	1	44	55	11	18
Civils	33	26	(7)	42	50	8	9
Buildings	3	7	4	9	13	4	6
Electrical power and fixed plant	2	5	3	5	9	4	3
Telecoms	1	3	2	5	7	2	4
Wheeled plant and machinery	5	7	2	10	16	6	5
Information Technology	5	4	(1)	14	10	(4)	9
Property	1	-	(1)	1	-	(1)	-
Other renewals	6	2	(4)	12	(7)	(19)	6
Total renewals expenditure	139	112	(27)	294	240	(54)	155

Statement 9a: Summary analysis of renewals expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected mainly due to additional track costs, largely due to underlying costs being higher than the regulatory targets. This has resulted in financial underperformance being recognised in the current year as reported in Statement 5. Costs are lower than the previous year with lower track investment partially offset by additional Civils costs.
- (2) Track – track costs are higher than the regulator assumed which is a combination of accelerated workbanks and higher underlying costs. The higher costs were partly due to the CP4 exit rate for track activity compared to the regulator's assumption and so where expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Extra costs were incurred as a result of issues with High Output delivery including rail scrap clearance costs and impact of lost volumes arising from access constraints and plant failures (as reductions in work done does not manifest itself in a proportionate decrease in costs). In addition commercial claims from contractors have increased Plain Line costs whilst Switches & Crossings experienced financial underperformance from sunk costs on some jobs which have been deferred. Consequently, track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was lower than the previous year with significant reductions in High Output activity (as shown in Statement 14).
- (3) Signalling – costs are in line with the determination although this reflects higher underlying costs mitigated by deferral of activity. Higher underlying costs have largely arisen from a single project (East Nottingham modular resignalling) owing to contractor performance issues and lack of understanding of the costs and delivery of the emerging technology being used to deliver the programme (although this experience should supply some corporate knowledge for future projects). In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned. Reductions in planned programmes in the control period (owing to financial and operational resource constraints) has exacerbated financial underperformance as reductions in work done does not manifest itself in a proportionate decrease in costs. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is slightly higher than the previous year mostly due to ramp up of activity on East Nottingham modular re-signalling project.
- (4) Civils – expenditure this year is higher than the regulator's assumption. This is a combination of a wider workbank (to incorporate activity deferred from the opening year of the control period) and higher like-for-like costs. The extra like-for-like costs experienced this year, continuing the trend of the previous year, have been caused by the pausing of enhancement programmes in the year resulting in significant workbank re-planning required (along with associated possession management and planning costs). In addition, contractor performance issues have added extra costs to some projects. As a result Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are higher than the previous year largely due to minimal activity in 2014/15 owing to delays in contractor mobilisation and framework agreements.

Statement 9a: Summary analysis of renewals expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (5) Telecoms – expenditure in the year was slightly lower than the determination, mainly due to less activity on SISS (Station Information and Surveillance Systems) assets. Resource constraints have resulted in a re-prioritisation of the workbank and so some activity has had to be deferred until future control periods. Expenditure was lower in the current year mainly due to lower costs allocated to the route from national projects. In the prior year there was considerable investment in FTNx programmes which did not re-occur this year.
- (6) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is in line with the previous year.
- (7) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (8) Other renewals
 - a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances for RAB addition. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Faster isolations –in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - c. Small plant – expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.

Statement 9a: Summary analysis of renewals expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN and ORBIS (as noted above). In the control period to date, expenditure on the FTN project has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, East Midlands

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	22	15	(7)	38	27	(11)
High output renewal	10	-	(10)	55	27	(28)
Plain line refurbishment	4	1	(3)	6	1	(5)
S&C renewal	13	7	(6)	29	17	(12)
S&C refurbishment	3	3	-	8	5	(3)
Track non-volume	2	2	-	4	4	-
Off track	3	3	-	12	6	(6)
Total track	57	31	(26)	152	87	(65)
Signalling						
Full conventional resignalling	(4)	-	4	3	1	(2)
Modular resignalling	13	5	(8)	19	8	(11)
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	7	8	1	8	13	5
Targeted component renewal	-	1	1	-	2	2
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	3	1	2	5	3
Level crossings	2	4	2	2	10	8
Minor works	4	4	-	8	11	3
Centrally managed costs	1	2	1	1	5	4
Other	1	-	-	1	1	-
Total signalling	26	27	1	44	55	11
Civils						
Underbridges	14	11	(3)	19	24	5
Overbridges	7	3	(4)	8	4	(4)
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	-	(1)	3	-	(3)
Tunnels	4	2	(2)	5	3	(2)
Other assets	4	2	(2)	4	4	-
Structures other	-	3	3	-	5	5
Earthworks	3	5	2	3	10	7
Other	-	-	-	-	-	-
Total civils	33	26	(7)	42	50	8
Buildings						
Managed stations	-	1	1	-	1	1
Franchised stations	2	4	2	5	8	3
Light maint depots	1	1	-	2	1	(1)
Depot plant	-	1	1	-	2	2
Lineside buildings	-	-	-	1	-	(1)
MDU buildings	-	-	-	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	3	7	4	9	13	4

Statement 9b: Detailed analysis of renewals expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	2	2	-	4	3	(1)
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	2	2
Fixed plant	-	2	2	1	4	3
Total electrical power and plant	2	5	3	5	9	4
Telecoms						
Operational communications	-	-	-	-	1	1
Network	-	-	-	-	-	-
SISS	-	2	2	1	3	2
Projects and other	-	-	-	-	-	-
Non-route capital expenditure	1	1	-	4	3	(1)
Total telecoms	1	3	2	5	7	2
Wheeled plant and machinery						
High output	2	1	(1)	4	6	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	-	-
Intervention	-	3	3	1	4	3
Materials delivery	1	1	-	2	1	(1)
On track plant	1	1	-	1	1	-
Seasonal	-	-	-	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	1	1	-	2	1	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	5	7	2	10	16	6
Information Technology						
IM delivered renewals	5	4	(1)	13	9	(4)
Traffic management	-	-	-	1	1	-
Total information technology	5	4	(1)	14	10	(4)
Property						
MDUs/offices	1	-	(1)	1	-	(1)
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	1	-	(1)	1	-	(1)
Other renewals						
Asset information strategy	4	3	(1)	4	6	2
Intelligent infrastructure	-	1	1	1	2	1
Faster isolations	-	2	2	-	4	4
LOWS	-	-	-	-	-	-
Small plant	-	1	1	-	1	1
Research and development	-	-	-	-	-	-
Phasing overlay	-	(5)	(5)	-	(20)	(20)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	2	-	(2)	7	-	(7)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	6	2	(4)	12	(7)	(19)
Total renewals	139	112	(27)	294	240	(54)

Statement 9b: Detailed analysis of renewals expenditure, East Midlands (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, East Midlands

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	9	12	3	20	29	9	11
Access charge supplement Income	(13)	(13)	-	(28)	(28)	-	(15)
Net (income)/cost	(4)	(1)	3	(8)	1	9	(4)
Schedule 8							
Performance element income	(1)	-	1	(1)	-	1	-
Performance element costs	8	-	(8)	20	1	(19)	12
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	7	-	(7)	19	1	(18)	12

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	3	3	-
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	2	2	-
RSSB Costs	-	1	1
ORR licence fee and railway safety levy	-	1	1
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	5	7	2

Statement 10: Other information, East Midlands – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 performance costs are lower than the determination. This was mainly due to possession planning efficiencies including workbank packaging to allow as much renewals, enhancement and maintenance works to be undertaken in a single possession and advance planning of possession works to minimise costs (as discounts are provided where a greater notification period is given). These savings have been partly offset by extra costs arising from East Midlands' share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Net Schedule 4 costs are in line with the previous year with extra compensation costs being offset by higher access charges supplements.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for the current year. Given the CP4 exit rate and the experiences of the first year of the control period this result is unsurprising. Schedule 8 costs are favourable to the prior year due to improvements to delay minutes that have been achieved during the year.
- (3) The opex memorandum shows a net income for this year which is primarily due to amounts earned through the Volume Incentive (see Statement 12) but also for differences in the Business rates attributed to East Midlands compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions.

Statement 12: Volume incentives, East Midlands

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	3	1	17	16	0.2%	1.47	pence per passenger train mile
Passenger farebox (millions)	3	1	537	496	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	2	0	2	1	1.3%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	3	1	1,900	1,664	1.5%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	11	3					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, East Midlands – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £3m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger train mile growth has increased this year ahead of the ORR's expectation, with growth rates of 1.8 per cent this year which has resulted in a payout through this part of the metric.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Freight train miles growth in the year of nearly 5 per cent was achieved, which was sufficient to outperform the regulatory target and result in a payout through this part of the metric.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		
					Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m	Unit cost x volume £m	
Track	Track plain line	km	409	88	36	-	36	288	59	17	-	17	(121)	(29)	(19)	-	-	(19)	
	Conventional		386	57	22	-	22	400	40	16	-	16	14	(17)	(6)	-	-	(6)	
	High Output		833	12	10	-	10	-	-	-	-	-	(833)	(12)	(10)	-	-	(10)	
	Refurbishment		211	19	4	-	4	53	19	1	-	1	(158)	-	(3)	-	-	(3)	
	S&C	point ends	162	99	16	-	16	118	93	11	-	11	(43)	(6)	(5)	-	-	(5)	
	Track Drainage		17	175	3	-	3	-	-	2	-	2	(17)	(175)	(1)	-	-	(1)	
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	
	New Build	lm	n/a	175	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(175)	n/a	n/a	n/a	
	Fencing	km	50	20	1	-	1	28	36	1	-	1	(22)	16	-	-	-	-	
	Slab Track		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	-	(1)	
	Off track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	2	2	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Total					56	1	57			31	2	33			(25)	1	(24)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	16	n/a	n/a	n/a	-	17	n/a	n/a	n/a	-	1	(6)	
	Full conventional resignalling	SEU	-	-	(4)	-	(4)	-	-	-	-	-	-	-	4	-	4		
	Modular resignalling	SEU	684	19	13	-	13	-	-	9	-	9	(684)	(19)	(4)	-	(4)		
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
	Partial conventional resignalling	SEU	875	8	7	-	7	63	112	7	-	7	(813)	104	-	-	-		
	Targeted component renewal	SEU	-	-	-	-	-	111	9	1	-	1	111	9	1	-	1		
	Level crossings	No.	500	4	2	-	2	1,667	3	5	-	5	1,167	(1)	3	-	3		
	Signalling other		-	-	-	7	7	-	-	-	9	9	-	-	-	2	2		
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Operating strategy other capex		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1		
	Minor works		n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-		
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Other		-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)		
	Total					18	8	26			22	9	31			4	1	5	
Civils	Key structures		n/a	n/a	n/a	-	26	n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	(6)		
	Underbridges	m2	2	8,409	14	-	14	1	9,895	14	-	14	(0)	1,486	-	-	-		
	Overbridges (incl BG3)	m2	6	1,177	7	-	7	2	2,482	4	-	4	(4)	1,305	(3)	-	(3)		
	Tunnels	m2	0	17,189	4	-	4	0	6,200	2	-	2	0	(10,989)	(2)	-	(2)		
	Major structures	m2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Other structures assets		n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	(2)		
	Culverts	m2	-	-	2	-	2	26	38	1	-	1	26	38	(1)	-	(1)		
	Footbridges	m2	3	339	1	-	1	3	298	1	-	1	0	(41)	-	-	-		
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
	Retaining Walls	m2	4	230	1	-	1	-	220	-	-	-	(4)	(10)	(1)	-	(1)		
	Earthworks	5-chain	273	11	3	-	3	28	177	5	-	5	(244)	166	2	-	2		
	EW Drainage		-	-	-	-	-	0	6,282	1	-	1	0	6,282	1	-	1		
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	330	n/a	n/a	n/a	n/a	330	n/a	n/a	n/a		
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	35	n/a	n/a	n/a	n/a	35	n/a	n/a	n/a		
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	5,917	n/a	n/a	n/a	n/a	5,917	n/a	n/a	n/a		
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a		
	Structures other		n/a	n/a	n/a	-	-	n/a	-	n/a	1	1	n/a	n/a	n/a	1	1		
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(3)	(3)	n/a	n/a	n/a	(3)	(3)		
Total					32	1	33			28	(2)	26			(4)	(3)			

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Other non-volume costs				Total Cost	Other non-volume costs				Total Cost	Other non-volume costs				Total Cost
			Unit cost	Volume	Unit cost x volume	£m		Unit cost	Volume	Unit cost x volume	£m		Unit cost	Volume	Unit cost x volume	£m	
			£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m
Buildings	Franchised Stations		n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	6	n/a	n/a	n/a	n/a	4
	Footbridges	m2	-	-	-	-	-	n/a	145	n/a	n/a	-	n/a	145	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	528	n/a	n/a	-	n/a	528	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	8,019	n/a	n/a	-	n/a	8,019	n/a	n/a	-
	Buildings	m2	-	1,124	-	-	-	n/a	100	n/a	n/a	-	n/a	(1,024)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	-	n/a	-	1	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		10	101	1	-	1	0	5,000	n/a	-	1	n/a	4,899	n/a	n/a	-
	Buildings	m2	-	12	-	-	-	n/a	5,000	n/a	n/a	-	n/a	4,988	n/a	n/a	-
	Depot Shed	m2	-	89	-	-	-	n/a	-	n/a	n/a	-	n/a	(89)	n/a	n/a	-
	Lineside Buildings	m2	-	-	-	-	-	25	40	n/a	n/a	1	n/a	40	n/a	n/a	1
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	1
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(2)	n/a	n/a	n/a	n/a	(2)
Total					2	1	3					9					

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Other non-volume costs					Other non-volume costs					Other non-volume costs				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m			
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	-
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	56	n/a	n/a	-	n/a	56	n/a	n/a	-
	Structure Renewals	No.	-	-	1	-	1	n/a	7	n/a	n/a	-	n/a	7	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Fixed plant		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	Signalling Power Cable Renewal	km	-	-	-	-	-	n/a	10	n/a	n/a	-	n/a	10	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	16	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					1	1	2					5				3	
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	2
	Customer Information Systems	No.	-	3	-	-	-	n/a	-	n/a	n/a	-	n/a	(3)	n/a	n/a	-
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	CCTV	No.	-	1	-	-	-	n/a	268	n/a	n/a	-	n/a	267	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	n/a	9	n/a	n/a	-	n/a	9	n/a	n/a	-
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1
Total						1	1					4					

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m								
Wheeled plant and machinery	High output		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3		
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						5	5	6						6	1		1		
IT	IM delivered renewals		n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5	n/a	n/a	n/a	-	-		
	Traffic management		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						5	5	7						7	2		2		
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						1	1	-						-	(1)		(1)		
Other renewals	Asset information strategy		n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(1)	(1)		
	Intelligent infrastructure		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
Total						6	6	8						8	2		2		
Total Renewals							139	129							(10)				

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan																																																																																																																																																																																																																																																																																																																																																																																
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume	

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost
					volume	volume				volume	volume				volume	volume	
				£m	£m	£m		£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m
Buildings	Franchised Stations		n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	11	n/a	n/a	n/a	n/a	6
	Footbridges	m2	-	-	-	-	-	n/a	225	n/a	n/a	-	n/a	225	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	608	-	-	-	n/a	1,368	n/a	n/a	-	n/a	760	n/a	n/a	-
	Platforms	m2	-	2,821	-	-	-	n/a	8,019	n/a	n/a	-	n/a	5,198	n/a	n/a	-
	Buildings	m2	-	1,124	-	-	-	n/a	100	n/a	n/a	-	n/a	(1,024)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	1	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	6,601	2	-	2	0	10,000	n/a	-	3	n/a	3,399	n/a	n/a	1
	Buildings	m2	-	12	-	-	-	n/a	10,000	n/a	n/a	-	n/a	9,988	n/a	n/a	-
	Depot Shed	m2	-	6,589	-	-	-	n/a	-	n/a	n/a	-	n/a	(6,589)	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	29	70	n/a	n/a	2	n/a	70	n/a	n/a	1
	MDU Buildings	m2	1	850	1	-	1	13	160	n/a	n/a	2	n/a	(690)	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	-	n/a	n/a	3
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(4)	n/a	n/a	n/a	n/a	(4)
Total					5	4	9					18					

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume			volume
					£m	£m	£m		unit	£m	£m	£m		unit	£m	£m	£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	4	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	-	
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	112	n/a	n/a	-	n/a	112	n/a	n/a	n/a	-	
	Structure Renewals	No.	-	-	1	-	1	n/a	14	n/a	n/a	-	n/a	14	n/a	n/a	n/a	-	
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	1	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	3	
	Signalling Power Cable Renewal	km	-	-	-	-	-	n/a	20	n/a	n/a	-	n/a	20	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	32	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	2		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total					2	3	5				10						5		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	1		
	Customer Information Systems	No.	-	97	-	-	-	n/a	-	n/a	n/a	-	n/a	(97)	n/a	n/a	-		
	Public Address	No.	4	246	1	-	1	n/a	-	n/a	n/a	-	n/a	(246)	n/a	n/a	-		
	CCTV	No.	-	1	-	-	-	n/a	268	n/a	n/a	-	n/a	267	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	9	n/a	n/a	-	n/a	9	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	4	-	-	-	n/a	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Non route capex		n/a	n/a	n/a	4	4	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	1			
Total					1	4	5				7								

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands - continued

in £m 2015-16 prices unless stated

Cumulative		Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m
				£m	Other non- volume costs £m				£m	Other non- volume costs £m				£m	Other non- volume costs £m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	n/a	n/a	n/a	5	5	n/a	n/a	n/a	1	1
	Incident response		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Intervention		n/a	n/a	n/a	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Materials delivery		n/a	n/a	n/a	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	On track plant		n/a	n/a	n/a	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Locomotives		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Road vehicles		n/a	n/a	n/a	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)
IT	S&C delivery		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					10	10			-	15	15				5	5
Property	IM delivered renewals		n/a	n/a	n/a	13	n/a	n/a	n/a	13	13	n/a	n/a	n/a	-	-
	Traffic management		n/a	n/a	n/a	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					14	14			-	16	16				2	2
Other renewals	MDUs/offices		n/a	n/a	n/a	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	Commercial estate		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Corporate services		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					1	1			-	-	-				(1)	(1)
Other renewals	Asset information strategy		n/a	n/a	n/a	4	n/a	n/a	n/a	6	6	n/a	n/a	n/a	2	2
	Intelligent infrastructure		n/a	n/a	n/a	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1
	Faster isolations		n/a	n/a	n/a	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4
	LOWS		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Research and development		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	7	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(7)	(7)
Total					12	12			16	16					4	4
Total Renewals						294						310				

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered this year are higher than the plan which largely reflects a catch up of activity that was deferred in the opening year of the control period.
 - a. Conventional – volumes delivered this year were higher than the plan, notably for Rail Renewal. This is linked to catch-up following under-delivery in year one of the control period and changes in current work mix due to asset requirements, deliverability and funding constraints throughout the organisation.
 - b. High Output - volumes delivered this year were higher than the plan which assumed no High Output volumes this year. However the combined management of the London North East and East Midlands routes in one team has allowed a transfer of High Output resource between the two routes for optimum utilisation and asset requirements. The extra volumes delivered this year helped mitigate the under delivery experienced in the opening year of the control period.
- (5) Track – Drainage – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.
- (6) Track – Fencing – volumes delivered in the current year are lower than the plan, reflecting an expected decrease in activity in this area during the control period as alternatively asset management strategies are implemented. In addition, in light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which they can be used most effectively.
- (7) Signalling - volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling – Modular – no volumes were expected in the CP5 Business plan for 2015/16. The volumes reported this year relate to East Nottingham scheme which was originally planned to be commissioned in the first year of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (9) Signalling – Partial Re-signalling – volumes delivered this year are lower than the plan mainly due to deferral of Kings Cross remodelling to future control periods. Therefore, this position is not expected to be recovered in future years of CP5.
- (10) Civils - Underbridges – volumes delivered this year are lower than the plan which is the result of both delays in design and tendering through the contractor frameworks introduced for CP5 which were only agreed midway through year one of the control period, prompting deliverability issues which have been exacerbated by the pausing of Midland Mainline Enhancement and losses of planned possessions for Harringworth and Sharnbrook projects as well as internal resource required to fully remit and scope the workbank.
- (11) Civils - Overbridges - volumes delivered this year are lower than the plan which is primarily attributable to delays in design and tendering as well as resource availability resulting in a number of schemes slipping into future years. In addition, the expected volumes for the control period have decreased in light of the resource constraints facing the organisation, meaning that funds have to be re-prioritised to those areas which can use them most effectively.
- (12) Civils - Tunnels – volumes delivered this year are significantly higher than the plan which is predominately due to hazard management works at Bradway tunnel which had slipped from the first year of the control period due mainly to delays in agreeing the contractual frameworks to be utilised in CP5 and also extra volumes required due to emerging understanding of asset condition.
- (13) Civils – Culverts – no volume was reported in the current year as work has been deferred into future control periods in light of the resource constraints facing the organisation, meaning that funds have to be re-prioritised to those areas which can use them most effectively.
- (14) Civils – Footbridges – volumes delivered this year were higher than planned which included the catch up of some of the underdelivery experienced in the opening year of the control period.
- (15) Civils - Earthworks – volume delivery in the year is lower than the plan due predominantly to slower than anticipated contractor framework engagement and a replanning of the workbank throughout the control period. The CP5 Business Plan contained some assumptions about the phasing of delivery which have been superseded by a more up-to-date view of the appropriate asset management strategy. Contractor performance has also been slower than expected.
- (16) Civils – Earthworks Drainage – no volumes were reported this year. Activity is expected to be concentrated in the final three years of the control period when the underdelivery in the control period to date will be negated.
- (17) Buildings - Franchised Stations – Footbridges – no volume has been reported in the current year with volumes for the control period expected to be significantly lower than the CP5 Business Plan suggested. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which they can be used most effectively.
- (18) Buildings - Franchised Stations – Canopies – no volume has been reported in the current year with volumes for the control period expected to be significantly lower than the CP5 Business Plan suggested. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which they can be used most effectively.
- (19) Buildings - Franchised Stations – Platforms – no volume has been reported in the current year with volumes for the control period expected to be significantly lower than the CP5 Business Plan suggested. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which they can be used most effectively. Contractor performance has also impacted productivity this year.
- (20) Buildings - Franchised Stations – Buildings – volumes delivered this year were higher than planned which mainly relates to work at Bedford station that was originally planned for 2016/17 but was accelerated to make use of available resource.
- (21) Buildings – Light Maintenance Depots – volumes delivered in the current year were lower than planned which partly reflects the extra units delivered in the first year of the control period. The assumptions in the CP5 Business Plan of how activity would be split between Buildings and Depot Sheds has not proved accurate.
- (22) Buildings – Lineside Buildings - no volume has been reported in the current year. Instead most activity is now anticipated to occur in 2016/17 to optimise delivery.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2015-16 prices unless stated

- (23) Electrification – Midlife refurbishment - no volume has been reported in the current year. Activity was compromised by a lack of available resource and the uncertainty caused by the pausing of the Midland Mainline Enhancement programme. The latest plans suggest that no activity will now be reported against this asset category. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which they can be used most effectively.
- (24) Electrification – Structures Renewals – volumes delivered this year are lower than those in Network Rail's published CP5 Business Plan. This is primarily linked to the pause and re-starting of Midland Mainline Enhancement programme which led to fluctuations in delivery resource availability which has ultimately delayed the programme.
- (25) Electrification - Signalling Power Cables - no volume has been reported in the current year. Whilst the latest plans suggest that delivery in the control period will be broadly in line with the CP5 Business Plan, the uncertainty caused by the pausing and subsequent re-starting of the Midland Mainline Enhancement programme has delayed the delivery until the final years of the control period.
- (26) Electrification - Points Heaters – volumes delivered this year are lower than Network Rail's published CP5 Business Plan due to resource issues following the pausing and restarting of Midland Mainline Enhancement, as mentioned above. Also, the CP5 Business Plan included a high level assumption that there would be a uniform delivery of volumes throughout the control period which was always going to be unlikely.
- (27) Telecoms – CCTV – minimal volumes were reported against this asset category this year and the latest plans for the control period suggest volumes will be significantly lower than the CP5 Business Plan. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.

Statement 1: Summary regulatory financial performance, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	308	303	5	613	607	6	305
Fixed Income	21	21	-	48	48	-	27
Variable Income	93	100	(7)	180	183	(3)	87
Other Single Till Income	85	94	(9)	175	187	(12)	90
Opex memorandum account	3	-	3	4	-	4	1
Total Income	510	518	(8)	1,020	1,025	(5)	510
Operating expenditure							
Network operations	43	34	(9)	83	70	(13)	40
Support costs	15	40	25	49	81	32	34
Traction electricity, industry costs and rates	62	69	7	125	125	-	63
Network maintenance	93	78	(15)	190	158	(32)	97
Schedule 4	27	20	(7)	41	35	(6)	14
Schedule 8	27	-	(27)	48	-	(48)	21
Total operating expenditure	267	241	(26)	536	469	(67)	269
Capital expenditure							
Renewals	228	215	(13)	461	441	(20)	233
PR13 enhancement expenditure	561	589	28	1,088	1,128	40	527
Non PR13 enhancement expenditure	1	-	(1)	8	-	(8)	7
Total capital expenditure	790	804	14	1,557	1,569	12	767
Other expenditure							
Financing costs	131	161	30	251	299	48	120
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	131	161	30	251	299	48	120
Total expenditure	1,188	1,206	18	2,344	2,337	(7)	1,156

Statement 1: Summary regulatory financial performance, Kent - continued

In £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is lower than the determination due to lower than expected property income. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year and because of the non-recurring savings in Group.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a
- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption including incidents at Dover in Kent. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are lower than the previous year which is due to the cyclical nature of renewals activities across the control period.

Statement 1: Summary regulatory financial performance, Kent – continued

in £m 2015-16 prices unless stated

- (14) Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. There was very little expenditure in this category in the year.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, Kent

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,295	4,212	83
Indexation to 2013-14 prices	201	197	4
Opening RAB for the year (2014-15 prices)	4,496	4,409	87
Indexation for the year	47	46	1
Opening RAB (2015-16 prices)	4,543	4,455	88
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	209	215	(6)
PR13 enhancements	554	542	12
Non-PR13 enhancements	1	-	1
Total enhancements	555	542	13
Amortisation	(191)	(191)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	5,116	5,021	95

RAB Regulatory financial position - cumulative, Kent

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	3,889	4,543	3,889
Adjustments for the actual capital expenditure outturn in CP4	110	-	110
Renewals	215	209	424
PR13 enhancements	514	554	1,068
Non-PR13 enhancements	6	1	7
Total enhancements	520	555	1,075
Amortisation	(191)	(191)	(382)
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB	4,543	5,116	5,116

Statement 2a: RAB - Regulatory financial position, Kent – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to a re-profiling of activity within the control period offset by efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, Kent – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Kent

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	224	215	439
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	36	-	36
Capitalised financing on CP4 deferrals	1	2	3
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	261	217	478
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(101)	(66)	(167)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(6)	(8)
Adjustments for efficient overspend	72	76	148
Capitalised financing on efficient overspend	1	5	6
25% retention of efficient overspend	(18)	(19)	(37)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	4	3	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	-	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	215	209	424
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	-	-
Adjustment for 25% retention of efficient overspend	19	19	38
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	(1)	-	(1)
Total actual renewals expenditure (see statement 9)	233	228	461

Statement 2b: RAB - reconciliation of expenditure, Kent - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	534	542	1,076
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	4	(4)	-
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	52	52
Capitalised financing on Baseline adjustments	-	1	1
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	538	591	1,129
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(79)	(77)	(156)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(7)
Adjustments for efficient overspend	-	-	-
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	67	49	116
agreements - retention of efficient overspend	(11)	(7)	(18)
Capitalised financing relating to projects with tailored protocols or fixed price	1	4	5
Adjustments for efficient overspend through spend to save framework	1	(1)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	514	554	1,068
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	7	1	8
overspend	(1)	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	1	7
Total enhancements (added to the RAB - see statement 2a)	520	555	1,075
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	1	-	1
Adjustment for 25% retention of efficient overspend	12	7	19
Other Adjustments	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	2	3	5
Other adjustments	1	-	1
Total actual enhancement expenditure (see statement 3)	536	565	1,101

Statement 2b: RAB - reconciliation of expenditure, Kent – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value with is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, Kent – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail).
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink and Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (13) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink and Crossrail programmes which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ over spend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (14) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines May 2016 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	2	-	3	4	1
Stations - Access for All (AfA)	5	9	4	14	14	-
Development	1	-	(1)	2	2	-
Level crossing safety	1	1	-	3	2	(1)
Passenger journey improvement	-	(4)	(4)	1	1	-
The strategic rail freight network	-	(4)	(4)	-	-	-
Total funds	9	4	(5)	23	23	-
Committed projects						
Crossrail	35	80	45	80	155	75
Thameslink	424	370	(54)	804	731	(73)
Total committed projects	459	450	(9)	884	886	2
HLOS capacity metric schemes						
East Kent resignalling phase 2	17	23	6	42	54	12
New Cross Grid	1	(12)	(13)	3	3	-
Kent traction power supply upgrade	7	5	(2)	10	11	1
Total HLOS capacity metric schemes	25	16	(9)	55	68	13
CP4 project rollovers						
Kent power supply upgrade (CP4)	16	28	12	54	54	-
Package 4: Gravesend Train Lengthening	-	-	-	-	-	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	16	28	12	54	54	-
Other projects						
Seven day railway projects	2	4	2	3	4	1
ERTMS Cab fitment	-	1	1	-	1	1
R&D allowance	1	-	(1)	1	1	-
Depots and stabling	1	2	1	2	2	-
Income generating property schemes	48	86	38	66	89	23
Other income generating investment framework schemes	-	(2)	(2)	-	-	-
Total other projects	52	91	39	72	97	25
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	561	589	28	1,088	1,128	40
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	5	-	(5)
Total Government sponsored schemes	-	-	-	5	-	(5)
Network Rail spend to save schemes						
Other spend to save schemes	1	-	(1)	3	-	(3)
Total Network Rail spend to save schemes	1	-	(1)	3	-	(3)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	1	-	(1)	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	562	589	27	1,096	1,128	32
Third Party PAYG	3	-	(3)	5	-	(5)
Total enhancements (see statement 2b)	565	589	24	1,101	1,128	27

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being programmes with their own protocol (such as Thameslink and Crossrail). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £562m (as shown in Statement 1). This comprises the total enhancement figure in the table above £565m less the PAYG schemes funded by third parties (£3m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
- (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is on target with the baseline.
- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure matches the baseline.

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure slightly higher for the control period to date.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and control period to date is higher than the determination which is mostly due to underperformance. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) 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. Expenditure is less than the regulator's determination in the year and control period to date due to re-profiling of work to future years. However this was offset by negative financial performance in the year (reported in Statement 5a) as the total programme is now expected to cost more than the baseline. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) East Kent re-signalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Expenditure was lower than the baseline due to re-scheduling of work in the project since the Hendy Review.
 - (b) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure was consistent target with the baseline over the first two years of the control period.
 - (c) Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure is broadly on target with the baseline.

Statement 3: Analysis of enhancement capital expenditure, Kent – continued

in £m 2015-16 prices unless stated

- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure was on target with the revised baseline for the control period to date.
 - (b) Package 4, Gravesend Train Lengthening – This project will facilitate the operational plan assumed with train operators to deliver the CP4 HLOS capacity metric by supporting 12 car operations on specific services between Gillingham and Gravesend. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure is on target with the baseline
 - (c) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (d) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (10) There is minimal activity on non-PR13 enhancement projects this year.

Statement 4: Net debt and financial ratios, Kent

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	3,266	3,231	(35)			
Adjustment for opening control period debt	-	(45)	(45)			
Opening net debt	3,266	3,186	(80)	2,590	2,530	(60)
Income						
Grant income	(308)	(303)	5	(610)	(603)	7
Fixed charges	(21)	(21)	-	(48)	(48)	-
Variable charges	(93)	(100)	(7)	(179)	(182)	(3)
Other single till income	(85)	(94)	(9)	(174)	(188)	(14)
Total income	(507)	(518)	(11)	(1,011)	(1,021)	(10)
Expenditure						
Network operations	43	34	(9)	82	70	(12)
Support costs	15	40	25	49	80	31
Traction electricity, industry costs and rates	62	69	7	124	124	-
Network maintenance	93	78	(15)	189	157	(32)
Schedule 4	27	20	(7)	41	35	(6)
Schedule 8	27	-	(27)	48	-	(48)
Renewals	228	215	(13)	459	437	(22)
PR13 enhancement	561	542	(19)	1,082	1,071	(11)
Non-PR13 enhancement	1	-	(1)	8	-	(8)
Total expenditure	1,057	998	(59)	2,082	1,974	(108)
Financing						
Interest expenditure on nominal debt - FIM covered	32	50	18	74	96	22
Interest expenditure on index linked debt - FIM covered	22	24	2	42	44	2
Expenditure on the FIM	31	38	7	62	70	8
Interest expenditure on government borrowing	26	-	(26)	34	-	(34)
Interest on cash balances held by Network Rail	(1)	(1)	-	(2)	(2)	-
Total interest costs	110	111	1	210	208	(2)
Accretion on index linked debt - FIM covered	21	50	29	40	91	51
Total financing costs	131	161	30	250	299	49
Corporation tax	-	-	-	-	-	-
Other	(52)	-	52	(16)	45	61
Movement in net debt	629	641	12	1,305	1,297	(8)
Closing net debt	3,895	3,827	(68)	3,895	3,827	(68)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.49	0.46	0.75
FFO/interest	2.37	2.20	2.46
Net debt/RAB (gearing)	72.6%	76.1%	76.3%
FFO/debt	7.3%	6.2%	7.2%
RCF/debt	4.2%	3.4%	4.3%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	2.9%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Kent has increased by £0.6bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.1bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Kent – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the income given to Kent would have been insufficient to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with the shortfall being absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The variance to the regulator's determination is mainly due to higher Schedule 8, Network maintenance and enhancements costs partly offset by savings in Support costs and interest cost savings. These variances are addressed in more detail in other statements of these Regulatory financial statements.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is broadly in line with the regulatory comparative.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, Kent

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	308	303	5	5	-	-	-	-
Fixed Income	21	21	-	-	-	-	-	-
Variable Income	52	51	1	-	-	-	1	1
Other Single Till Income	85	94	(9)	(4)	-	-	(5)	(5)
Opex memorandum account	3	-	3	4	-	-	(1)	(1)
Total Income	469	469	-	5	-	-	(5)	(5)
Expenditure								
Network operations	43	34	(9)	-	-	-	(9)	(9)
Support costs	15	40	25	-	-	-	25	25
Industry costs and rates	17	17	-	-	-	-	-	-
Traction electricity	4	3	(1)	-	-	-	(1)	(1)
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	93	78	(15)	-	-	-	(15)	(15)
Schedule 4 costs	27	20	(7)	-	5	-	(12)	(12)
Schedule 8 costs	27	-	(27)	-	-	-	(27)	(27)
Renewals	228	215	(13)	-	63	-	(76)	(19)
PR13 Enhancements	561	589	28	-	77	-	(49)	(7)
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	131	161	30	30	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,147	1,157	10	30	144	-	(164)	(65)
Total:			10	35	144	-	(169)	(70)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(70)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(21)
Under-delivery of train performance requirements (CaSL)								(6)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(27)
Total financial out / (under) performance to be recognised								(97)

Statement 5a: Total financial performance, Kent - continued

in £m 2015-16 prices unless stated

			Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%		
	A	B	C	D	E	F				
Income										
Grant Income	613	607	6	6	-	-	-	-	-	-
Fixed Income	48	48	-	-	-	-	-	-	-	-
Variable Income	97	98	(1)	-	-	-	(1)	(1)	(1)	(1)
Other Single Till Income	175	187	(12)	(4)	-	-	(8)	(8)	(8)	(8)
Opex memorandum account	4	-	4	5	-	-	(1)	(1)	(1)	(1)
Total Income	937	940	(3)	7	-	-	(10)	(10)	(10)	(10)
Expenditure										
Network operations	83	70	(13)	-	-	-	(13)	(13)	(13)	(13)
Support costs	49	81	32	2	-	-	30	30	30	30
Industry costs and rates	36	34	(2)	(2)	-	-	-	-	-	-
Traction electricity	6	6	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-	-	-
Network maintenance	190	158	(32)	-	-	-	(32)	(32)	(32)	(32)
Schedule 4 costs	41	35	(6)	-	6	-	(12)	(12)	(12)	(12)
Schedule 8 costs	48	-	(48)	-	-	-	(48)	(48)	(48)	(48)
Renewals	461	441	(20)	-	124	-	(144)	(36)	(36)	(36)
PR13 Enhancements	1,088	1,128	40	-	156	-	(116)	(18)	(18)	(18)
Non PR13 Enhancements	8	-	(8)	-	(8)	-	-	-	-	-
Financing Costs	251	299	48	48	-	-	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-	-
Total Expenditure	2,261	2,252	(9)	48	278	-	(335)	(129)	(129)	(129)
Total:			(12)	55	278	-	(345)	(139)	(139)	(139)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments										(139)
Less adjustments for under-delivery of outputs and reduced sustainability										
Under-delivery of train performance requirements (PPM)										(30)
Under-delivery of train performance requirements (CaSL)										(9)
Missed Enhancement milestones										-
Total adjustment for under-delivery outputs										(39)
Total financial out / (under) performance to be recognised										(178)

	2015-16		Cumulative			
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(41)	(49)	8	(83)	(85)	2
Total variance not included in total	(41)	(49)	8	(83)	(85)	2
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	-	-	-	2	-	2
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	41	49	(8)	83	85	(2)
Total variance not included in total	41	49	(8)	83	85	(2)

Statement 5a: Total financial performance, Kent - continued

In £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Crossrail and Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – some marginal financial outperformance has been delivered this year as a result of extra Variable usage income partly offset by lower Capacity charges. The amounts in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (3) Other single till income – financial underperformance has been recognised this year mainly due to lower rental income and lower property sales than the regulator assumed. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Lower rental income is mostly due to changes at London Bridge as well as differences between the assumptions made by the regulator about rental yields in 2015/16 compared to the current market position. Disruption at London Bridge as part of the massive upgrade to support the Thameslink programme and increased passenger capacity has limited the amount of room available for commercial premises during the development works. There has also been slower occupancy than the regulator assumed on the premises created as part of the wider development. This has been partly offset by some additional income generated by Network Rail High Speed 1 this year. The amounts included in the Variance not included in total financial performance column relates to differences between the amount of income Network Rail was expected to earn through charges to HS1 in the PR13 and the amounts set in HS1's determination (PR14). The shortfall is included in the Opex memorandum account to hold Network Rail neutral for the differences in the ORR's assumptions.

Statement 5a: Total financial performance, Kent - continued

In £m 2015-16 prices unless stated

- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates and ORR costs attributed to Kent have been classified as FPM neutral and variances relating to changes in regulatory allowances arising from the new HS1 control period (which commenced 1 April 2015) have been included in Other single till income. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations – the financial underperformance recognised this year is mostly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base notably higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased slightly this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative included changes to East Kent re-signalling and London Bridge re-signalling that were designed to achieve staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run as well as some delays in implementation. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the regulator's assumption due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. There were also additional costs associated with providing operational resilience in the London Bridge area during the massive Thameslink investment. Lastly, costs are higher than the PR13 target due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (6) Support costs – financial outperformance has been recognised this year as a result of some significant non-recurring transactions. This includes amounts received from DfT for successful completion of Thameslink programme milestones in accordance with contractual entitlements. In addition, the favourable settlement of a commercial claim has resulted in a significant increase in income. Lastly, there have been some one-off savings in Group comprising reductions in amounts payable to senior staff under performance related pay arrangements and lower than expected re-organisation expenses. Following agreement with trade unions to avert industrial action in Summer 2015 (and the associated disruption to the millions of people who rely on the train network every day) no compulsory redundancies were made in 2015/16.
- (7) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. The amounts included in the Variances not included in total financial performance column refer to net underspends that are expected to be surrendered through the Opex memorandum (refer to Statement 10).

Statement 5a: Total financial performance, Kent - continued

In £m 2015-16 prices unless stated

- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. There is some minor financial underperformance recognised this year, largely relating to unfavourable settlement of commercial claims.
- (9) Network maintenance – costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Also, there has been increased expenditure on structures inspections costs than the regulator assumed.
- (10) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Costs this year were impacted by damage to Dover sea wall over the Christmas period which resulted in closure of the line for the remainder of the year, incurring compensation costs to operators. In addition, costs include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies.
- (11) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. Difficulties of implementing and integrating the new Thameslink services at London Bridge also adversely impacted on train performance.
- (12) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects that were not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Statement 5a: Total financial performance, Kent - continued

In £m 2015-16 prices unless stated

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Kent

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	1	5	(4)	(1)		(1)	-	-
Signalling	(8)	-	(8)	(2)		(7)	5	-
Civils	(5)	31	(36)	(9)		(7)	(2)	-
Buildings	(14)	6	(20)	(5)		(3)	(2)	-
Electrical power and fixed plant	15	23	(8)	(2)		(1)	(1)	-
Telecoms	8	8	-	-		-	-	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	(2)	(2)	-	-		-	-	-
Property	4	4	-	-		-	-	-
Other renewals	(14)	(14)	-	-		1	(1)	-
Total	(13)	63	(76)	(19)		(18)	(1)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	16	40	(24)	(6)		(5)	(1)	-
Signalling	(5)	31	(36)	(9)		(10)	1	-
Civils	(10)	34	(44)	(11)		(8)	(3)	-
Buildings	(24)	-	(24)	(6)		(3)	(3)	-
Electrical power and fixed plant	45	57	(12)	(3)		(1)	(2)	-
Telecoms	7	7	-	-		-	-	-
Wheeled plant and machinery	8	8	-	-		-	-	-
IT	(7)	(7)	-	-		-	-	-
Property	7	7	-	-		-	-	-
Other renewals	(57)	(53)	(4)	(1)		1	(2)	-
Total	(20)	124	(144)	(36)		(26)	(10)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Kent - continued

In £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – financial underperformance has been reported in the current year which was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Performance this year was slightly better than the CP5 Business Plan, with savings made from contractor delivery strategies and from delivering higher volumes than planned (particularly Switches & Crossings) which helped reduce unit rates (as extra volumes does not manifest itself in proportionately higher costs).
- (3) Signalling – as with the previous year financial underperformance has been recognised in 2015/16. A large contributor to the financial underperformance was the East Kent phase 2 programme (as noted in the previous year's Regulatory financial statements) where project costs for the control period were underestimated in the regulator's determination. A review of the project undertaken early in the year also identified some additional costs. The project was commissioned in Easter 2016. These additional costs have been partially offset by savings on the Medway Valley stage of the programme where value engineering and increased focus on programme outputs enabled solutions focusing on key aspects of the project to be enacted.
- (4) Civils – once more, financial underperformance has been reported against this category. There was a notable contribution to the underperformance from the emergency remediation works required on the Dover sea wall. As reported in the media an asset failure on Christmas Eve lead to the closure of the line between Folkestone West and Dover Prior. As the necessary restructuring works will continue into 2016/17, financial underperformance is also expected next year. Access constraints contributed to lower structures volumes which resulted in higher than planned unit costs (as lower volumes does not manifest itself in proportionately lower costs). In addition, extra earthworks costs were incurred due to unfavourable settlement of prior year contractor disputes. Also, emergency works were required due to deterioration in asset condition, which includes the impact of some weather-related remediation activity, which were not included in the regulatory allowance.
- (5) Buildings – financial underperformance was reported in the year, continuing the trend from the previous year. This was mainly due to efficiencies assumed in the regulatory settlement not being achieved. There were a number of initiatives due to be implemented in this control period including overhead reduction, procurement packaging and contracting strategy which were designed to bridge the gap to the regulator's targets which have not been introduced. In addition, the savings expected to be delivered from some of the other efficiency initiatives were overoptimistic and the actual efficiencies generated have been lower.
- (6) Electrical power and fixed plant – once more, financial underperformance has been reported against this category. Lower volumes (notably for DC distribution) caused by access constraints and re-prioritization of workbank to remain within DfT funding position (refer to Statement 4) resulted in increased unit costs (as lower volumes does not manifest itself in proportionately lower costs). In addition, efficiencies assumed by the regulator in their determination did not materialise.

Statement 5c: Total financial performance - enhancement variance analysis, Kent

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(54)	(13)	-	(41)	(4)
Crossrail	45	53	-	(8)	(3)
Other Enhancements	36	36	-	-	-
Total	27	76	-	(49)	(7)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(73)	35	-	(108)	(15)
Crossrail	75	83	-	(8)	(3)
Other Enhancements	30	30	-	-	-
Total	32	148	-	(116)	(18)

Statement 5c: Total financial performance - enhancement variance analysis, Kent - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with the notable exception being and programmes with their own protocol (such as Thameslink and Crossrail).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works) and increased traffic management expenditure. These reasons have led to negative FPM being declared in both years of the control period to date. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (2) Crossrail – underperformance has been recognised this year in light of additional programme costs for due to extra station works, signalling contractor works, and impact of delays in the design details. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspends.
- (3) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Kent

in £m 2015-16 prices unless stated

	A	B	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	C	D Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
		Variance to REBS Baseline					
Income							
Variable usage charge	22	21	1	-	-	-	1
Capacity charge	39	42	(3)	-	-	-	(3)
Electricity asset utilisation charge	2	2	-	-	-	-	-
Property income	76	81	(5)	-	-	-	(5)
Expenditure	-	-	-	-	-	-	-
Network operations	83	67	(16)	-	-	-	(16)
Support costs	49	88	39	-	2	-	37
RSSB and BT Police	11	11	-	-	-	-	-
Network maintenance	190	161	(29)	-	-	-	(29)
Schedule 4 costs	41	39	(2)	10	-	-	(12)
Schedule 8 costs	48	-	(48)	-	-	-	(48)
Renewals	461	406	(55)	89	-	(108)	(36)
Total REBS performance			(118)	99	2	(108)	(111)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(30)
Under-delivery of train performance requirements (CaSL)							(9)
Total adjustment for under delivery of outputs and reduced sustainability							(39)
Cumulative performance to end of 2015-16							(150)
Less cumulative outperformance recognised up to the end of 2014-15							(67)
Net REBS performance for 2015-16							(83)

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, Kent – continued

In £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	308	303	5	613	607	6	305
Franchised track access income							
Fixed charges	21	21	-	48	48	-	27
Variable charges							
Variable usage charge	11	9	2	20	19	1	9
Traction electricity charges	41	49	(8)	83	85	(2)	42
Electrification asset usage charge	1	1	-	2	2	-	1
Capacity charge	20	21	(1)	39	41	(2)	19
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	20	20	-	36	36	-	16
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	93	100	(7)	180	183	(3)	87
Total franchised track access income	114	121	(7)	228	231	(3)	114
Total franchised track access and grant income	422	424	(2)	841	838	3	419
Other single till income							
Property income	36	48	(12)	76	91	(15)	40
Freight income	2	2	-	3	5	(2)	1
Open access income	-	-	-	-	-	-	-
Stations income	29	28	1	58	56	2	29
Facility and financing charges	-	-	-	-	1	(1)	-
Depots Income	6	7	(1)	13	14	(1)	7
Other income	12	9	3	25	20	5	13
Total other single till income	85	94	(9)	175	187	(12)	90
Total income	507	518	(11)	1,016	1,025	(9)	509

Statement 6a: Analysis of income, Kent - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is more than offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was in line with the determination. The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges mostly offset by higher Grant income.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now more than mitigated meaning the control period to date position is slightly lower than the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Kent - continued

In £m 2015-16 prices unless stated

- (5) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as explained above). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is higher than 2014/15 in line with the regulator's expectation.
- (6) Property income – this is lower than the determination due to both lower rental income and lower property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Lower rental income is mostly due to changes at London Bridge as well as differences between the assumptions made by the regulator about rental yields in 2015/16 compared to the current market position. Disruption at London Bridge as part of the massive upgrade to support the Thameslink programme and increased passenger capacity has limited the amount of room available for commercial premises during the development works. This also accounts for lower income compared to the previous year. There has also been slower occupancy than the regulator assumed on the premises created as part of the wider development.
- (7) Other – this mostly consists of amounts earned from Network Rail's operation and maintenance of the High Speed 1 part of the network. Unlike the rest of the network, Network Rail does not own this under its licence but manages the operation and maintenance of the line on behalf of a third party (High Speed 1 Limited). The income received from this is included in Other and is all recorded in Kent to reflect the geographic location of the High Speed 1 line. Income generated this year is higher than the determination assumed due to some non-recurring transactions in the current year which flattered the results. Underlying income in this area is expected to be lower than the regulator's determination for the remainder of the control period. The amounts Network Rail can charge High Speed 1 Limited are subject to a separate price control determination undertaken by ORR which is not co-terminus with Network Rail's own regulatory period. The PR13 assumed that the amounts Network Rail would receive would be in line with High Speed 1's existing control period costs. However, the amount earned under this new regulatory regime (which started 1 April 2015) is expected to be lower than the PR13 assumption, with the difference in the assumptions being eligible for inclusion in the Opex memorandum (refer to Statement 10). Income is lower than the previous year, reflecting the change in regulatory regimes partly offset by the non-recurring transactions noted above.

Statement 6b: Analysis of other single till income, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	34	45	(11)	73	88	(15)	39
Property sales	2	7	(5)	3	12	(9)	1
Adjustment for commercial opex	-	(4)	4	-	(9)	9	-
Total property income	36	48	(12)	76	91	(15)	40
Freight income							
Freight variable usage charge	1	1	-	2	3	(1)	1
Freight traction electricity charges	-	1	(1)	-	1	(1)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	1	-	1	1	-	1	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	2	2	-	3	5	(2)	1
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	3	3	-	6	6	-	3
Qualifying expenditure	5	5	-	10	9	1	5
Total managed stations income	8	8	-	16	15	1	8
Franchised stations income							
Long term charge	13	12	1	26	25	1	13
Stations lease income	8	8	-	16	16	-	8
Total franchised stations income	21	20	1	42	41	1	21
Total stations income	29	28	1	58	56	2	29
Facility and financing charges							
Facility charges	-	-	-	-	1	(1)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	-	-	-	-	1	(1)	-
Depots income	6	7	(1)	13	14	(1)	7
Other	12	9	3	25	20	5	13
Total other single till income	85	94	(9)	175	187	(12)	90

Statement 6b: Analysis of other single till income, Kent – (unaudited) continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	15	18	3	26	37	11	11
Signalling shift managers	1	1	-	5	2	(3)	4
Local operations managers	2	1	(1)	5	3	(2)	3
Controllers	2	3	1	4	5	1	2
Electrical control room operators	3	1	(2)	5	2	(3)	2
Total signaller expenditure	23	24	1	45	49	4	22
Non-signaller expenditure							
Mobile operations managers	3	3	-	6	5	(1)	3
Managed stations	5	3	(2)	9	6	(3)	4
Performance	2	1	(1)	2	2	-	-
Customer relationship executives	-	-	-	-	1	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	7	2	(5)	15	3	(12)	8
Other	-	1	1	1	2	1	1
Operations delivery	-	-	-	1	-	(1)	1
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	1	-	(1)	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	5	2	(3)	8	5	(3)	3
Other operating income	(3)	(2)	1	(5)	(3)	2	(2)
Total non-signaller expenditure	20	10	(10)	38	21	(17)	18
Total network operations expenditure	43	34	(9)	83	70	(13)	40
Support costs							
Core support costs							
Human resources	3	5	2	6	10	4	3
Information management	4	5	1	7	11	4	3
Government and corporate affairs	1	1	-	2	3	1	1
Group strategy	-	1	1	1	2	1	1
Finance	1	2	1	2	5	3	1
Business services	1	2	1	2	3	1	1
Accommodation	13	12	(1)	28	23	(5)	15
Utilities	2	3	1	5	6	1	3
Insurance	3	3	-	6	6	-	3
Legal and inquiry	1	-	(1)	1	1	-	-
Safety and sustainable development	2	1	(1)	4	2	(2)	2
Strategic sourcing	-	1	1	1	2	1	1
Business change	1	-	(1)	1	-	(1)	-
Other corporate functions	2	-	(2)	3	-	(3)	1
Core support costs	34	36	2	69	74	5	35
Other support costs							
Asset management services	2	2	-	4	2	(2)	2
Network Rail telecoms	3	3	-	6	6	-	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(8)	-	8	(9)	-	9	(1)
Commercial property	(3)	(1)	2	(4)	(1)	3	(1)
Group costs	(13)	-	13	(17)	(1)	16	(4)
Total other support costs	(19)	4	23	(20)	7	27	(1)
Total support costs	15	40	25	49	81	32	34
Traction electricity, industry costs and rates							
Traction electricity	45	52	7	89	91	2	44
Business rates	10	11	1	21	21	-	11
British transport police costs	5	4	(1)	10	9	(1)	5
RSSB costs	-	1	1	1	1	-	1
ORR licence fee and railway safety levy	2	1	(1)	4	2	(2)	2
Reporters fees	-	-	-	-	-	-	-
Other industry costs	-	-	-	-	1	1	-
Total traction electricity, industry costs and rates	62	69	7	125	125	-	63
Total network operations expenditure, support costs, traction electricity, industry costs and rates	120	143	23	257	276	19	137

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Kent - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are 25 per cent higher than the regulator’s assumptions. This is mostly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base notably higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased slightly this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative included changes to East Kent re-signalling and London Bridge re-signalling that were designed to achieve staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run as well as some delays in implementation. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. There were also additional costs associated with providing operational resilience in the London Bridge area during the massive Thameslink investment. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Support costs are significantly lower than the determination (largely arising from one-off savings in Group and Infrastructure Projects) and lower than the previous year (for the same reasons).
- (5) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are in line with the previous year. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance – costs were slightly lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Kent - continued

In £m 2015-16 prices unless stated

- (7) Accommodation – these property expenses were higher than the determination in the year and the control period to date due to Network Rail utilising a more expensive property portfolio than the regulator assumed. This was mostly due to new office space being acquired in central London at higher rents than the regulatory determination assumed.
- (8) Insurance - costs are on target with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events.
- (9) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources and Finance are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (10) Infrastructure Projects – during the year income was recognised for achieving completion of contractual milestones on the Thameslink programme associated with London Bridge which resulted in a favourable result compared to the determination assumption and the prior year. Under the terms of the Thameslink protocol amounts are payable to or recoverable from DfT for delivering certain key parts of the programme to specified deadlines.
- (11) Commercial property – additional income was generated this year compared to the regulator's assumption from extra commercial opportunities and additional car park income.
- (12) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off transactions. The current year benefitted from recognising a favourable commercial settlement and from reducing amounts payable to senior management under performance related pay arrangements. In addition, savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets.
- (13) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year with the exception of traction electricity costs. This group of costs is lower than the determination mostly due to lower Traction electricity costs which are driven by market rates.
- (14) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6). Costs are broadly similar to the previous year.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Kent

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	19	17	17
MOMS	3	3	3
Control	3	2	5
Planning & Performance Staff Costs	3	1	1
Managed Stations Staff Costs	1	2	2
Operations Management Staff Costs	2	-	1
Other	11	15	14
Total operations & customer services costs	42	40	43
Total Network Operations	42	40	43
Support			
Human resources			
Functional support	2	-	1
Training (inc Westwood)	1	1	1
Graduates	-	-	-
Apprenticeships	-	1	1
Other	1	1	-
Total human resources	4	3	3
Information management			
Support	1	-	-
Projects	-	-	-
Licences	-	-	-
Business operations	3	3	4
Other	-	-	-
Total information management	4	3	4
Finance	1	1	1
Business Change	-	-	1
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	-
Planning & development	1	1	-
Safety & compliance	1	-	-
Other corporate services	3	1	2
Commercial property	8	14	10
Infrastructure Projects	(3)	(1)	(8)
Route Services	1	1	-
Asset management & Engineering/Asset heads	10	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	3	2
Network Rail Telecoms	-	3	3
Digital Railway	-	1	1
Safety Technical & Engineering	-	4	3
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	(2)	-
Legal and inquiry	-	-	1
Group/central			
Pensions	-	-	-
Insurance	2	3	3
Redundancy/reorganisation costs	5	1	1
Staff incentives/Bonus Reduction	-	(2)	-
Accommodation & Support Recharges	-	(2)	(2)
Commercial claims settlements	-	-	(11)
ORR financial penalty	5	(2)	-
Other	-	1	(1)
Total group/central costs	12	(1)	(10)
Total support	43	34	15
Total network operations and support costs	85	74	58

Statement 7b: Analysis of network operations expenditure and support costs by activity, Kent (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	38	27	(11)	76	55	(21)	38
Signalling	15	12	(3)	32	25	(7)	17
Civils	12	11	(1)	20	22	2	8
Buildings	1	4	3	9	8	(1)	8
Electrical power and fixed plant	8	5	(3)	15	11	(4)	7
Telecoms	2	2	-	4	4	-	2
Other network operations	14	12	(2)	28	23	(5)	14
Asset management services	3	2	(1)	5	5	-	2
National Delivery Service	(1)	3	4	(1)	6	7	-
Property	2	1	(1)	4	2	(2)	2
Group	(1)	(1)	-	(2)	(3)	(1)	(1)
Total maintenance expenditure	93	78	(15)	190	158	(32)	97

Statement 8a: Summary analysis of network maintenance expenditure, Kent - continued

In £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are lower than the previous year largely due to less Reactive maintenance works required this year and reductions in project expenditure from 2014/15 (vegetation management and tidy railway) which have been partly offset by additional structures inspections costs.
- (2) Track – costs are higher than the determination which includes a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a corresponding saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost based across the control period to date and is expected to continue for the remainder of CP5. Costs are broadly in line with the previous year. Expenditure is broadly similar to the previous year which reflects extra work completed around the London Bridge area to support the new Thameslink services offset by some underlying efficiencies achieved.
- (3) Civils – costs were slightly higher than the determination which was a combination of lower Reactive Maintenance activity more than offset by additional structures inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. This saving has been mitigated by extra inspections costs due to contractor disputes and increased activity.
- (4) Buildings – all 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. Expenditure in the current year in this area is less than the regulator assumed which partly offsets the additional activity in the first year of the control period. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, lower expenditure on these initiatives yielded a year-on-year saving. This saving has been offset by extra resilience costs connected with the improving performance at London Bridge during the large Thameslink upgrade programme.
- (6) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	52	53	1	95	111	16	43
Signalling	53	45	(8)	116	111	(5)	63
Civils	38	33	(5)	79	69	(10)	41
Buildings	27	13	(14)	48	24	(24)	21
Electrical power and fixed plant	27	42	15	45	90	45	18
Telecoms	2	10	8	7	14	7	5
Wheeled plant and machinery	6	8	2	11	19	8	5
Information Technology	8	6	(2)	19	12	(7)	11
Property	1	5	4	2	9	7	1
Other renewals	14	-	(14)	39	(18)	(57)	25
Total renewals expenditure	228	215	(13)	461	441	(20)	233

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is slightly higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period partly offset by higher underlying costs. These extra costs have resulted in financial underperformance in the current year as reported in Statement 5. Expenditure in the year is broadly in line with the previous year.
- (2) Track – Costs are higher the determination assumed mostly due to higher like-for-like costs for the workbank delivered. Nearly half of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan due to the high cost of track renewals at the end of control period 4 compared to the regulator's assumption meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. This year, the local route team also made the decision to invest in some extra initiatives to improve the management of the asset and improve train performance. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are higher than the previous year due to extra delivery of Plain Line (Conventional and Refurbishment) and Switches & Crossings (as set out in Statement 14).
- (3) Signalling – overall, expenditure was higher than the determination expected more than offsetting the lower expenditure in the previous year. These additional costs were largely due to higher underlying expenses on the Signalling portfolio (notably for East Kent phase 2 project) which resulted in the recognition of financial underperformance in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was lower than the previous year which included higher investment in the East Kent Phase 2 programme.
- (4) Civils – expenditure is higher than the determination expected which is due to higher underlying costs partly offset by deferral of activity into future years. There was a notable contribution to the extra underlying costs from the emergency remediation works required on the Dover sea wall. As reported in the media an asset failure on Christmas Eve led to the closure of the line between Folkestone West and Dover Prior. Access constraints contributed to lower structures volumes which resulted in higher than planned unit costs (as lower volumes does not manifest itself in proportionately lower costs). In addition, extra earthworks costs were incurred due to unfavourable settlement of prior year contractor disputes. Also, emergency works were required due to deterioration in asset condition, which includes the impact of some weather-related remediation activity, which were not included in the regulatory allowances. As a result Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is broadly in line with the previous year.
- (5) Buildings – expenditure in the year was higher than the determination mainly due to underlying costs being higher than the determination. Efficiencies that were assumed by the regulator appear to have been too optimistic compared to the project costs experienced this year. Consequently, Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are higher than the previous year reflecting extra investment on Franchised stations this year.

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2015-16 prices unless stated

- (6) Electrical power and fixed plant – expenditure in the year was lower than the determination which was mostly due to re-profiling of works to the future partly offset by higher underlying costs. Lower volumes (notably for DC distribution) caused by access constraints and reprioritisation of workbank to remain within DfT funding position (refer to Statement 4) resulted in increased unit costs (as lower volumes does not manifest itself in proportionately lower costs). In addition, efficiencies assumed by the regulator in their determination did not materialise. As a result Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year with extra DC distribution investment, although it remains some way behind the regulator's targets.
- (7) Telecoms – expenditure in the year was slightly lower than the determination, mainly due to less activity on SISS (Station Information and Surveillance Systems) assets. Resource constraints have resulted in a re-prioritisation of the workbank and so some activity has had to be deferred until future control periods. Expenditure was lower in the current year mainly due to lower costs allocated to the route from national projects. In the prior year there was considerable investment in FTNx programmes which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15).
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (10) Other renewals
- Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2015-16 prices unless stated

- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- d. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and electrification schemes. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Kent

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	18	17	(1)	39	39	-
High output renewal	-	-	-	1	-	(1)
Plain line refurbishment	4	3	(1)	7	7	-
S&C renewal	18	17	(1)	28	30	2
S&C refurbishment	5	3	(2)	8	10	2
Track non-volume	2	4	2	3	8	5
Off track	5	9	4	9	17	8
Total track	52	53	1	95	111	16
Signalling						
Full conventional resignalling	38	12	(26)	95	45	(50)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	8	8	-	11	11
Targeted component renewal	-	2	2	-	12	12
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	5	2	3	8	5
Level crossings	8	11	3	10	15	5
Minor works	4	4	-	8	13	5
Centrally managed costs	-	3	3	-	7	7
Other	-	-	-	-	-	-
Total signalling	53	45	(8)	116	111	(5)
Civils						
Underbridges	10	13	3	19	31	12
Overbridges	2	1	(1)	4	2	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	-	(1)	3	-	(3)
Tunnels	1	7	6	2	9	7
Other assets	9	3	(6)	13	6	(7)
Structures other	1	4	3	4	7	3
Earthworks	14	5	(9)	34	14	(20)
Other	-	-	-	-	-	-
Total civils	38	33	(5)	79	69	(10)
Buildings						
Managed stations	3	5	2	13	6	(7)
Franchised stations	21	8	(13)	30	14	(16)
Light maint depots	1	-	(1)	1	-	(1)
Depot plant	-	-	-	-	2	2
Lineside buildings	2	-	(2)	3	1	(2)
MDU buildings	-	-	-	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	27	13	(14)	48	24	(24)

Statement 9b: Detailed analysis of renewals expenditure, Kent - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	1	-	(1)
Overhead Line	-	-	-	-	-	-
DC distribution	12	23	11	18	49	31
Conductor rail	6	4	(2)	8	11	3
SCADA	-	3	3	-	7	7
Energy efficiency	-	-	-	-	-	-
System capability / capacity	3	7	4	5	15	10
Other electrical power	3	2	(1)	9	2	(7)
Fixed plant	3	3	-	4	6	2
Total electrical power and plant	27	42	15	45	90	45
Telecoms						
Operational communications	-	1	1	-	1	1
Network	1	1	-	1	1	-
SISS	-	7	7	1	9	8
Projects and other	-	-	-	-	1	1
Non-route capital expenditure	1	1	-	5	2	(3)
Total telecoms	2	10	8	7	14	7
Wheeled plant and machinery						
High output	3	1	(2)	4	6	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	1	1	-
Intervention	1	4	3	1	6	5
Materials delivery	1	-	(1)	3	-	(3)
On track plant	1	2	1	1	2	1
Seasonal	-	-	-	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	1	1	1	1	-
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	6	8	2	11	19	8
Information Technology						
IM delivered renewals	8	5	(3)	18	11	(7)
Traffic management	-	1	1	1	1	-
Total information technology	8	6	(2)	19	12	(7)
Property						
MDUs/offices	-	4	4	1	7	6
Commercial estate	1	1	-	1	2	1
Corporate services	-	-	-	-	-	-
Total property	1	5	4	2	9	7
Other renewals						
Asset information strategy	5	3	(2)	5	8	3
Intelligent infrastructure	-	1	1	1	2	1
Faster isolations	1	3	2	1	5	4
LOWS	-	-	-	-	-	-
Small plant	-	1	1	-	1	1
Research and development	-	-	-	-	-	-
Phasing overlay	-	(8)	(8)	-	(34)	(34)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	7	-	(7)	31	-	(31)
Other	1	-	(1)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	14	-	(14)	39	(18)	(57)
Total renewals	228	215	(13)	461	441	(20)

Statement 9b: Detailed analysis of renewals expenditure, Kent (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Kent

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	27	20	(7)	41	35	(6)	14
Access charge supplement Income	(20)	(20)	-	(36)	(36)	-	(16)
Net (income)/cost	7	-	(7)	5	(1)	(6)	(2)
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	27	-	(27)	48	-	(48)	21
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	27	-	(27)	48	-	(48)	21

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	(1)	(1)	-
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	-	1
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	2	1
Reporters fees	-	-	-
Other industry costs	-	-	-
Network Rail HS1	4	4	-
Difference in CP4 opex memo	-	(1)	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	3	4	1

Statement 10: Other information, Kent - continued

In £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs were higher than the regulator assumed. This included the impact of the damage to Dover sea wall over the Christmas period which resulted in closure of the line for the remainder of the year, incurring compensation costs to operators. In addition, costs include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Schedule 4 has a net cost position this year compared to a net income position in the previous year mostly as a result of the additional one-off costs noted above.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for the current year. Given the CP4 exit rate and the experiences of the first year of the control period this result is unsurprising. Costs are higher than the previous year reflecting the additional challenges faced by Kent this year including integration of Thameslink services and network congestion.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to differences in income earned from Network Rail High Speed 1. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 will be added to the Opex memorandum. This has been partially offset by losses made on the Volumes incentive mechanism (refer to Statement 12). The net positive balance currently on the Opex memorandum for the control period to date suggests that Network Rail's income in the PR18 will be increased to reflect the shortfall received in CP5 subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, Kent

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	0	20	20	0.2%	1.47	pence per passenger train mile
Passenger farebox (millions)	2	0	860	826	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	(1)	0	1	1.8%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	383	455	2.4%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	0	(1)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Kent - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has underperformed the regulator's targets and has recognised a £1m loss as a result. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). As the first year was neutral for this mechanism in Kent, there is now a cumulative underperformance for the control period.
- (2) Freight train miles declined this year compared to the previous year. Issues with the deterioration in the demand for UK steel in the wider economy, reduced utilisation of the Channel Tunnel (due to tightened security) and the global drop in oil usage have all contributed to lower freight activity. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time meaning Network Rail has to work harder to retain market share rather than increase it as the volume incentive mechanism implies.

Statement 14: Renewals volumes, unit costs and expenditure, Kent

in £m 2015-16 prices unless stated

2015-16		Actual							Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost £m	Total Cost
					volume £m	volume costs £m				volume £m	volume costs £m				volume £m	volume costs £m		
Track	Track plain line	km	355	62	22	-	22	448	58	26	-	26	93	(4)	4	-	-	4
	Conventional		462	39	18	-	18	486	37	18	-	18	25	(2)	-	-	-	-
	High Output		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment		174	23	4	-	4	381	21	8	-	8	207	(2)	4	-	-	4
	S&C	point ends	223	103	23	-	23	247	89	22	-	22	24	(14)	(1)	-	-	(1)
	Track Drainage		3	708	2	-	2	1	5,968	3	-	3	(2)	5,260	1	-	-	1
	Renewal	lm	n/a	708	n/a	n/a	n/a	n/a	5,089	n/a	n/a	n/a	n/a	4,381	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	197	n/a	n/a	n/a	n/a	197	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	682	n/a	n/a	n/a	n/a	682	n/a	n/a	n/a	n/a
	Fencing	km	49	41	2	-	2	15	67	1	-	1	(34)	26	(1)	-	-	(1)
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	-	1
	Off track		n/a	n/a	n/a	3	3	n/a	n/a	n/a	5	5	n/a	n/a	n/a	2	-	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				49	3	52			52	6	58			3		3	6
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	38	n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	-	(18)
	Full conventional resignalling	SEU	172	221	38	-	38	43	281	12	-	12	(129)	60	(26)	-	-	(26)
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	20	-	-	-	273	22	6	-	6	273	2	6	-	-	6
	Targeted component renewal	SEU	-	-	-	-	-	1,000	2	2	-	2	1,000	2	2	-	-	2
	Level crossings	No.	1,333	6	8	-	8	800	15	12	-	12	(533)	9	4	-	-	4
	Signalling other		-	-	-	7	7	-	-	-	13	13	-	-	-	6	-	6
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	5	5	n/a	n/a	n/a	2	-	2
	Minor works		n/a	n/a	n/a	4	4	n/a	n/a	n/a	5	5	n/a	n/a	n/a	1	-	1
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	-	3
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				46	7	53			32	13	45			(14)		6	(8)
Civils	Key structures		n/a	n/a	n/a	-	14	n/a	n/a	n/a	-	26	n/a	n/a	n/a	-	-	12
	Underbridges	m2	2	4,737	10	-	10	2	7,457	17	-	17	0	2,720	7	-	-	7
	Overbridges (incl BG3)	m2	5	398	2	-	2	3	625	2	-	2	(2)	227	-	-	-	-
	Tunnels	m2	4	250	1	-	1	0	35,100	7	-	7	(4)	34,850	6	-	-	6
	Major structures	m2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	-	(1)
	Other structures assets		n/a	n/a	n/a	-	9	n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	-	(5)
	Culverts	m2	2	419	1	-	1	-	59	-	-	-	(2)	(360)	(1)	-	-	(1)
	Footbridges	m2	111	18	2	-	2	4	237	1	-	1	(107)	219	(1)	-	-	(1)
	Coastal & Estuary Defences	m	200	30	6	-	6	1	700	1	-	1	(199)	670	(5)	-	-	(5)
	Retaining Walls	m2	-	-	-	-	-	4	517	2	-	2	4	517	2	-	-	2
	Earthworks	5-chain	58	226	13	-	13	50	121	6	-	6	(8)	(105)	(7)	-	-	(7)
	EW Drainage		0	5,926	1	-	1	1	1,046	1	-	1	1	(4,880)	-	-	-	-
	Renewal	lm	n/a	40	n/a	n/a	n/a	n/a	360	n/a	n/a	n/a	n/a	320	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	35	n/a	n/a	n/a	n/a	35	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	5,726	n/a	n/a	n/a	n/a	651	n/a	n/a	n/a	n/a	(5,075)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	160	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(160)	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	2	2	n/a	n/a	n/a	1	-	1
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(4)	(4)	n/a	n/a	n/a	(4)	-	(4)
	Total				36	2	38			37	(2)	35			1		(4)	(3)

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Other non-volume costs					Other non-volume costs					Other non-volume costs					
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m				
Buildings	Franchised Stations		n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	(11)	
	Footbridges	m2	5	1,215	6	-	6	n/a	1,250	n/a	n/a	-	n/a	35	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	1	2,777	3	-	3	n/a	380	n/a	n/a	-	n/a	(2,397)	n/a	n/a	-	
	Platforms	m2	1	4,506	4	-	4	n/a	4,184	n/a	n/a	-	n/a	(322)	n/a	n/a	-	
	Buildings	m2	-	176	-	-	-	n/a	-	n/a	n/a	-	n/a	(176)	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	8	8	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Managed Stations		n/a	n/a	n/a	-	3	n/a	-	n/a	-	3	n/a	n/a	n/a	n/a	-	
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Platforms	m2	-	-	-	-	-	n/a	700	n/a	n/a	-	n/a	700	n/a	n/a	-	
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Light Maintenance Depots		-	-	1	-	1	-	-	n/a	-	-	-	n/a	-	n/a	n/a	(1)
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Lineside Buildings	m2	2	1,288	2	-	2	9	230	n/a	n/a	2	n/a	(1,058)	n/a	n/a	-	
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	1	
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(3)	n/a	n/a	n/a	n/a	(3)	
Total					16	11	27					13				(14)		

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m			
			£k/unit	unit			£m	£m			£k/unit	unit			£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	429	14	6	-	6	571	7	n/a	n/a	4	n/a	(7)	n/a	n/a	(2)
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	DC distribution		-	-	-	-	12	n/a	-	n/a	n/a	23	n/a	n/a	n/a	n/a	11
	HV Switchgear Renewal	No.	667	3	2	-	2	n/a	6	n/a	n/a	-	n/a	3	n/a	n/a	-
	HV Cables	km	833	6	5	-	5	n/a	18	n/a	n/a	-	n/a	12	n/a	n/a	-
	LV Switchgear Renewal	No.	100	10	1	-	1	n/a	44	n/a	n/a	-	n/a	34	n/a	n/a	-
	LV Cables	km	273	11	3	-	3	n/a	7	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Fixed plant		-	-	-	-	3	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	-
	Signalling Power Cable Renewal	km	-	-	1	-	1	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Principle Supply Point Renewal	No.	38	53	2	-	2	n/a	-	n/a	n/a	-	n/a	(53)	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
SCADA		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
System capability / capacity		-	-	-	3	3	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	4	
Other electrical power		-	-	-	3	3	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	(1)	
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
Total					20	7	27					42					15
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	6
	Customer Information Systems	No.	-	-	-	-	-	n/a	60	n/a	n/a	-	n/a	60	n/a	n/a	-
	Public Address	No.	-	-	-	-	-	n/a	1,562	n/a	n/a	-	n/a	1,562	n/a	n/a	-
	CCTV	No.	-	-	-	-	-	n/a	758	n/a	n/a	-	n/a	758	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	230	n/a	n/a	-	n/a	230	n/a	n/a	-
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	5	n/a	n/a	-	n/a	5	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	-
	Network		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1
Total						2	2					9					

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan								
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m					
Wheeled plant and machinery	High output		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	(2)	(2)			
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	3	3			
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(1)	(1)			
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	1	1			
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Road vehicles		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1			
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-				
Total						6	6				8	8					2	2			
IT	IM delivered renewals		n/a	n/a	n/a	8	8	n/a	n/a	n/a	7	7	n/a	n/a	n/a	n/a	(1)	(1)			
	Traffic management		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	3	3			
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
Total						8	8				10	10					2	2			
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	4	4			
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	-	-			
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
Total						1	1				5	5					4	4			
Other renewals	Asset information strategy		n/a	n/a	n/a	5	5	n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	(2)	(2)			
	Intelligent infrastructure		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1			
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	1	1			
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1			
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-			
	CP4 Rollover		n/a	n/a	n/a	7	7	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(7)	(7)			
	Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	1	1			
Total						14	14				9	9					(5)	(5)			
Total Renewals							228	234													

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	439	107	47	-	47	474	137	65	-	-	65	35	30	18	-	-	18
	Conventional		565	69	39	-	39	539	89	48	-	-	48	(26)	20	9	-	-	9
	High Output		-	-	1	-	1	-	-	-	-	-	-	-	(1)	-	-	(1)	
	Refurbishment		184	38	7	-	7	354	48	17	-	-	17	170	10	10	-	-	10
	S&C	point ends	209	172	36	-	36	231	186	43	-	-	43	22	14	7	-	-	7
	Track Drainage		2	813	2	-	2	1	11,936	6	-	-	6	(2)	11,123	4	-	-	4
	Renewal	lm	n/a	813	n/a	n/a	n/a	n/a	10,178	n/a	n/a	n/a	n/a	n/a	9,365	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	394	n/a	n/a	n/a	n/a	n/a	394	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	1,364	n/a	n/a	n/a	n/a	n/a	1,364	n/a	n/a	n/a	n/a
	Fencing	km	56	54	3	-	3	20	98	2	-	-	2	(35)	44	(1)	-	-	(1)
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	-	2	n/a	n/a	n/a	2	-	2
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	10	-	10	n/a	n/a	n/a	3	-	3
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				88	7	95			116	12	128				28	5	33	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	95	n/a	n/a	n/a	-	-	66	n/a	n/a	n/a	-	-	(29)
	Full conventional resignalling	SEU	430	221	95	-	95	164	281	46	-	-	46	(266)	60	(49)	-	-	(49)
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	20	-	-	-	409	22	9	-	-	9	409	2	9	-	-	9
	Targeted component renewal	SEU	-	-	-	-	-	216	51	11	-	-	11	216	51	11	-	-	11
	Level crossings	No.	1,429	7	10	-	10	1,000	17	17	-	-	17	(429)	10	7	-	-	7
	Signalling other		-	-	-	11	11	-	-	-	24	-	24	-	-	-	13	-	13
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	8	-	8	n/a	n/a	n/a	5	-	5
	Minor works		n/a	n/a	n/a	8	8	n/a	n/a	n/a	10	-	10	n/a	n/a	n/a	2	-	2
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	-	6	n/a	n/a	n/a	6	-	6
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				105	11	116			83	24	107				(22)	13	(9)	
Civils	Key structures		n/a	n/a	n/a	-	28	n/a	n/a	n/a	-	-	51	n/a	n/a	n/a	-	-	23
	Underbridges	m2	3	6,636	19	-	19	1	29,709	37	-	-	37	(2)	23,073	18	-	-	18
	Overbridges (incl BG3)	m2	7	595	4	-	4	6	819	5	-	-	5	(1)	224	1	-	-	1
	Tunnels	m2	8	250	2	-	2	0	45,400	9	-	-	9	(8)	45,150	7	-	-	7
	Major structures	m2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	(3)	-	(3)
	Other structures assets		n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	-	8	n/a	n/a	n/a	-	-	(5)
	Culverts	m2	4	476	2	-	2	-	118	-	-	-	-	(4)	(358)	(2)	-	-	(2)
	Footbridges	m2	20	152	3	-	3	5	440	2	-	-	2	(15)	288	(1)	-	-	(1)
	Coastal & Estuary Defences	m	88	80	7	-	7	1	1,400	2	-	-	2	(86)	1,320	(5)	-	-	(5)
	Retaining Walls	m2	-	-	1	-	1	4	1,034	4	-	-	4	4	1,034	3	-	-	3
	Earthworks	5-chain	117	281	33	-	33	51	277	14	-	-	14	(67)	(4)	(19)	-	-	(19)
	EW Drainage		0	7,197	1	-	1	1	2,155	2	-	-	2	1	(5,042)	1	-	-	1
	Renewal	lm	n/a	48	n/a	n/a	n/a	n/a	740	n/a	n/a	n/a	n/a	n/a	692	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	60	n/a	n/a	n/a	n/a	113	n/a	n/a	n/a	n/a	n/a	53	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	6,524	n/a	n/a	n/a	n/a	1,302	n/a	n/a	n/a	n/a	n/a	(5,222)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	565	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(565)	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	4	4	n/a	-	n/a	4	-	4	n/a	n/a	n/a	-	-	-
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(9)	-	(9)	n/a	n/a	n/a	(9)	-	(9)
	Total				72	7	79			75	(5)	70				3	(12)	(9)	

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	
					volume	volume				volume	volume				volume	volume		volume
				£m	£m	£m				£m	£m				£m	£m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	30	n/a	n/a	n/a	-	20	n/a	n/a	n/a	n/a	(10)	
	Footbridges	m2	4	1,918	8	-	8	n/a	2,160	n/a	n/a	-	n/a	242	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	1	3,605	4	-	4	n/a	740	n/a	n/a	-	n/a	(2,865)	n/a	n/a	-	
	Platforms	m2	1	12,628	7	-	7	n/a	7,113	n/a	n/a	-	n/a	(5,515)	n/a	n/a	-	
	Buildings	m2	-	241	-	-	-	n/a	385	n/a	n/a	-	n/a	144	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	11	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Managed Stations		n/a	n/a	n/a	-	13	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	(9)	
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Platforms	m2	-	-	-	-	-	n/a	700	n/a	n/a	-	n/a	700	n/a	n/a	-	
	Buildings	m2	63	126	8	-	8	n/a	-	n/a	n/a	-	n/a	(126)	n/a	n/a	-	
	Lifts & Escalators	No.	333	3	1	-	1	n/a	-	n/a	n/a	-	n/a	(3)	n/a	n/a	-	
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Light Maintenance Depots		11	90	1	-	1	-	-	n/a	-	-	-	n/a	(90)	n/a	n/a	(1)
	Buildings	m2	-	90	-	-	-	n/a	-	n/a	n/a	-	n/a	(90)	n/a	n/a	-	
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Lineside Buildings	m2	0	6,324	3	-	3	9	460	n/a	n/a	4	n/a	(5,864)	n/a	n/a	1	
	MDU Buildings	m2	2	420	1	-	1	-	-	n/a	n/a	2	n/a	(420)	n/a	n/a	1	
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	-	n/a	n/a	3	
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(7)	n/a	n/a	n/a	n/a	(7)	
Total					33	15	48					26					(22)	

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume costs				£m	£m				£m	£m		£m	£m
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	571	14	8	-	8	478	23	n/a	n/a	11	n/a	9	n/a	n/a	n/a	3	
	AC distribution		-	-	-	-	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	18	n/a	-	n/a	n/a	48	n/a	n/a	n/a	n/a	n/a	30	
	HV Switchgear Renewal	No.	1,000	3	3	-	3	n/a	8	n/a	n/a	-	n/a	5	n/a	n/a	n/a	-	
	HV Cables	km	1,000	6	6	-	6	n/a	36	n/a	n/a	-	n/a	30	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	111	18	2	-	2	n/a	80	n/a	n/a	-	n/a	62	n/a	n/a	n/a	-	
	LV Cables	km	353	17	6	-	6	n/a	17	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	-	1	-	-	-	n/a	3	n/a	n/a	-	n/a	2	n/a	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	4	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	n/a	3	
	Signalling Power Cable Renewal	km	-	-	1	-	1	n/a	12	n/a	n/a	-	n/a	12	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	38	53	2	-	2	n/a	-	n/a	n/a	-	n/a	(53)	n/a	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	21	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	n/a	6	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	5	5	n/a	-	n/a	n/a	14	n/a	n/a	n/a	n/a	n/a	9		
Other electrical power		-	-	-	9	9	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	(6)		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total					28	17	45					89					44		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	7	n/a	-	n/a	n/a	6		
	Customer Information Systems	No.	-	-	-	-	-	n/a	60	n/a	n/a	-	n/a	60	n/a	n/a	-		
	Public Address	No.	-	-	-	-	-	n/a	1,562	n/a	n/a	-	n/a	1,562	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	758	n/a	n/a	-	n/a	758	n/a	n/a	-		
	Clocks	No.	-	-	1	-	1	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1		
	PABX Concentrator	No. Lines	#DIV/0!	-	-	-	-	n/a	230	n/a	n/a	-	n/a	230	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	5	n/a	n/a	-	n/a	5	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	-		
	Network		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Non route capex		n/a	n/a	n/a	5	5	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	n/a	-	
Total					1	6	7					13					6		

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
			£k/unit	unit	volume	volume costs		£m	£m	£k/unit	unit		volume	volume costs	£m	£m		£m	£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	6	6	n/a	n/a	n/a	2	2		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5		
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						11	11	18						18	7				7
IT	IM delivered renewals		n/a	n/a	n/a	18	18	n/a	n/a	n/a	16	16	n/a	n/a	n/a	(2)	(2)		
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						19	19	21						21	2				2
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5		
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						2	2	8						8	6				6
Other renewals	Asset information strategy		n/a	n/a	n/a	5	5	n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2		
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	31	31	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(31)	(31)		
Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3			
Total						39	39	19						19	(20)				(20)
Total Renewals							461	499							38				

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

In £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes recognised this year are higher than the plan which includes a catch up of activity deferred from the opening year of the control period.
 - a. Conventional – volumes delivered in the current year were higher than plan predominantly due to an enlarged year two workbank being constructed to help offset some of the shortfall experienced in year one following delivery issues experienced in year one (due to access and resource shortages).
 - b. Refurbishment - volumes delivered in the current year were higher than plan which is due to the more emergent status of work in this area; planning cycles can be more fluid in nature which may result in increasing levels of deviation from the plan as the control period progresses. Extra units delivered this year helped offset the under delivery witnessed in 2014/15.
- (5) Track - Switches & Crossings – volumes delivered this year were higher than the plan which is largely due to works that were planned for delivery last year but remained incomplete until the early stages of 2015/16.
- (6) Track – Drainage - volumes delivered this year were lower than the plan mainly due to the longer than expected period that has been required for the contractor framework set up for CP5 to be fully understood and utilised.
- (7) Track - Fencing volumes delivered this year were lower than the plan mostly due to deferrals of activity. The plan contained some high level assumptions about the profiling of work in the control period which have proved incorrect.
- (8) Signalling - volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (9) Signalling – Full Conventional Resignalling - volumes recognised this year was lower than the plan due to commissioning of the Medway Valley element of East Kent Phase 2 being deferred to future years. The cost uplift on this programme has been significant which has prompted a scope review and change in asset management approach, which has delayed elements of the scheme.

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

In £m 2015-16 prices unless stated

- (10) Signalling – Level Crossings – volumes delivered this year were lower than the plan which includes a number of level crossings deferred due to the slippage of the aforementioned Medway Valley works.
- (11) Civils - Underbridges – volumes delivered this year were lower than the plan primarily to contractor performance, access availability and workbank development which has stemmed from a bottom up review of Civils asset management solutions.
- (12) Civils - Overbridges - volumes delivered this year were lower than the plan, which is due to various reasons including access restrictions, contractor resource issues and a requirement to review scheme design. As a result a number of volumes have been deferred to future years or deferred completely from the CP5 plan due to the resource constraints faced in light of increases in the portfolio costs and elsewhere in the organisation.
- (13) Civils - Tunnels - volumes delivered this year were lower than the plan. The CP5 Business Plan overstated expected volumes due to the quantification of work associated with, predominantly, Sevenoaks Tunnel. This scheme has slipped, due to access constraints and the need to align with other works being undertaken within the tunnel.
- (14) Civils – Culverts - volumes delivered this year were higher than the plan. The plan included some high level assumptions including the uniform phasing of volumes over the control period. Actual delivery of the required works has proven to be (and will continue to be) more uneven.
- (15) Civils – Footbridges - volumes delivered this year were lower than the plan, reflecting planned decreases across the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those projects which can use them most effectively.
- (16) Civils - Coastal & Estuarial Defences - volumes delivered this year were lower than the plan. CP5 Business Plan volumes were indicative and based on high level assumptions. A bottom-up assessment of the required workbank, considering asset condition and the funding restrictions facing the organisation, has led to the reduction of anticipated volumes across the control period.
- (17) Civils – Retaining Walls – no volumes were reported in the current year for this category. Anticipated activity over the control period has been curtailed in light of the resource constraints facing the organisation, and the need for funds to be re-prioritised to those projects which can use them most effectively.
- (18) Civils - Earthworks - volumes delivered this year were higher than the plan. This is predominantly the result of increasing levels of interventions in the current year; partially linked to the recovery of year one under-delivery and partly due to emerging asset condition requirements.
- (19) Civils – Earthworks Drainage – volumes delivered this year were higher than the plan as activity was accelerated into the current year and additional Maintain units were required to achieve an appropriate level of asset condition.
- (20) Buildings - Franchised Stations – Canopies – Volumes were greater than plan due to work St Mary's Cray and Margate stations have been completed during the year, largely due to emerging asset condition and to utilise available resources and access.
- (21) Buildings - Franchised Stations – Buildings – no volume was planned in the current year but activity was undertaken during the year, largely due to emerging asset condition and to utilise available resources and access by accelerating works from later in the control period.
- (22) Buildings - Managed Stations – Platforms – volumes delivered in the year were lower than the plan mainly in relation to resurfacing works at Charing Cross which have been rescheduled for 2016/17 due to external resource issues.
- (23) Buildings – Lineside Buildings – volume delivery in the current year is considerably higher than plan owing to a number of critical lineside building roofs that required remediation procedures to mitigate against performance risk.
- (24) Electrification - Conductor Rails – volumes in the current year are higher than Network Rail's published CP5 Business Plan which is due to the partial recovery of volumes deferred from last year's plan following improved delivery.
- (25) Electrification - Electrification – HV Cables - volumes delivered in the year were lower than the plan which is expected to continue throughout the remainder of the control period. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those projects which can use them most effectively.

Statement 14: Renewals volumes, unit costs and expenditure, Kent - continued

In £m 2015-16 prices unless stated

- (26) Electrification - Electrification – LV Switchgear Renewal - Volumes delivered this year are lower than Network Rail's published CP5 Business Plan due to items being re-profiled from current year due to access availability and the intention to drive greater financial efficiency through more effective planning.
- (27) Electrification - Electrification – LV Cables - volumes delivered this year are higher than the plan mainly due to a catch up of activity deferred from the opening year of the control period.
- (28) Fixed Plant - Principle Supply Point Renewal – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.
- (29) Telecoms - Customer Information Systems – no volumes were reported this year which was a combination of reprofiling activity within the control period but also from deferral of activity to future control periods. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those projects which can use them most effectively.
- (30) Telecoms – Public Address - no volumes were reported this year due to deferral of activity into future years. Total volumes delivered across the control period are expected to be broadly in line with the CP5 Business Plan with activity concentrated in the final two years of the control period to ensure maximum planning time to optimise delivery and efficiencies.
- (31) Telecoms – CCTV - no volumes were reported this year which was mostly due to a deferral of activity to future control periods. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those projects which can use them most effectively.
- (32) Telecoms – PABX Concentrators - no volumes were reported this year which was mostly due to a deferral of activity to future control periods. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those projects which can use them most effectively.

Statement 1: Summary regulatory financial performance, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	743	732	11	1,472	1,455	17	729
Fixed Income	50	49	1	116	115	1	66
Variable Income	178	179	(1)	349	338	11	171
Other Single Till Income	101	101	-	199	197	2	98
Opex memorandum account	9	-	9	6	-	6	(3)
Total Income	1,081	1,061	20	2,142	2,105	37	1,061
Operating expenditure							
Network operations	86	76	(10)	167	158	(9)	81
Support costs	69	73	4	137	154	17	68
Traction electricity, industry costs and rates	85	82	(3)	163	154	(9)	78
Network maintenance	179	163	(16)	332	328	(4)	153
Schedule 4	30	41	11	55	72	17	25
Schedule 8	7	1	(6)	(2)	2	4	(9)
Total operating expenditure	456	436	(20)	852	868	16	396
Capital expenditure							
Renewals	539	463	(76)	1,025	886	(139)	486
PR13 enhancement expenditure	117	(15)	(132)	372	360	(12)	255
Non PR13 enhancement expenditure	(1)	-	1	20	-	(20)	21
Total capital expenditure	655	448	(207)	1,417	1,246	(171)	762
Other expenditure							
Financing costs	233	299	66	484	594	110	251
Corporation tax (received)/paid	-	-	-	(1)	1	2	(1)
Total other expenditure	233	299	66	483	595	112	250
Total expenditure	1,344	1,183	(161)	2,752	2,709	(43)	1,408

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher traction electricity charges and higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is level with determination. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are adverse to the determination largely due to higher business rates and British Transport Police costs. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year due to the increased business rates.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are higher than the previous year as there was Schedule 8 income in 2014-15 due to the good train performance.

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2015-16 prices unless stated

- (13)Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year which is due to the cyclical nature of renewals activities across the control period.
- (14)Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15)Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. There was no expenditure in the year in this category.
- (16)Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, London North East

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	8,880	8,620	260
Indexation to 2013-14 prices	416	404	12
Opening RAB for the year (2014-15 prices)	9,296	9,024	272
Indexation for the year	99	95	4
Opening RAB (2015-16 prices)	9,395	9,119	276
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	512	463	49
PR13 enhancements	111	309	(198)
Non-PR13 enhancements	-	-	-
Total enhancements	111	309	(198)
Amortisation	(430)	(430)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	9,588	9,461	127

RAB Regulatory financial position - cumulative, London North East

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	8,835	9,395	8,835
Adjustments for the actual capital expenditure outturn in CP4	252	-	252
Renewals	467	512	979
PR13 enhancements	253	111	364
Non-PR13 enhancements	18	-	18
Total enhancements	270	111	381
Amortisation	(430)	(430)	(860)
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB	9,395	9,588	9,588

Statement 2a: RAB - Regulatory financial position, London North East – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity within the control period. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, London North East – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North East

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	423	463	886
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	16	-	16
Capitalised financing on CP4 deferrals	-	1	1
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	439	464	903
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(32)	(54)	(86)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(3)	(4)
Adjustments for efficient overspend	68	124	192
Capitalised financing on efficient overspend	2	6	8
25% retention of efficient overspend	(17)	(31)	(48)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	9	6	15
Capitalised financing on efficient overspend through spend to save framework	-	2	2
20% retention of efficient overspend through spend to save framework	(2)	(1)	(3)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	1	-	1
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	467	512	979
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(1)	(5)	(6)
Adjustment for 25% retention of efficient overspend	19	32	51
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	1	-	1
Total actual renewals expenditure (see statement 9)	486	539	1,025

Statement 2b: RAB - reconciliation of expenditure, London North East - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	290	309	599
Adjustments to the PR13 determination	-	-	-
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	85	(85)	-
Capitalised financing on CP4 deferrals	2	2	4
Baseline adjustments	-	(239)	(239)
Capitalised financing on Baseline adjustments	-	(5)	(5)
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	377	(18)	359
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(125)	128	3
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(3)	(6)
Adjustments for efficient overspend / (underspend)	4	(4)	-
Capitalised financing on efficient overspend / (underspend)	-	-	-
25% retention of efficient overspend / (underspend)	(1)	1	-
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	9	9
agreements - retention of efficient overspend	-	(1)	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	253	111	364
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	18	(1)	17
overspend	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	1	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	18	-	18
Total enhancements (added to the RAB - see statement 2a)	271	111	382
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	1	5	6
Adjustment for 25% retention of efficient overspend	1	-	1
Other Adjustments	2	-	2
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	35	57	92
Other adjustments	1	-	1
Total actual enhancement expenditure (see statement 3)	311	173	484

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in London North East. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink).
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements – Adjustments for efficient overspend/ (underspend) – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5. Under the terms of the Regulatory Accounting Guidelines (May 2016) Network Rail can add 25 per cent of the underspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure/ saving.
- (13) Enhancements - 25% retention of efficient overspend/ (underspend) – following on from the above comment, this heading represents the 25 per cent of the overspend/ underspend that Network Rail retains. The overspend is not eligible for logging up to the RAB (this is retained by Network Rail) whilst the underspend is logged up to the RAB to reflect the benefit retained by Network Rail of efficient underspends.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (17) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the element of the overspend that Network Rail retained in 2014/15 which has been reversed in the current year to reflect the latest control period plans for this category of investment.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (18) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	18	26	8	27	27	-
Stations - National Station Improvement Programme (NSIP)	1	(2)	(3)	2	2	-
Stations - Access for All (AfA)	2	(7)	(9)	3	3	-
Development	7	13	6	8	19	11
Level crossing safety	1	3	2	1	7	6
Passenger journey improvement	-	(11)	(11)	-	-	-
The strategic rail freight network	4	3	(1)	11	12	1
Total funds	33	25	(8)	52	70	18
Committed projects						
Northern Hub	1	(6)	(7)	2	2	-
IEP Programme	43	15	(28)	103	112	9
North Trans Pennine electrification east	10	(41)	(51)	26	24	(2)
Micklefield - Selby electrification	-	-	-	-	-	-
Thameslink	7	14	7	66	39	(27)
Total committed projects	61	(18)	(79)	197	177	(20)
Named schemes						
The Electric Spine						
DfT Sofa Amount	-	(3)	(3)	2	1	(1)
Total Electric Spine projects	-	(3)	(3)	2	1	(1)
Yorkshire						
Huddersfield station capacity improvement	2	-	(2)	2	-	(2)
Total Yorkshire Projects	2	-	(2)	2	-	(2)
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(1)	(1)	-	1	1
Stevenage and Gordon Hill turnbacks	2	2	-	3	3	-
Bradford Mill Lane capacity	1	1	-	1	1	-
Leeds station capacity	-	(3)	(3)	-	-	-
LNE routes traction power supply upgrade	-	(16)	(16)	-	1	1
Total HLOS capacity metric schemes	3	(17)	(20)	4	6	2
CP4 Project Rollovers						
Capacity relief to the ECML	-	(7)	(7)	73	74	1
North Doncaster Chord	-	(2)	(2)	-	-	-
East Coast mainline overhead electrification	-	(2)	(2)	-	-	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	(11)	(11)	73	74	1
Other projects						
Seven day railway projects	9	16	7	16	16	-
ERTMS Cab fitment	5	2	(3)	14	10	(4)
R&D allowance	1	-	(1)	2	2	-
Depots and stabling	-	-	-	-	-	-
Income generating property schemes	3	(3)	(6)	10	4	(6)
Other income generating investment framework schemes	-	(6)	(6)	-	-	-
Total other projects	18	9	(9)	42	32	(10)
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	117	(15)	(132)	372	360	(12)

Statement 3: Analysis of enhancement capital expenditure, London North East - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
OCSLNE SCPF Newcastle Station	-	-	-	7	-	(7)
Tram Train Project	(5)	-	5	-	-	-
Other government sponsored schemes	3	-	(3)	5	-	(5)
Total Government sponsored schemes	(2)	-	2	12	-	(12)
Network Rail spend to save schemes						
Other spend to save schemes	1	-	(1)	5	-	(5)
Total Network Rail spend to save schemes	1	-	(1)	5	-	(5)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	3	-	(3)
Total non PR13 enhancement expenditure	(1)	-	1	20	-	(20)
Total Network Rail funded enhancements (see Statement 1)	116	(15)	(131)	392	360	(32)
Third Party PAYG	57	-	(57)	92	-	(92)
Total enhancements (see statement 2b)	173	(15)	(188)	484	360	(124)

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those relating programmes with their own protocol (such as Thameslink). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £116m (as shown in Statement 1). This comprises the total enhancement figure in the table above £173m less the PAYG schemes funded by third parties (£57m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure matches the baseline.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure matches the baseline.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and control period to date is higher than the determination which is mostly due to underperformance. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Although costs in the control period to date are broadly consistent the baseline the project is now expected to cost more than the baseline included in the Hendy review.
 - (c) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is slightly lower than the baseline as activity has been re-profiling into future years. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
 - (d) North Trans Pennine Electrification East - this should be considered in conjunction with North Trans Pennine Electrification West. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is broadly in line with the baseline.
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is slightly higher than the baseline.
 - (b) Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Work at this stage in the control period is slightly ahead of plan. Activity on this project is expected to ramp up over the later years of the control period.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Leeds and Sheffield Capacity – This project Provides additional capacity at Leeds Station and a programme of platform extensions to allow longer trains to operate on a number of routes in West and South Yorkshire into Leeds and Sheffield. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period.
 - (a) Stevenage and Gordon Hill turnbacks - this project was planned to deliver the capacity metric into Moorgate and King's Cross providing for efficient use of suburban rolling stock by allowing services to turnback at Stevenage and Gordon Hill hence providing efficient resourcing for peak capacity on Inner Suburban services into King's Cross and Moorgate. As part of the Hendy review the Gordon Hill turnback has been deferred and de-scoped and will be considered as part of the funding requirements for CP6. Expenditure was consistent with the baseline included in the Hendy Review.
 - (b) Bradford Mill Lane capacity – this programme is designed to provide parallel moves at Bradford interchange to/from Leeds and Halifax to support improvements in the North Yorkshire area. There has been minimal activity on this project in the opening years of this control period, in line with the expectation in the baseline agreed following the Hendy review.
 - (c) Leeds station capacity – This project enhances capacity in the Leeds area. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
 - (d) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Capacity relief to the ECML (East Coast Main Line) – The scheme provides a significantly upgraded line between Peterborough and Doncaster via Spalding and Lincoln that can become the primary route for daytime freight traffic. The expenditure for this project was in line with the baseline and the programme is largely completed.
 - (b) North Doncaster Chord - The scheme was planned to allow an increase in passenger and freight services on the East Coast Main Line (ECML) by removing a significant number of existing freight services between Joan Croft junction and Hambleton South junction and re-routing these via a more direct route. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (c) East Coast mainline overhead electrification - The key output is a reduction of delay minutes to support delivery of the route performance as part of CP4/5 Long Term Performance Plan (LTPP). The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – Expenditure is in line with the baseline.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is slightly above target.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Expenditure to date is in line with the baseline.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. The expenditure for the control period is below the target as work has been re-profiled until later years of the control period.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly above the target.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – The Tram Train Pilot expenditure undertaken in 2014/15 has now been cash funded this year, thus reducing the Government sponsored expenditure but increasing PAYG.
 - (b) PAYGO – Significant programmes in this category in the current year include Kirkstall Forge and Apperley Bridge New Stations. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, London North East

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	6,297	6,348	51			
Adjustment for opening control period debt	-	(106)	(106)			
Opening net debt	6,297	6,242	(55)	5,886	5,746	(140)
Income						
Grant income	(743)	(732)	11	(1,464)	(1,448)	16
Fixed charges	(50)	(49)	1	(115)	(113)	2
Variable charges	(178)	(179)	(1)	(347)	(337)	10
Other single till income	(101)	(101)	-	(198)	(197)	1
Total income	(1,072)	(1,061)	11	(2,124)	(2,095)	29
Expenditure						
Network operations	86	76	(10)	166	156	(10)
Support costs	69	73	4	136	151	15
Traction electricity, industry costs and rates	85	82	(3)	162	156	(6)
Network maintenance	179	163	(16)	330	326	(4)
Schedule 4	30	41	11	54	71	17
Schedule 8	7	1	(6)	(2)	2	4
Renewals	539	463	(76)	1,019	882	(137)
PR13 enhancement	117	309	192	369	597	228
Non-PR13 enhancement	(1)	-	1	18	-	(18)
Total expenditure	1,111	1,208	97	2,252	2,341	89
Financing						
Interest expenditure on nominal debt - FIM covered	58	95	37	146	188	42
Interest expenditure on index linked debt - FIM covered	40	45	5	82	90	8
Expenditure on the FIM	54	69	15	118	135	17
Interest expenditure on government borrowing	46	-	(46)	63	-	(63)
Interest on cash balances held by Network Rail	(2)	(3)	(1)	(4)	(4)	-
Total interest costs	196	206	10	405	409	4
Accretion on index linked debt - FIM covered	37	93	56	76	185	109
Total financing costs	233	299	66	481	594	113
Corporation tax	-	-	-	(1)	1	2
Other	(93)	-	93	(18)	101	119
Movement in net debt	179	446	267	590	942	352
Closing net debt	6,476	6,688	212	6,476	6,688	212

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	1.11	0.96	0.93
FFO/interest	3.15	3.15	3.00
Net debt/RAB (gearing)	67.8%	67.6%	70.7%
FFO/debt	10.4%	9.5%	9.3%
RCF/debt	7.1%	6.5%	6.2%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to London North East has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.2bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accruing debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the income given to London North East would have been insufficient to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with the shortfall being absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The actual ratio was broadly in line with the regulatory target.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines May 2016, in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. There is a small favourable variance due to lower than expected debt levels.

Statement 5a: Total financial performance, London North East

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	743	732	11	11	-	-	-	-
Fixed Income	50	49	1	1	-	-	-	-
Variable Income	144	138	6	-	-	-	6	6
Other Single Till Income	101	101	-	-	-	-	-	-
Opex memorandum account	9	-	9	7	-	-	2	2
Total Income	1,047	1,020	27	19	-	-	8	8
Expenditure								
Network operations	86	76	(10)	-	-	-	(10)	(10)
Support costs	69	73	4	1	-	-	3	3
Industry costs and rates	49	39	(10)	(7)	-	-	(3)	(3)
Traction electricity	2	2	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	179	163	(16)	-	(7)	-	(9)	(9)
Schedule 4 costs	30	41	11	-	3	-	8	8
Schedule 8 costs	7	1	(6)	-	-	-	(6)	(6)
Renewals	539	463	(76)	-	48	-	(124)	(31)
PR13 Enhancements	117	(15)	(132)	-	(127)	-	(5)	-
Non PR13 Enhancements	(1)	-	1	-	1	-	-	-
Financing Costs	233	299	66	66	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,310	1,142	(168)	60	(82)	-	(146)	(48)
Total:			(141)	79	(82)	-	(138)	(40)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(40)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(7)
Under-delivery of train performance requirements (CaSL)								(1)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(8)
Total financial out / (under) performance to be recognised								(48)

Statement 5a: Total financial performance, London North East - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 C Favourable / (Adverse)	Variance not included in total financial performance D Due to:	Variances in volume of work E	Other adjustments to PR13 F	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
Income	A	B	C	D	E	F	G	H
Grant Income	1,472	1,455	17	17	-	-	-	-
Fixed Income	116	115	1	1	-	-	-	-
Variable Income	281	267	14	-	-	-	14	14
Other Single Till Income	199	197	2	-	-	-	2	2
Opex memorandum account	6	-	6	3	-	-	3	3
Total Income	2,074	2,034	40	21	-	-	19	19
Expenditure	A	B	C	D	E	F	G	H
Network operations	167	158	(9)	-	-	-	(9)	(9)
Support costs	137	154	17	5	-	-	12	12
Industry costs and rates	90	80	(10)	(6)	-	-	(4)	(4)
Traction electricity	4	2	(2)	-	-	-	(2)	(2)
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	332	328	(4)	-	7	-	(11)	(11)
Schedule 4 costs	55	72	17	-	1	-	16	16
Schedule 8 costs	(2)	2	4	-	-	-	4	4
Renewals	1,025	886	(139)	-	53	-	(192)	(48)
PR13 Enhancements	372	360	(12)	-	(7)	-	(5)	-
Non PR13 Enhancements	20	-	(20)	-	(20)	-	-	-
Financing Costs	484	594	110	110	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	1	2	-	2	-	-	-
Total Expenditure	2,684	2,638	(46)	109	36	-	(191)	(42)
Total:			(6)	130	36	-	(172)	(23)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(23)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(8)
Under-delivery of train performance requirements (CaSL)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(10)
Total financial out / (under) performance to be recognised								(33)
	2015-16			Cumulative				
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance		
Breakdown of variance not included in total financial performance - Variable income:								
Adjustments for external traction electricity	(34)	(41)	7	(68)	(71)	3		
Total variance not included in total	(34)	(41)	7	(68)	(71)	3		
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	1	1	-	1		
Release of CP4 long distance financial penalty provision	-	-	-	4	-	4		
Total variance not included in total	1	-	1	5	-	5		
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	34	41	(7)	68	71	(3)		
Total variance not included in total	34	41	(7)	68	71	(3)		

Statement 5a: Total financial performance, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges as Network Rail supplied additional train paths in response to customer demand. This extra income is largely negated by extra Schedule 8 costs incurred in the year. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – overall, no FPM has been recognised in this category. Lower freight income, reflecting the decline in the demand for this type of transport (affected by declines in the coal industry and legislative changes), which has been mitigated by extra property income (including extra sales and rental income (including the impact of extra income earned at Kings Cross and Leeds stations)).
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates and ORR costs attributed to London North East have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, London North East – continued

in £m 2015-16 prices unless stated

- (6) Network operations - costs are higher than the determination. This is mostly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base slightly higher than the regulatory assumption, making achieving the determination target for 2015/16 a challenge. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Costs are higher than the previous year for largely the same reasons. In addition, costs in 2014/15 benefitted from some non-recurring events which improved results in that year.
- (7) Support costs – costs are favourable to the regulator's targets, which includes the benefit of non-recurring transactions recognised in the year. This includes lower than expected reorganisation costs and reductions in performed related pay to senior staff. In addition, an adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. The amounts included in the Variances not included in total financial performance column refer to net overspends that are expected to be reimbursed through the Opex memorandum (refer to Statement 10).
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (10) Network maintenance – maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. There were additional costs following a conscious decision by the route to invest in an extensive performance improvement programme this year. Costs are also higher than the determination due to extra Reactive Maintenance required. This variance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator.

Statement 5a: Total financial performance, London North East – continued

in £m 2015-16 prices unless stated

- (11) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Despite this, London North East delivered financial outperformance this year. The route has a dedicated team for planning possessions which looks to integrate as many different types of activity (renewals, enhancements and maintenance) into possessions to maximise the volume of work that can be delivered, thus spreading the compensation costs over a wider range of activities. This team concentrates on adhering to plans and timescales to minimise the impact of late possession requests (which are more expensive). Whilst this approach has been successful in London North East this approach is not necessarily transferrable to other Network Rail routes.
- (12) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance. Extra traffic has increased the strain on the network as well as compounding delays, as one incident can affect the punctuality of a greater number of services. Performance in the year was also adversely impacted by some significant weather events and an increased number of fatalities. Many of these tragedies occurred at busy sections of the network which compounded delays and costs.
- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Statement 5a: Total financial performance, London North East – continued

in £m 2015-16 prices unless stated

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, London North East

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(66)	2	(68)	(17)		(16)	(1)	-
Signalling	47	95	(48)	(12)		(12)	-	-
Civils	(29)	(33)	4	1		2	(1)	-
Buildings	(4)	(4)	-	-		-	-	-
Electrical power and fixed plant	(1)	15	(16)	(4)		(2)	(2)	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	(9)	(9)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	(19)	(23)	4	1		1	-	-
Total	(76)	48	(124)	(31)		(27)	(4)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(102)	10	(112)	(28)		(28)	-	-
Signalling	76	132	(56)	(14)		(14)	-	-
Civils	(35)	(35)	-	-		1	(1)	-
Buildings	(14)	(14)	-	-		1	(1)	-
Electrical power and fixed plant	3	19	(16)	(4)		(4)	-	-
Telecoms	2	6	(4)	(1)		-	(1)	-
Wheeled plant and machinery	18	18	-	-		-	-	-
IT	(20)	(20)	-	-		-	-	-
Property	(3)	(3)	-	-		-	-	-
Other renewals	(64)	(60)	(4)	(1)		1	(2)	-
Total	(139)	53	(192)	(48)		(43)	(5)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across a number of asset categories (although there has been some outperformance on Civils) reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. Nearly half of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Financial underperformance was impacted by a significantly lower level of volumes delivered in the year on High Output track resulting in higher unit costs (as reductions in volumes do not manifest themselves in a proportionate decrease in costs). Volume delivery was affected by plant failures (including engineering train problems), adverse ground conditions and weather. Also, contractor issues and disputes increased unit costs for Plain Line track compared to the targets in the determination, whereas local works delivery costs exceeded plans.
- (3) Signalling – as with the previous year, financial underperformance has been reported. The largest contributor to this result was the North Lincolnshire resignalling project where costs were higher due to a combination of: additional contractor costs incurred to meet tight commissioning timetable, additional works required due to unfavourable ground conditions and additional contractor claims. Higher ERTMS costs are expected on the East Coast Mainline project as the project scope and cost estimates mature as the project comes into sharper focus. Extra costs have also been incurred on the level crossing closure programme following unexpected contractor claims and additional scope to improve reliability. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource.
- (4) Civils – financial outperformance has been reported this year which more than offsets the financial underperformance recognised in the first year of the control period. Improved contracting strategy and closer, collaborative working has allowed efficiencies to be realised during the year across a range of projects. In addition, some project costs associated with a project were reclassified as Track. Whilst this does not improve the financial performance of the route, it does augment the favourable result in this category. Favourable settlement of contractor claims on certain Earthworks jobs also contributed to the outperformance.
- (5) Electrical power and fixed plant – financial underperformance has been recognised this year. Costs have been higher than the determination assumed as the efficiencies expected to be delivered have proven to be overoptimistic. In addition, contractor disputes and suboptimal original designs have led to extra costs for certain projects. Extra volumes have been required on certain projects (notably for principle supply points) which has resulted in additional costs.

Statement 5c: Total financial performance - enhancement variance analysis, London North East

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	(28)	(32)	-	4	1
Thameslink	7	16	-	(9)	(1)
Northern Hub	(7)	(7)	-	-	-
Other Enhancements	(103)	(103)	-	-	-
Total	(131)	(126)	-	(5)	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	9	9	-	-	-
Thameslink	(27)	(18)	-	(9)	(1)
Northern Hub	-	-	-	-	-
Other Enhancements	(14)	(18)	-	4	1
Total	(32)	(27)	-	(5)	-

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) IEP programme – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (2) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to additional programme costs including increased traffic management expenditure. These reasons have led to negative FPM being declared. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (3) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements. There was some positive FPM in the prior year this mostly relates to favourable settlement of commercial claims and provisions against CP4 programmes that have now been resolved. The expected costs were included within the Financial Value Added (FVA) calculation for CP4 and so the benefit of the favourable settlement is recognised in FPM in CP5.

Statement 5d: REBS Reconciliation, London North East

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	91	97	(6)	-	-	-	(6)	
Capacity charge	158	143	15	-	-	-	15	
Electricity asset utilisation charge	5	5	-	-	-	-	-	
Property income	57	54	3	-	-	-	3	
Expenditure								
Network operations	167	151	(16)	-	-	-	(16)	
Support costs	137	154	17	-	4	-	13	
RSSB and BT Police	29	26	(3)	-	-	-	(3)	
Network maintenance	332	334	2	8	-	-	(6)	
Schedule 4 costs	55	71	16	-	-	-	16	
Schedule 8 costs	(2)	-	2	-	-	-	2	
Renewals	1,025	870	(155)	37	-	(144)	(48)	
Total REBS performance			(125)	45	4	(144)	(30)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(8)	
Under-delivery of train performance requirements (CaSL)							(2)	
Total adjustment for under delivery of outputs and reduced sustainability							(10)	
Cumulative performance to end of 2015-16							(40)	
Less cumulative outperformance recognised up to the end of 2014-15							5	
Net REBS performance for 2015-16							(45)	

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	743	732	11	1,472	1,455	17	729
Franchised track access income							
Fixed charges	50	49	1	116	115	1	66
Variable charges							
Variable usage charge	27	29	(2)	56	58	(2)	29
Traction electricity charges	34	41	(7)	68	71	(3)	34
Electrification asset usage charge	3	2	1	5	5	-	2
Capacity charge	77	70	7	153	139	14	76
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	37	37	-	67	65	2	30
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	178	179	(1)	349	338	11	171
Total franchised track access income	228	228	-	465	453	12	237
Total franchised track access and grant income	971	960	11	1,937	1,908	29	966
Other single till income							
Property income	34	29	5	57	57	-	23
Freight income	16	21	(5)	41	41	-	25
Open access income	12	12	-	23	23	-	11
Stations income	30	29	1	59	58	1	29
Facility and financing charges	1	1	-	2	2	-	1
Depots Income	7	8	(1)	15	15	-	8
Other income	1	1	-	2	1	1	1
Total other single till income	101	101	-	199	197	2	98
Total income	1,072	1,061	11	2,136	2,105	31	1,064

Statement 6a: Analysis of income, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is more than offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was marginally higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges but higher Grant income.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now more than mitigated meaning the control period to date position is slightly lower than the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, London North East – continued

in £m 2015-16 prices unless stated

- (5) Capacity charge - this is higher than the determination which is due to increased train services offered in the year compared to the regulator's assumption in response to customer demand. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. This outperformance is offset by higher than expected Schedule 8 costs in the route this year compared to the regulator's assumption. The control period favourable variance is also due to these factors. Income from Capacity charges was in line with the previous year.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set. The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail would incur if profiling of capital projects work over the control period occurred in line with the regulator's assumptions. Schedule 4 Income is higher than last year as expected by the regulator's determination.
- (7) Property income – this is higher than the determination due to increased property rental partly offset by lower than expected property sales. Extra property income has been generated from offering desirable rental properties and station units to retailers, notably at Kings Cross and Leeds stations. Also, freight rental income has increased significantly as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (8) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulted in around a massive decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year has negated the outperformance recognised in the first year of the control period.

Statement 6b: Analysis of other single till income, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	33	30	3	57	58	(1)	24
Property sales	1	3	(2)	-	7	(7)	(1)
Adjustment for commercial opex	-	(4)	4	-	(8)	8	-
Total property income	34	29	5	57	57	-	23
Freight income							
Freight variable usage charge	12	18	(6)	30	35	(5)	18
Freight traction electricity charges	1	1	-	2	2	-	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	1	-	3	2	1	2
Freight only line charge	1	1	-	3	1	2	2
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	1	-	1	3	1	2	2
Total freight income	16	21	(5)	41	41	-	25
Open access income							
Variable usage charge income	3	2	1	5	4	1	2
Open access capacity charge	1	1	-	2	2	-	1
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	8	9	(1)	16	17	(1)	8
Open access other income	-	-	-	-	-	-	-
Total open access income	12	12	-	23	23	-	11
Stations income							
Managed stations income							
Long term charge	5	5	-	10	11	(1)	5
Qualifying expenditure	8	7	1	15	13	2	7
Total managed stations income	13	12	1	25	24	1	12
Franchised stations income							
Long term charge	10	11	(1)	21	22	(1)	11
Stations lease income	7	6	1	13	12	1	6
Total franchised stations income	17	17	-	34	34	-	17
Total stations income	30	29	1	59	58	1	29
Facility and financing charges							
Facility charges	1	1	-	2	2	-	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	1	-	2	2	-	1
Depots income	7	8	(1)	15	15	-	8
Other	1	1	-	2	1	1	1
Total other single till income	101	101	-	199	197	2	98

Statement 6b: Analysis of other single till income, London North East (unaudited) - continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	49	41	(8)	95	84	(11)	46
Signalling shift managers	3	3	-	6	5	(1)	3
Local operations managers	4	2	(2)	7	6	(1)	3
Controllers	5	6	1	10	11	1	5
Electrical control room operators	1	1	-	2	4	2	1
Total signaller expenditure	62	53	(9)	120	110	(10)	58
Non-signaller expenditure							
Mobile operations managers	5	6	1	10	11	1	5
Managed stations	8	7	(1)	16	14	(2)	8
Performance	3	3	-	6	6	-	3
Customer relationship executives	2	1	(1)	3	3	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	3	3	-	6	6	-	3
Other	11	2	(9)	14	4	(10)	3
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	(3)	5	8	-	11	11	3
Other operating income	(5)	(4)	1	(8)	(7)	1	(3)
Total non-signaller expenditure	24	23	(1)	47	48	1	23
Total network operations expenditure	86	76	(10)	167	158	(9)	81
Support costs							
Core support costs							
Human resources	8	11	3	17	22	5	9
Information management	11	12	1	22	24	2	11
Government and corporate affairs	2	3	1	5	7	2	3
Group strategy	1	1	-	2	3	1	1
Finance	3	5	2	6	10	4	3
Business services	2	2	-	4	5	1	2
Accommodation	8	5	(3)	15	11	(4)	7
Utilities	8	7	(1)	15	14	(1)	7
Insurance	9	7	(2)	18	16	(2)	9
Legal and inquiry	1	1	-	2	2	-	1
Safety and sustainable development	4	2	(2)	8	3	(5)	4
Strategic sourcing	1	2	1	2	4	2	1
Business change	1	1	-	1	1	-	-
Other corporate functions	5	1	(4)	11	1	(10)	6
Core support costs	64	60	(4)	128	123	(5)	64
Other support costs							
Asset management services	6	8	2	12	19	7	6
Network Rail telecoms	7	5	(2)	16	13	(3)	9
National delivery service	-	1	1	-	2	2	-
Infrastructure Projects	(3)	-	3	(5)	-	5	(2)
Commercial property	-	-	-	-	(1)	(1)	-
Group costs	(5)	(1)	4	(14)	(2)	12	(9)
Total other support costs	5	13	8	9	31	22	4
Total support costs	69	73	4	137	154	17	68
Traction electricity, industry costs and rates							
Traction electricity	36	43	7	72	73	1	36
Business rates	32	24	(8)	57	48	(9)	25
British transport police costs	13	11	(2)	26	23	(3)	13
RSSB costs	2	1	(1)	3	3	-	1
ORR licence fee and railway safety levy	1	2	1	2	5	3	1
Reporters fees	-	-	-	1	1	-	1
Other industry costs	1	1	-	2	1	(1)	1
Total traction electricity, industry costs and rates	85	82	(3)	163	154	(9)	78
Total network operations expenditure, support costs, traction electricity, industry costs and rates	240	231	(9)	467	466	(1)	227

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the determination. This is mostly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base slightly higher than the regulatory assumption, making achieving the determination target for 2015/16 a challenge. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Costs are higher than the previous year for largely the same reasons. In addition, costs in 2014/15 benefitted from some non-recurring events which improved results in that year.
- (4) 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 rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and broadly in line with the previous year.
- (5) Human Resources - Costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are in line with the previous year. Further breakdown of HR costs can be found in Statement 7b.
- (6) Government and corporate affairs – costs are lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year is mostly due to the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (7) Finance - costs were lower than the determination. As noted in last year’s Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail’s operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.
- (8) Accommodation – costs are in line with the previous year, although higher than the determination. The regulatory target assumed that efficiencies would be made in this category but, as costs are driven by market rents in the route, this has not been the case.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2015-16 prices unless stated

- (9) Insurance - costs are slightly higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events.
- (10) Safety and sustainable development – costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.
- (11) Other corporate functions - costs are broadly consistent with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (12) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Costs are in line with the previous year.
- (13) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off transactions. The current year benefitted from reducing amounts payable to senior management under performance related pay arrangements. In addition, savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. The savings made from these non-recurring events were higher than the savings made from one-off items in the current year and so costs in the current year were higher than in 2014/15.
- (14) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is higher the previous year (mainly due to higher Business rates) and higher than the regulator expected (mostly due to Business rates and British Transport Police costs offset by lower Traction electricity costs).
- (15) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6). Costs are broadly similar to the previous year.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North East – continued

in £m 2015-16 prices unless stated

- (16) Business rates - costs are higher than the determination assumed. The ORR assumed a different allocation of Business rates to the London North East route than is the case. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions. Network Rail expects to be compensated for these extra costs in London North East through the Opex memorandum account mechanism (refer to Statement 10).
- (17) British Transport Police costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	40	52	56
MOMS	4	5	5
Control	7	9	6
Planning & Performance Staff Costs	5	4	4
Managed Stations Staff Costs	4	2	2
Operations Management Staff Costs	4	2	1
Other	20	7	12
Total operations & customer services costs	84	81	86
Total Network Operations	84	81	86
Support			
Human resources			
Functional support	4	4	3
Training (inc Westwood)	3	2	2
Graduates	-	-	1
Apprenticeships	1	2	2
Other	2	1	-
Total human resources	10	9	8
Information management			
Support	1	1	-
Projects	-	-	1
Licences	-	-	-
Business operations	9	10	10
Other	-	-	-
Total information management	10	11	11
Finance	3	3	3
Business Change	1	-	1
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	1
Planning & development	2	1	1
Safety & compliance	2	-	-
Other corporate services	8	2	3
Commercial property	16	7	8
Infrastructure Projects	(9)	(2)	(3)
Route Services	2	3	2
Asset management & Engineering/Asset heads	21	-	-
National delivery service	1	-	-
Private party	-	-	-
Utilities	-	7	8
Network Rail Telecoms	-	9	7
Digital Railway	-	3	4
Safety Technical & Engineering	-	7	6
Government & Corporate Affairs	-	3	2
Business Services	-	2	2
Route Asset Management	-	1	-
Legal and inquiry	-	1	1
Group/central			
Pensions	-	-	-
Insurance	6	9	9
Redundancy/reorganisation costs	11	3	2
Staff incentives/Bonus Reduction	2	(5)	(1)
Accommodation & Support Recharges	(1)	(4)	(4)
Commercial claims settlements	-	-	(1)
ORR financial penalty	12	(4)	-
Other	-	1	(1)
Total group/central costs	30	-	4
Total support	98	68	69
Total network operations and support costs	182	149	155

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	69	63	(6)	136	128	(8)	67
Signalling	26	24	(2)	50	49	(1)	24
Civils	28	20	(8)	39	39	-	11
Buildings	5	8	3	6	14	8	1
Electrical power and fixed plant	13	12	(1)	28	24	(4)	15
Telecoms	4	3	(1)	7	6	(1)	3
Other network operations	27	23	(4)	59	48	(11)	32
Asset management services	12	5	(7)	17	11	(6)	5
National Delivery Service	(1)	7	8	(2)	13	15	(1)
Property	-	1	1	-	1	1	-
Group	(4)	(3)	1	(8)	(5)	3	(4)
Total maintenance expenditure	179	163	(16)	332	328	(4)	153

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. In addition, a higher volume of Reactive maintenance works required and additional expenditure on projects (vegetation management and tidy railway). Costs are higher than the previous year largely due to additional Reactive maintenance works required this year.
- (2) Track – costs are higher than the determination which includes a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a corresponding saving in the National Delivery Services category). In addition, certain activities regarding plain line and switches & crossings grinding are the responsibility of the local asset management team and, consequently, the associated expenses are reported under the Asset management services category. Costs are slightly higher than the previous year, reflecting increased network traffic (as demonstrated in Statement 12) and the impact of pay awards in excess of inflation.
- (3) Civils – costs were higher than the determination and the previous year. The movements were due to changes in the levels of Reactive Maintenance activity required. 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (4) Buildings – all 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. Expenditure in the current year and the control period to date in this area is less than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the previous year reflecting the extra work required in this area this year.
- (5) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, lower expenditure on these initiatives yielded a year-on-year saving. Despite this, costs are higher than the determination, as there was still activity on these programmes this year for which there was no allowances included in the regulatory targets.
- (6) Asset management services – costs are higher than the determination and the prior year. As noted above, this was mostly due to a transfer of responsibility (and so costs) from Track to the local asset management team to undertake plain line and switches & crossings grinding activities. This reclassification has no overall impact on the Maintenance costs reported in the route.
- (7) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	205	139	(66)	370	268	(102)	165
Signalling	130	177	47	246	322	76	116
Civils	99	70	(29)	187	152	(35)	88
Buildings	26	22	(4)	51	37	(14)	25
Electrical power and fixed plant	14	13	(1)	32	35	3	18
Telecoms	8	10	2	23	25	2	15
Wheeled plant and machinery	14	18	4	25	43	18	11
Information Technology	22	13	(9)	46	26	(20)	24
Property	4	3	(1)	8	5	(3)	4
Other renewals	17	(2)	(19)	37	(27)	(64)	20
Total renewals expenditure	539	463	(76)	1,025	886	(139)	486

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected with extra Track and Civils expenditure being partly offset by lower Signalling costs. Underlying costs (compared to the work delivered) are higher than the regulator assumed which has resulted in financial underperformance in the current year as reported in Statement 5. Expenditure is higher than the previous year mainly due to extra track investment.
- (2) Track – variance to PR13 is mainly due to higher underlying costs. Nearly half of these extra costs were expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs were impacted by lower level of volumes delivered in the year on High Output track resulting in higher unit costs (as reductions in volumes do not manifest themselves in a proportionate decrease in costs) compared to the plan. Volume delivery was affected by plant failures (including engineering train problems), adverse ground conditions and weather. Also, contractor issues and disputes increased unit costs for Plain Line track compared to the targets in the determination. As a result Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was higher than the previous year which was mostly due to additional volumes delivered this year (as set out in Statement 14).
- (3) Signalling – overall, expenditure was lower than the determination expected. This included lower than expected Level Crossing investment due to a shortage of suitable resource to deliver the workbank. The lower costs were also due to deferrals of activity due to increases in programme costs which resulted in the recognition of financial underperformance. The largest contributor to this result was the North Lincolnshire resignalling project where costs were higher due to a combination of: additional contractor costs incurred to meet tight commissioning timetable, additional works required due to unfavourable ground conditions and additional contractor claims. Higher ERTMS costs are expected on the East Coast Mainline project as the project scope and cost estimates mature as the project comes into sharper focus. Extra costs have also been incurred on the level crossing closure programme following unexpected contractor claims and additional scope to improve reliability. The Signalling financial underperformance recognised in the current year is shown in Statement 5. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was higher than the previous year which included a ramp up of activity on the North Lincolnshire programme.
- (4) Civils – expenditure in the year was higher than the regulator assumed, mainly due to extra investment in Overbridges. This was partly offset by lower underlying costs as savings were made largely arising from better contracting and work packaging. As a result Civils financial outperformance was recognised this year. In accordance with the ORR's Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of this saving when assessing the amount of capital expenditure that can be added to the RAB (refer to Statement 2) and for the purposes of calculating financial performance (refer to Statement 5). Costs this year are higher than the previous year, notably for Underbridges.
- (5) Buildings – expenditure in the year was higher than the determination mainly due to acceleration of activity from future years, mainly on Franchised Stations, to utilise available resource. Investment is in line with the previous year.
- (6) Electrical power and fixed plant – expenditure in the year was broadly in line with the determination. This year included the recognition of financial underperformance which is shown in Statement 5 arising from extra project scope and the cost of jobs compared to centrally-derived unit rates included in the determination. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are broadly in line with the previous year.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (7) Telecoms – expenditure in the year was slightly lower than the determination, mainly due to less activity on SISS (Station Information and Surveillance Systems) assets. Resource constraints have resulted in a re-prioritisation of the workbank and so some activity has had to be deferred until future control periods. In addition, changes in the East Coast franchise ownership has resulted in additional stakeholder engagement required to deliver an agreed plan. Expenditure was lower in the current year mainly due to lower costs allocated to the route from national projects. In the prior year there was considerable investment in FTNx programmes which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year largely due to the catch up of High output plant investment from 2014/15.
- (9) Information technology – as planned investment in the year is significantly higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was largely caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. More than £60m has been spent on these schemes this control period (the expenditure is included in the CP4 Rollover category so it doesn’t appear as though Asset information strategy is overspending compared to the regulator’s targets). The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year’s Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year’s expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year’s Regulatory financial statements.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2015-16 prices unless stated

- d. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN and ORBIS (as noted above). In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, London North East

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	63	33	(30)	111	63	(48)
High output renewal	63	46	(17)	115	74	(41)
Plain line refurbishment	8	3	(5)	22	6	(16)
S&C renewal	34	25	(9)	54	53	(1)
S&C refurbishment	14	6	(8)	25	14	(11)
Track non-volume	9	11	2	11	23	12
Off track	14	15	1	32	35	3
Total track	205	139	(66)	370	268	(102)
Signalling						
Full conventional resignalling	72	50	(22)	108	94	(14)
Modular resignalling	-	2	2	-	7	7
ERTMS resignalling	5	4	(1)	16	11	(5)
Partial conventional resignalling	1	42	41	1	49	48
Targeted component renewal	-	5	5	-	9	9
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	9	6	(3)	30	17	(13)
Operating strategy other capital expenditure	11	6	(5)	19	13	(6)
Level crossings	11	35	24	26	50	24
Minor works	19	19	-	44	56	12
Centrally managed costs	2	8	6	2	16	14
Other	-	-	-	-	-	-
Total signalling	130	177	47	246	322	76
Civils						
Underbridges	40	38	(2)	66	85	19
Overbridges	27	5	(22)	49	10	(39)
Bridgeguard 3	-	-	-	-	-	-
Major structures	(3)	-	3	13	6	(7)
Tunnels	5	3	(2)	6	6	-
Other assets	18	7	(11)	21	11	(10)
Structures other	2	3	1	9	6	(3)
Earthworks	9	14	5	22	28	6
Other	1	-	(1)	1	-	-
Total civils	99	70	(29)	187	152	(35)
Buildings						
Managed stations	2	8	6	5	11	6
Franchised stations	16	7	(9)	31	18	(13)
Light maint depots	2	1	(1)	3	2	(1)
Depot plant	-	2	2	1	2	1
Lineside buildings	4	1	(3)	8	1	(7)
MDU buildings	2	2	-	3	2	(1)
NDS depots	-	1	1	-	1	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	26	22	(4)	51	37	(14)

Statement 9b: Detailed analysis of renewals expenditure, London North East - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	3	3
Overhead Line	2	3	1	10	7	(3)
DC distribution	1	-	(1)	1	-	(1)
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	4	4
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	3	3	2	6	4
Fixed plant	11	7	(4)	19	15	(4)
Total electrical power and plant	14	13	(1)	32	35	3
Telecoms						
Operational communications	2	1	(1)	3	2	(1)
Network	3	4	1	5	9	4
SISS	-	2	2	-	7	7
Projects and other	-	1	1	1	1	-
Non-route capital expenditure	3	2	(1)	14	6	(8)
Total telecoms	8	10	2	23	25	2
Wheeled plant and machinery						
High output	6	2	(4)	9	14	5
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	1	-	2	1	(1)
Intervention	2	8	6	3	13	10
Materials delivery	2	1	(1)	5	1	(4)
On track plant	1	3	2	2	4	2
Seasonal	1	1	-	2	5	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	1	1	-	2	2	-
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	14	18	4	25	43	18
Information Technology						
IM delivered renewals	21	12	(9)	43	23	(20)
Traffic management	1	1	-	3	3	-
Total information technology	22	13	(9)	46	26	(20)
Property						
MDUs/offices	2	2	-	4	4	-
Commercial estate	2	1	(1)	4	1	(3)
Corporate services	-	-	-	-	-	-
Total property	4	3	(1)	8	5	(3)
Other renewals						
Asset information strategy	11	8	(3)	11	17	6
Intelligent infrastructure	1	2	1	3	5	2
Faster isolations	1	6	5	1	12	11
LOWS	-	-	-	-	1	1
Small plant	1	2	1	2	3	1
Research and development	-	-	-	-	-	-
Phasing overlay	-	(20)	(20)	-	(65)	(65)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	3	-	(3)	20	-	(20)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	17	(2)	(19)	37	(27)	(64)
Total renewals	539	463	(76)	1,025	886	(139)

Statement 9b: Detailed analysis of renewals expenditure, London North East (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North East

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	30	41	11	55	72	17	25
Access charge supplement Income	(37)	(37)	-	(67)	(66)	1	(30)
Net (income)/cost	(7)	4	11	(12)	6	18	(5)
Schedule 8							
Performance element income	(1)	-	1	(18)	-	18	(17)
Performance element costs	8	1	(7)	16	2	(14)	8
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	7	1	(6)	(2)	2	4	(9)

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	2	3	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	8	8	-
RSSB Costs	-	(1)	(1)
ORR licence fee and railway safety levy	(1)	(3)	(2)
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(1)	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	9	6	(3)

Statement 10: Other information, London North East – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 Performance element costs are lower than the determination due to more efficient planning of possessions. The route has a dedicated team for planning possessions which looks to integrate as many different types of activity (renewals, enhancements and maintenance) into possessions to maximise the volume of work that can be delivered, thus spreading the compensation costs over a wider range of activities. This team concentrates on adhering to plans and timescales to minimise the impact of late possession requests (which are more expensive). Whilst this approach has been successful in London North East this approach is not necessarily transferrable to other Network Rail routes. Reductions in expenses were achieved despite extra costs incurred this year for a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Net income is higher than the previous year as amounts payable under the Performance element have not grown as quickly as amounts receivable under the Access charges supplement.
- (2) Schedule 8 costs are higher than the determination assumed as passenger train targets have not been achieved in the current year. Extra traffic has increased the strain on the network as well as compounding delays, as one incident can affect the punctuality of a greater number of services. Performance in the year was also adversely impacted by some significant weather events and an increased number of fatalities. Many of these tragedies occurred at busy sections of the network which compounded delays and cost. Costs were higher than the previous year largely for the same reasons as noted above.
- (3) The opex memorandum currently shows a net income for this year which includes amounts earned under the Volume Incentive mechanism (see Statement 12) but is mostly due to differences in the Business rates attributed to London North East compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions.

Statement 12: Volume incentives, London North East

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	10	2	48	47	0.6%	1.47	pence per passenger train mile
Passenger farebox (millions)	9	2	1,372	1,270	2.6%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(6)	(1)	4	4	1.4%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(6)	(1)	4,298	4,624	1.6%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	7	2					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North East – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £2m as a result, compounding the outperformance reported in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger train miles grew by 0.7 per cent, which was ahead of the regulatory target. As the number of train miles in 2014/15 was already ahead of the regulator's target the growth this year has resulted in a payout through this part of the metric.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (4) Freight train miles has increased this year and the rate of growth was higher than the regulator expected. However, as the position in 2014/15 was adverse to the regulator's targets the extra growth witnessed this year was insufficient to meet the regulator's cumulative miles for the end of year 2 which leaves Network Rail facing a payout under this mechanism.
- (5) Freight gross tonne miles declined this year, reflecting many of the wider issues facing the rail freight industry at this time, with cheaper alternatives (such as road haulage owing to petrol prices) and over estimation of growth that would occur in the market resulting in a loss made under this part of the metric.

Statement 14: Renewals volumes, unit costs and expenditure, London North East

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		
					Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m		
Track	Track plain line	km	386	347	134	-	134	362	392	142	-	142	(24)	45	8	-	-	8	
	Conventional		521	121	63	-	63	400	90	36	-	36	(121)	(31)	(27)	-	-	(27)	
	High Output		583	108	63	-	63	454	216	98	-	98	(130)	108	35	-	-	35	
	Refurbishment		68	118	8	-	8	93	86	8	-	8	25	(32)	-	-	-	-	
	S&C	point ends	206	233	48	-	48	161	223	36	-	36	(45)	(10)	(12)	-	-	(12)	
	Track Drainage		0	56,403	6	-	6	-	-	8	-	8	(0)	(56,403)	2	-	-	2	
	Renewal	lm	n/a	1,071	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1,071)	n/a	n/a	n/a	n/a	
	Refurbishment	lm	n/a	53,580	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(53,580)	n/a	n/a	n/a	n/a	
	New Build	lm	n/a	1,752	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1,752)	n/a	n/a	n/a	n/a	
	Fencing	km	39	228	9	-	9	22	230	5	-	5	(18)	2	(4)	-	-	(4)	
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	
	Off track		n/a	n/a	n/a	8	8	n/a	n/a	n/a	8	8	n/a	n/a	n/a	-	-	-	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					197	8	205			191	8	199			(6)	-	(6)		
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	78	n/a	n/a	n/a	-	101	n/a	n/a	n/a	-	23		
	Full conventional resignalling	SEU	402	179	72	-	72	127	425	54	-	54	(275)	246	(18)	-	(18)		
	Modular resignalling	SEU	-	-	-	-	-	63	79	5	-	5	63	79	5	-	5		
	ERTMS resignalling	SEU	-	-	5	-	5	-	-	3	-	3	-	-	(2)	-	(2)		
	Partial conventional resignalling	SEU	333	3	1	-	1	1,222	27	33	-	33	889	24	32	-	32		
	Targeted component renewal	SEU	-	-	-	-	-	240	25	6	-	6	240	25	6	-	6		
	Level crossings	No.	478	23	11	-	11	907	43	39	-	39	429	20	28	-	28		
	Signalling other		-	-	-	41	41	-	-	-	39	39	-	-	-	(2)	(2)		
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	ERTMS other costs		n/a	n/a	n/a	9	9	n/a	n/a	n/a	6	6	n/a	n/a	n/a	(3)	(3)		
	Operating strategy other capex		n/a	n/a	n/a	11	11	n/a	n/a	n/a	6	6	n/a	n/a	n/a	(5)	(5)		
	Minor works		n/a	n/a	n/a	19	19	n/a	n/a	n/a	20	20	n/a	n/a	n/a	1	1		
	Centrally managed costs		n/a	n/a	n/a	2	2	n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5		
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total					89	41	130			140	39	179			51	(2)	49		
Civils	Key structures		n/a	n/a	n/a	-	69	n/a	n/a	n/a	-	60	n/a	n/a	n/a	-	(9)		
	Underbridges	m2	2	20,830	40	-	40	1	33,641	48	-	48	(0)	12,811	8	-	8		
	Overbridges (incl BG3)	m2	14	1,991	27	-	27	3	2,859	9	-	9	(10)	868	(18)	-	(18)		
	Tunnels	m2	2	3,199	5	-	5	1	4,270	3	-	3	(1)	1,071	(2)	-	(2)		
	Major structures	m2	n/a	n/a	n/a	(3)	(3)	n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3		
	Other structures assets		n/a	n/a	n/a	-	18	n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	(10)		
	Culverts	m2	3	2,740	9	-	9	2	950	2	-	2	(1)	(1,790)	(7)	-	(7)		
	Footbridges	m2	-	74	-	-	-	4	273	1	-	1	4	199	1	-	1		
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
	Retaining Walls	m2	2	4,554	9	-	9	2	2,521	5	-	5	0	(2,033)	(4)	-	(4)		
	Earthworks	5-chain	19	475	9	-	9	20	607	12	-	12	1	132	3	-	3		
	EW Drainage		-	-	-	-	-	0	11,015	4	-	4	0	11,015	4	-	4		
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	1,170	n/a	n/a	n/a	n/a	1,170	n/a	n/a	n/a		
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	170	n/a	n/a	n/a	n/a	170	n/a	n/a	n/a		
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	9,675	n/a	n/a	n/a	n/a	9,675	n/a	n/a	n/a		
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a		
	Structures other		n/a	n/a	n/a	2	2	n/a	-	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(10)	(10)	n/a	n/a	n/a	(11)	(11)		
	Total					99	-	99			84	(9)	75			(15)	(9)	(24)	

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost x		Other non-		Total Cost	Unit cost x		Other non-		Total Cost	Unit cost x		Other non-		Total Cost	
			Unit cost	Volume	volume	costs		Unit cost	Volume	volume	costs		Unit cost	Volume	volume	costs		
			£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m	
Buildings	Franchised Stations		n/a	n/a	n/a	-	16	n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	(6)	
	Footbridges	m2	5	759	4	-	4	n/a	302	n/a	n/a	-	n/a	(457)	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	4,550	-	-	-	n/a	253	n/a	n/a	-	n/a	(4,297)	n/a	n/a	-	
	Platforms	m2	0	2,581	1	-	1	n/a	2,343	n/a	n/a	-	n/a	(238)	n/a	n/a	-	
	Buildings	m2	4	1,212	5	-	5	n/a	1,249	n/a	n/a	-	n/a	37	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Managed Stations		n/a	n/a	n/a	-	2	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	2	
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Buildings	m2	1	1,535	1	-	1	n/a	450	n/a	n/a	-	n/a	(1,085)	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Light Maintenance Depots		0	15,210	2	-	2	7	418	n/a	-	3	n/a	(14,792)	n/a	n/a	1	
	Buildings	m2	-	210	-	-	-	n/a	418	n/a	n/a	-	n/a	208	n/a	n/a	-	
	Depot Shed	m2	-	15,000	-	-	-	n/a	-	n/a	n/a	-	n/a	(15,000)	n/a	n/a	-	
	Lineside Buildings	m2	500	8	4	-	4	12	343	n/a	n/a	4	n/a	335	n/a	n/a	-	
	MDU Buildings	m2	1	1,675	2	-	2	0	8,201	n/a	n/a	3	n/a	6,526	n/a	n/a	1	
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	-	n/a	n/a	3	
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2	
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(9)	n/a	n/a	n/a	n/a	(9)	
Total				19	7	26					20					(6)		

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m			
			£k/unit	Volume unit			£m	£m			£k/unit	Volume unit			£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	
	wiring	wire runs	(765)	17	(13)	-	(13)	n/a	26	n/a	n/a	-	n/a	9	n/a	n/a	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Structure Renewals	No.	-	-	7	-	7	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	
	Other		-	-	-	8	8	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	DC distribution		-	-	-	-	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Transformer Rectifiers	No.	-	1	-	-	-	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Fixed plant		-	-	-	-	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Signalling Power Cable Renewal	km	89	45	4	-	4	n/a	30	n/a	n/a	-	n/a	(15)	n/a	n/a	
	Principle Supply Point Renewal	No.	429	7	3	-	3	n/a	1	n/a	n/a	-	n/a	(6)	n/a	n/a	
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Rail Heating - points heating	Point End	-	5	-	-	-	n/a	38	n/a	n/a	-	n/a	n/a	n/a	n/a	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Total				1	13	14					13					
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	
	Customer Information Systems	No.	-	-	-	-	-	n/a	160	n/a	n/a	-	n/a	160	n/a	n/a	
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Clocks	No.	-	-	-	-	-	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	
	Operational Comms		n/a	n/a	n/a	-	2	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	
	PABX Concentrator	No. Lines	-	1,088	-	-	-	n/a	-	n/a	n/a	-	n/a	(1,088)	n/a	n/a	
	Processor Controlled Concentrator	No. Lines	-	-	2	-	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Driver-Only Operation: CCTV	No.	-	2	-	-	-	n/a	-	n/a	n/a	-	n/a	(2)	n/a	n/a	
	Driver-Only Operation: Mirrors	No.	-	1	-	-	-	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	
	System	No.	-	13	-	-	-	n/a	-	n/a	n/a	-	n/a	(13)	n/a	n/a	
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	-	n/a	n/a	-	n/a	(11)	n/a	n/a	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	
	Network		n/a	n/a	n/a	3	3	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	
	Non route capex		n/a	n/a	n/a	3	3	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	
	Total				2	6	8					11					

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m								
Wheeled plant and machinery	High output		n/a	n/a	n/a	6	6	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(4)	(4)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6		
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	Seasonal		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					14	14				20	20				6	6			
IT	IM delivered renewals		n/a	n/a	n/a	21	21	n/a	n/a	n/a	15	15	n/a	n/a	n/a	(6)	(6)		
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Total				22	22				21	21				(1)	(1)			
Property	MDUs/offices		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-		
	Commercial estate		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Total				4	4				3	3				(1)	(1)			
Other renewals	Asset information strategy		n/a	n/a	n/a	11	11	n/a	n/a	n/a	7	7	n/a	n/a	n/a	(4)	(4)		
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4		
	Total				17	17				20	20				3	3			
Total Renewals							539	561							22				

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	393	631	248	-	248	375	635	238	-	238	(18)	4	(10)	-	-	(10)	(10)
	Conventional		461	241	111	-	111	403	186	75	-	75	(57)	(55)	(36)	-	-	(36)	(36)
	High Output		537	214	115	-	115	478	314	150	-	150	(60)	100	35	-	-	35	35
	Refurbishment		125	176	22	-	22	96	135	13	-	13	(29)	(41)	(9)	-	-	(9)	(9)
	S&C	point ends	192	411	79	-	79	164	451	74	-	74	(28)	40	(5)	-	-	(5)	(5)
	Track Drainage		0	68,871	13	-	13	-	-	17	-	17	(0)	(68,871)	4	-	-	4	4
	Renewal	lm	n/a	4,946	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(4,946)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	59,706	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(59,706)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	4,219	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(4,219)	n/a	n/a	n/a	n/a	n/a
	Fencing	km	33	335	11	-	11	32	379	12	-	12	(1)	44	1	-	-	1	1
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Off track		n/a	n/a	n/a	19	19	n/a	n/a	n/a	19	19	n/a	n/a	n/a	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				351	19	370			341	19	360			(10)	-	-	(10)	(10)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	125	n/a	n/a	n/a	-	162	n/a	n/a	n/a	-	-	37	37
	Full conventional resignalling	SEU	409	264	108	-	108	231	425	98	-	98	(179)	161	(10)	-	-	(10)	(10)
	Modular resignalling	SEU	-	-	-	-	-	114	79	9	-	9	114	79	9	-	-	9	9
	ERTMS resignalling	SEU	-	-	16	-	16	-	-	5	-	5	-	-	(11)	-	-	(11)	(11)
	Partial conventional resignalling	SEU	167	6	1	-	1	1,464	28	41	-	41	1,298	22	40	-	-	40	40
	Targeted component renewal	SEU	-	-	-	-	-	281	32	9	-	9	281	32	9	-	-	9	9
	Level crossings	No.	867	30	26	-	26	1,094	53	58	-	58	228	23	32	-	-	32	32
	Signalling other		-	-	-	95	95	-	-	-	86	86	-	-	-	(9)	-	(9)	(9)
	ERTMS train fitment	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS train fitment, risk provision	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS other costs	n/a	n/a	n/a	n/a	30	30	n/a	n/a	n/a	17	17	n/a	n/a	n/a	(13)	-	(13)	(13)
	Operating strategy other capex	n/a	n/a	n/a	n/a	19	19	n/a	n/a	n/a	13	13	n/a	n/a	n/a	(6)	-	(6)	(6)
	Minor works	n/a	n/a	n/a	n/a	44	44	n/a	n/a	n/a	42	42	n/a	n/a	n/a	(2)	-	(2)	(2)
	Centrally managed costs	n/a	n/a	n/a	n/a	2	2	n/a	n/a	n/a	14	14	n/a	n/a	n/a	12	-	12	12
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				151	95	246			220	86	306			69	(9)	-	60	60
Civils	Key structures		n/a	n/a	n/a	-	134	n/a	n/a	n/a	-	126	n/a	n/a	n/a	-	-	(8)	(8)
	Underbridges	m2	2	26,742	66	-	66	2	56,312	99	-	99	(1)	29,570	33	-	-	33	33
	Overbridges (incl BG3)	m2	17	2,966	49	-	49	2	8,824	17	-	17	(15)	5,858	(32)	-	-	(32)	(32)
	Tunnels	m2	1	9,079	6	-	6	1	4,290	6	-	6	1	(4,789)	-	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	13	13	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(9)	-	(9)	(9)
	Other structures assets		n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	12	n/a	n/a	n/a	-	-	(9)	(9)
	Culverts	m2	3	3,223	10	-	10	3	1,256	4	-	4	0	(1,967)	(6)	-	-	(6)	(6)
	Footbridges	m2	13	158	2	-	2	7	449	3	-	3	(6)	291	1	-	-	1	1
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	2	4,586	9	-	9	2	2,521	5	-	5	0	(2,065)	(4)	-	-	(4)	(4)
	Earthworks	5-chain	37	572	21	-	21	21	1,118	24	-	24	(15)	546	3	-	-	3	3
	EW Drainage		3	339	1	-	1	0	20,660	9	-	9	(3)	20,321	8	-	-	8	8
	Renewal	lm	n/a	79	n/a	n/a	n/a	n/a	2,826	n/a	n/a	n/a	n/a	n/a	2,747	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	260	n/a	n/a	n/a	n/a	280	n/a	n/a	n/a	n/a	n/a	20	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	17,554	n/a	n/a	n/a	n/a	17,554	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	9	9	n/a	-	n/a	2	2	n/a	n/a	n/a	(7)	-	(7)	(7)
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(19)	(19)	n/a	n/a	n/a	(20)	-	(20)	(20)
	Total				164	23	187			167	(13)	154			3	(36)	-	(33)	(33)

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

Cumulative		Actual				Network Rail Business Plan				Difference to Business Plan				Other non-			
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	31	n/a	n/a	n/a	-	27	n/a	n/a	n/a	n/a	(4)
	Footbridges	m2	5	919	5	-	5	n/a	1,474	n/a	n/a	-	n/a	555	n/a	n/a	-
	Train Sheds	m2	0	7,753	2	-	2	n/a	18,450	n/a	n/a	-	n/a	10,697	n/a	n/a	-
	Canopies	m2	0	43,210	2	-	2	n/a	5,833	n/a	n/a	-	n/a	(37,377)	n/a	n/a	-
	Platforms	m2	0	7,894	3	-	3	n/a	10,175	n/a	n/a	-	n/a	2,281	n/a	n/a	-
	Buildings	m2	0	15,907	6	-	6	n/a	2,669	n/a	n/a	-	n/a	(13,238)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	13	13	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	5	n/a	-	n/a	-	7	n/a	n/a	n/a	n/a	2
	Footbridges	m2	-	120	-	-	-	n/a	-	n/a	n/a	-	n/a	(120)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	1	1,593	1	-	1	n/a	450	n/a	n/a	-	n/a	(1,143)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	15,350	3	-	3	14	418	n/a	-	6	n/a	(14,932)	n/a	n/a	3
	Buildings	m2	-	350	-	-	-	n/a	418	n/a	n/a	-	n/a	68	n/a	n/a	-
	Depot Shed	m2	-	15,000	-	-	-	n/a	-	n/a	n/a	-	n/a	(15,000)	n/a	n/a	-
	Lineside Buildings	m2	48	168	8	-	8	13	598	n/a	n/a	8	n/a	430	n/a	n/a	-
	MDU Buildings	m2	0	6,532	3	-	3	0	30,201	n/a	n/a	6	n/a	23,669	n/a	n/a	3
	Depot Plant		-	-	-	1	1	n/a	-	n/a	n/a	4	n/a	-	n/a	n/a	3
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(16)	n/a	n/a	n/a	n/a	(16)
Total					34	17	51					45					(6)

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	
					volume	volume				volume	volume				volume	volume		volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	6	n/a	n/a	n/a	n/a	(4)	
	wiring	wire runs	(545)	22	(12)	-	(12)	n/a	52	n/a	n/a	-	n/a	30	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Structure Renewals	No.	-	-	8	-	8	n/a	4	n/a	n/a	-	n/a	4	n/a	n/a	-	
	Other		-	-	-	14	14	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3	
	HV Switchgear Renewal	No.	-	4	-	-	-	n/a	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	DC distribution		-	-	-	-	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)	
	HV Switchgear Renewal	No.	-	2	-	-	-	n/a	-	n/a	n/a	-	n/a	(2)	n/a	n/a	-	
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Transformer Rectifiers	No.	-	5	-	-	-	n/a	-	n/a	n/a	-	n/a	(5)	n/a	n/a	-	
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Fixed plant		-	-	-	-	19	n/a	-	n/a	n/a	16	n/a	n/a	n/a	n/a	n/a	(3)
	Signalling Power Cable Renewal	km	200	45	9	-	9	n/a	61	n/a	n/a	-	n/a	16	n/a	n/a	-	
	Principle Supply Point Renewal	No.	267	15	4	-	4	n/a	1	n/a	n/a	-	n/a	(14)	n/a	n/a	-	
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	9	-	-	-	n/a	103	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	n/a	4
	Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	2	2	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	n/a	5
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Total				9	23	32					36						4
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	6	
	Customer Information Systems	No.	-	-	-	-	-	n/a	334	n/a	n/a	-	n/a	334	n/a	n/a	-	
	Public Address	No.	-	20	-	-	-	n/a	593	n/a	n/a	-	n/a	573	n/a	n/a	-	
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Clocks	No.	-	-	-	-	-	n/a	59	n/a	n/a	-	n/a	59	n/a	n/a	-	
	Operational Comms		n/a	n/a	n/a	-	3	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	(1)	
	PABX Concentrator	No. Lines	-	1,088	-	-	-	n/a	-	n/a	n/a	-	n/a	(1,088)	n/a	n/a	-	
	Processor Controlled Concentrator	No. Lines	286	7	2	-	2	n/a	79	n/a	n/a	-	n/a	72	n/a	n/a	-	
	Driver-Only Operation: CCTV	No.	500	2	1	-	1	n/a	-	n/a	n/a	-	n/a	(2)	n/a	n/a	-	
	Driver-Only Operation: Mirrors	No.	-	1	-	-	-	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	-	
	System	No.	-	24	-	-	-	n/a	1	n/a	n/a	-	n/a	(23)	n/a	n/a	-	
	Human Machine Interface Large	No.	-	11	-	-	-	n/a	-	n/a	n/a	-	n/a	(11)	n/a	n/a	-	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-	
	Radio System	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-	
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Network		n/a	n/a	n/a	5	5	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	2	
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)	
	Non route capex		n/a	n/a	n/a	14	14	n/a	-	n/a	n/a	12	n/a	n/a	n/a	n/a	(2)	
	Total				3	20	23					27						

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2015-16 prices unless stated

Cumulative		Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m
				£m	costs £m				£m	costs £m				£m	costs £m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	9	n/a	n/a	n/a	15	15	n/a	n/a	n/a	6	6
	Incident response		n/a	n/a	n/a	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Infrastructure monitoring		n/a	n/a	n/a	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1
	Intervention		n/a	n/a	n/a	3	n/a	n/a	n/a	11	11	n/a	n/a	n/a	8	8
	Materials delivery		n/a	n/a	n/a	5	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(5)	(5)
	On track plant		n/a	n/a	n/a	2	n/a	n/a	n/a	5	5	n/a	n/a	n/a	3	3
	Seasonal		n/a	n/a	n/a	2	n/a	n/a	n/a	6	6	n/a	n/a	n/a	4	4
	Locomotives		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Road vehicles		n/a	n/a	n/a	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	S&C delivery		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total						25				46	46				21	21
IT	IM delivered renewals		n/a	n/a	n/a	43	n/a	n/a	n/a	35	35	n/a	n/a	n/a	(8)	(8)
	Traffic management		n/a	n/a	n/a	3	n/a	n/a	n/a	10	10	n/a	n/a	n/a	7	7
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total						46				45	45				(1)	(1)
Property	MDUs/offices		n/a	n/a	n/a	4	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-
	Commercial estate		n/a	n/a	n/a	4	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(2)	(2)
	Corporate services		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total						8				6	6				(2)	(2)
Other renewals	Asset information strategy		n/a	n/a	n/a	11	n/a	n/a	n/a	16	16	n/a	n/a	n/a	5	5
	Intelligent infrastructure		n/a	n/a	n/a	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1
	Faster isolations		n/a	n/a	n/a	1	n/a	n/a	n/a	13	13	n/a	n/a	n/a	12	12
	LOWS		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	Research and development		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	20	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(20)	(20)
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	9	9	n/a	n/a	n/a	9	9
Total						37				44	44				7	7
Total Renewals						1,025		1,069						44		

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered in the year are lower than the plan which reflects the acceleration of activity experienced in the opening year of the control period. This year, additional Conventional and Refurbishment volumes was more than offset by lower High output activity.
 - a. Conventional – volumes delivered this year exceeded the plan due to additional work which was added into the workbank as a result of a changing work mix, most notably between refurbishment and re-railing. There were also additional works relating to rail breaks that were not included in the baseline.
 - b. High Output - delivery through this programme was lower than the plan due to issues experienced across a number of jobs including the derailment of a gantry crane, plant failures, engineering train problems, and poor ground conditions encountered on the East Coast Main Line north of Newcastle.
 - c. Refurbishment – volumes delivered this year were higher than the CP5 Business Plan which is largely due to the more emergent status of work in this area; planning cycles can be more fluid in nature which may result in increasing levels of deviation from plan as the control period progresses. This includes a level of recovery from year one under-delivery for Medium (Concrete) activity.
- (5) Track – Drainage – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (7) Signalling – Full Conventional Resignalling – volumes delivered in the year are lower than the CP5 Business Plan. This is mostly due to deferral of activity to future years and into future control periods. The cost increases in the portfolio and across the organisation has meant that scarce resource utilisation has been replanned to achieve optimal results.
- (8) Signalling – Modular – no volumes have been reported in the current year. This trend is expected to continue throughout the control period as this type of asset management solution is now considered to be less appropriate than at the start of the control period. In addition, there is some deferral into future control periods arising from cost increases in the portfolio and across the organisation which has meant that scarce resource utilisation has been replanned to achieve optimal results.
- (9) Signalling - Partial Re-signalling – volume commissioned in the current year is lower than the plan due to schemes being deferred as a result of contractor capacity as well as funding constraints necessitating changes within the workbank and subsequent workbank prioritisation.
- (10) Signalling – Targeted Component Re-signalling - no volumes have been reported in the current year. This trend is expected to continue throughout the control period as this type of asset management solution is now considered to be less appropriate than at the start of the control period. In addition, there is some deferral into future control periods arising from cost increases in the portfolio and across the organisation which has meant that scarce resource utilisation has been replanned to achieve optimal results.
- (11) Signalling – Level Crossings – volumes reported this year are lower than the plan due to a lack of resource in the route to deliver the original workbank effectively. In addition, there is some deferral into future control periods arising from cost increases in the portfolio and across the organisation which has meant that scarce resource utilisation has been replanned to achieve optimal results.
- (12) Civils - Underbridges – there has been a significant shortfall compared to plan which is predominantly due to the ongoing impact of the belated agreement of contractual frameworks midway through year one, Thorald Underbridge is a significant scheme which has been deferred to 2017/18 due to a change in scope. Overall volumes for the control period are expected to be lower than the plan as alternative asset management solutions are enacted so that the organisation complies with its funding arrangements with the Department for Transport.
- (13) Civils - Overbridges – volumes delivered in the year were lower than the plan. The main reason was volumes reported for the River Aire Bridge project which was deferred into next control period following a reassessment of asset condition against intervention approach. In addition, access and planning issues have contributed to the shortfall this year.
- (14) Civils - Tunnels – volumes delivered in the current year was lower than planned predominantly arising from the Thurstonland tunnel boring project being deferred into the next control period following assessment of asset condition and the impact of resource restrictions in light of portfolio cost increases and funding requirements of other areas of the business.
- (15) Civils – Culverts – volumes delivered in the year were higher than the plan. These extra volumes partly reflected a catch up of underdelivery in the opening year of the control period and an acceleration of work from future years. Volumes for the control period are expected to exceed the plan as the estimated level of work required has proven to be too conservative.
- (16) Civils – Footbridges – volumes delivered in the year were lower than the plan mostly due to deferral of activity with much of the slippage expected to be delivered in 2016/17. The CP5 Business Plan contained some high level assumptions about the phasing of works required this control period which have been superseded by more informed assessments of asset conditions and appropriate timing.
- (17) Civils – Retaining Walls - volumes delivered this year are higher than the plan which is expected to continue throughout the remainder of the control period. The CP5 Business Plan contained some high level assumptions about the phasing of works required this control period which have been superseded by more informed assessments of asset conditions and appropriate timing.

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2015-16 prices unless stated

- (18)Civils - Earthworks - volume delivery in the current year is lower than the plan due to slow contractor engagement and, as a result, volumes have been re-profiled into later years of the control period. In addition, the CP5 Business Plan contained some high level assumptions about the phasing of works required this control period which have been superseded by more informed assessments of asset conditions and appropriate timing.
- (19)Civils – Earthworks Drainage – no volumes have been reported in the current year. This is due to a deferral of activity into future years largely as a result of slower than expected contractor engagement.
- (20)Buildings - Franchised Stations – Footbridges – volume delivery in the current year is higher than the plan which reflects activity deferred from the opening year of the control period into this year.
- (21)Buildings - Franchised Stations – Canopies – volume delivery in the current year is higher than the plan. This is mostly due to works at Newcastle Station being delivered ahead of plan to utilise available resources.
- (22)Buildings - Franchised Stations – Platforms – volume delivery in the current year is higher than the plan which reflects activity deferred from the opening year of the control period into this year.
- (23)Buildings - Managed Stations – Buildings - volume delivery in the current year is higher than the plan reflecting an acceleration of works in the current year to utilise available resource. In addition, extra volumes have been required compared to the original plan's assumptions to maintain asset condition.
- (24)Buildings – Light Maintenance Depots – no volume was included in the CP5 Business Plan for Depot Sheds. However, activity was required this year in relation to Neville Hill depot following a crane failure.
- (25)Buildings – Lineside Buildings – volume delivery in the current year is lower than the plan which reflects deferrals of expected activity towards the end of the year. These works are now expected to complete in 2016/17.
- (26)Buildings – MDU Buildings - volume delivery in the current year is lower than the plan which reflects deferrals of expected activity towards the end of the year. These works are now expected to complete in 2016/17.
- (27)Electrification - OLE Rewiring - volume delivery in the current year is lower than the plan due to volumes re-phased to later years of the control period. This is following a change in delivery mechanism which has resulted in an updated delivery programme.
- (28)Electrification - Signalling Power Cables - volume delivery in the current year is higher than Network Rail's published CP5 Business Plan which reflects activity deferred from the opening year of the control period into this year.
- (29)Electrification – Principle Supply Points - volume delivery in the current year is higher than Network Rail's published CP5 Business Plan, a trend which is expected to continue for the remainder of the control period. The plan for this asset contained some high level assumptions about the level of works required in this area during the control period which have been superseded by more informed assessments of asset conditions and appropriate timing.
- (30)Electrification – Rail Heating – Points Heating – volumes delivered in the year were lower than the plan, a pattern which is expected to continue throughout the remainder of the control period. Resource constraints have resulted in a re-prioritisation of the workbank and so non-critical activity has been deferred until future control periods.
- (31)Telecoms – Customer Information Systems – no volumes were reported this year for this category with activity over the control period now anticipated to be lower than the plan. Resource constraints have resulted in a re-prioritisation of the workbank and so some activity has had to be deferred until future control periods. In addition, changes in the East Coast franchise ownership has resulted in additional stakeholder engagement required to deliver an agreed plan.
- (32)Telecoms – PABX Concentrators – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.
- (33)Telecoms - Public Emergency Telephone System – volumes delivered this year are higher than the plan. The CP5 Business Plan assumed that the required volumes for this asset category would be delivered in later years of the control period whereas they have been delivered in the opening years.
- (34)Telecoms - Human Machine Interface Large - the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.

Statement 1: Summary regulatory financial performance, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	995	979	16	1,980	1,957	23	985
Fixed Income	83	66	17	184	154	30	101
Variable Income	271	283	(12)	538	541	(3)	267
Other Single Till Income	214	167	47	375	327	48	161
Opex memorandum account	(1)	-	(1)	(4)	-	(4)	(3)
Total Income	1,562	1,495	67	3,073	2,979	94	1,511
Operating expenditure							
Network operations	133	105	(28)	246	213	(33)	113
Support costs	95	107	12	192	217	25	97
Traction electricity, industry costs and rates	132	145	13	257	266	9	125
Network maintenance	310	281	(29)	609	571	(38)	299
Schedule 4	53	45	(8)	108	95	(13)	55
Schedule 8	9	1	(8)	29	2	(27)	20
Total operating expenditure	732	684	(48)	1,441	1,364	(77)	709
Capital expenditure							
Renewals	708	526	(182)	1,341	1,052	(289)	633
PR13 enhancement expenditure	526	732	206	1,183	1,282	99	657
Non PR13 enhancement expenditure	202	-	(202)	240	-	(240)	38
Total capital expenditure	1,436	1,258	(178)	2,764	2,334	(430)	1,328
Other expenditure							
Financing costs	313	378	65	632	744	112	319
Corporation tax (received)/paid	-	-	-	(1)	1	2	(1)
Total other expenditure	313	378	65	631	745	114	318
Total expenditure	2,481	2,320	(161)	4,836	4,443	(393)	2,355

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher traction electricity charges and higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is higher than the determination due to increased property sales. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year due to higher market electricity prices which is mostly recovered through additional income.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination but lower than the prior year. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – Schedule 8 costs as expected are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2015-16 prices unless stated

- (13)Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year which is due to the cyclical nature of renewals activities across the control period.
- (14)Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15)Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. Expenditure is higher than last year with a major contribution from elements of the East West rail programme funded through the investment framework.
- (16)Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, London North West

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	11,305	10,770	535
Indexation to 2013-14 prices	529	504	25
Opening RAB for the year (2014-15 prices)	11,834	11,274	560
Indexation for the year	124	119	5
Opening RAB (2015-16 prices)	11,958	11,393	565
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	646	526	120
PR13 enhancements	534	544	(10)
Non-PR13 enhancements	186	-	186
Total enhancements	720	544	176
Amortisation	(536)	(536)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	12,788	11,927	861

RAB Regulatory financial position - cumulative, London North West

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	10,916	11,958	10,916
Adjustments for the actual capital expenditure outturn in CP4	310	-	310
Renewals	588	646	1,234
PR13 enhancements	652	534	1,186
Non-PR13 enhancements	29	186	215
Total enhancements	681	720	1,401
Amortisation	(536)	(536)	(1,072)
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB	11,958	12,788	12,788

Statement 2a: RAB - Regulatory financial position, London North West – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity within the control period. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was lower than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, London North West – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, London North West

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	526	526	1,052
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	29	-	29
Capitalised financing on CP4 deferrals	1	2	3
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	556	528	1,084
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(107)	(84)	(191)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(7)	(9)
Adjustments for efficient overspend	168	256	424
Capitalised financing on efficient overspend	4	12	16
25% retention of efficient overspend	(42)	(64)	(106)
Capitalised financing on efficient overspend 25% retention	(2)	(4)	(6)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	15	10	25
Capitalised financing on efficient overspend through spend to save framework	-	2	2
20% retention of efficient overspend through spend to save framework	(3)	(2)	(5)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	(1)	(1)
Other adjustments	1	-	1
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	588	646	1,234
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(1)	(4)	(5)
Adjustment for 25% retention of efficient overspend	45	66	111
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	1	-	1
Total actual renewals expenditure (see statement 9)	633	708	1,341

Statement 2b: RAB - reconciliation of expenditure, London North West - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	486	544	1,030
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	61	(61)	-
Capitalised financing on CP4 deferrals	2	1	3
Baseline adjustments	-	252	252
Capitalised financing on Baseline adjustments	-	5	5
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	(1)	-	(1)
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	548	741	1,289
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	66	(204)	(138)
Capitalised financing on acceleration / (deferrals) of expenditure	1	(1)	-
Adjustments for efficient overspend / (underspend)	44	(4)	40
Capitalised financing on efficient overspend / (underspend)	1	3	4
25% retention of efficient overspend / (underspend)	(11)	1	(10)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(1)
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-
agreements - retention of efficient overspend	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	2	-	2
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	652	534	1,186
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	29	192	221
overspend	(1)	(11)	(12)
Capitalised financing on non-PR13 enhancements expenditure	1	5	6
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	29	186	215
Total enhancements (added to the RAB - see statement 2a)	681	720	1,401
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(4)	(12)	(16)
Adjustment for 25% retention of efficient overspend	12	10	22
Other Adjustments	9	10	19
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	110	14	124
Other adjustments	(3)	-	(3)
Total actual enhancement expenditure (see statement 3)	805	742	1,547

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements – Adjustments for efficient overspend/ (underspend) – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5. Under the terms of the Regulatory Accounting Guidelines (May 2016) Network Rail can add 25 per cent of the underspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure/ saving.
- (13) Enhancements - 25% retention of efficient overspend/ (underspend) – following on from the above comment, this heading represents the 25 per cent of the overspend/ underspend that Network Rail retains. The overspend is not eligible for logging up to the RAB (this is retained by Network Rail) whilst the underspend is logged up to the RAB to reflect the benefit retained by Network Rail of efficient underspends.
- (14) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (15) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the element of the overspend that Network Rail retained in 2014/15 which has been reversed in the current year to reflect the latest control period plans for this category of investment.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (17) Non-PR13 enhancements – Other adjustments (including discretionary investment) – expenditure this year mainly relates to Manchester Victoria station redevelopment. Expenditure on this programme was funded through the regulator's investment framework but the project costs exceeded the amount eligible for RAB addition and consequently expenditure on this programme over and above the regulatory allowance is treated as financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, London North West

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	5	4	(1)	9	10	1
Stations - Access for All (AfA)	9	2	(7)	14	15	1
Development	5	12	7	15	20	5
Level crossing safety	3	3	-	8	9	1
Passenger journey improvement	1	(16)	(17)	1	1	-
The strategic rail freight network	8	(8)	(16)	9	11	2
Total funds	31	(3)	(34)	56	66	10
Committed projects						
East West Rail (committed scheme)	3	125	122	147	154	7
Northern Hub	242	329	87	408	410	2
IEP Programme	1	(1)	(2)	1	-	(1)
North Trans Pennine electrification West	(3)	(17)	(14)	-	-	-
NW Electrification	(39)	(99)	(60)	(3)	-	3
Stafford area improvement scheme	86	78	(8)	139	130	(9)
West coast power supply upgrade	57	48	(9)	113	115	2
Total committed projects	347	463	116	805	809	4
Named schemes						
The Electric Spine:						
DfT Sofa amount	5	13	8	7	14	7
Total Electric Spine projects	5	13	8	7	14	7
Midlands						
Walsall to Rugeley electrification	16	24	8	32	40	8
Total Midlands Projects	16	24	8	32	40	8
HLOS capacity metric schemes						
Chiltern Main Line Train Lengthening	8	11	3	14	12	(2)
North West train lengthening	-	(3)	(3)	-	-	-
Total HLOS capacity metric schemes	8	8	-	14	12	(2)
CP4 project rollovers						
Birmingham New St Gateway	58	140	82	158	209	51
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	8	9	1	15	14	(1)
Redditch Branch Enhancement	-	1	1	17	17	-
Station Security	-	(1)	(1)	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	66	149	83	190	240	50
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	3	3	-	3	3
R&D allowance	1	2	1	2	4	2
Depots and stabling	37	56	19	48	56	8
Income generating property schemes	15	27	12	29	38	9
Other income generating investment framework schemes	-	(10)	(10)	-	-	-
Total other projects	53	78	25	79	101	22
Total PR13 funded enhancements (see statement 2b)	526	732	206	1,183	1,282	99

Statement 3: Analysis of enhancement capital expenditure, London North West - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
NHub Huyton & Roby	(21)	-	21	-	-	-
NW Electrification	79	-	(79)	79	-	(79)
Other government sponsored schemes	2	-	(2)	2	-	(2)
Total Government sponsored schemes	60	-	(60)	81	-	(81)
Network Rail spend to save schemes						
Mountfield	1	-	(1)	8	-	(8)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	1	-	(1)	8	-	(8)
East West Rail (committed scheme)	131	-	(131)	131	-	(131)
Other	-	-	-	1	-	(1)
Total Schemes promoted by third parties	131	-	(131)	132	-	(132)
Discretionary Investment	10	-	(10)	19	-	(19)
Total non PR13 enhancement expenditure	202	-	(202)	240	-	(240)
Total Network Rail funded enhancements (see Statement 1)	728	732	4	1,423	1,282	(141)
Third Party PAYG	14	-	(14)	124	-	(124)
Total enhancements (see statement 2b)	742	732	(10)	1,547	1,282	(265)

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £728m (as shown in Statement 1). This comprises the total enhancement figure in the table above £742m less the PAYG schemes funded by third parties (£14m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.
 - (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is slightly below the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably lower than the baseline in the year due to a reclassification of spend to 'Non PR-13'. This is partially off-set by financial underperformance on this programme (refer to Statement 5a) due to increases in the expected final costs of the programme which have arisen after the baseline was revised as part of the aforementioned Hendy review.
- (b) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Although costs in the control period to date are broadly consistent the baseline the project is now expected to cost more than the baseline included in the Hendy review. Therefore, negative FPM has been recognised in the current year (refer to Statement 5a).
- (c) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is slightly higher than the baseline. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
- (d) North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East. These programmes facilitate the introduction of electric train operation on passenger and freight services in the north of England. This programme is in line with the baseline.
- (e) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The credit balance reported in the current year represents a change in funding agreed with DfT and many of the programme costs are now included in the Government Sponsored Schemes section of this statement. The credit position on the control period to date represents reclassifications relating to expenditure undertaken on this programme in previous control periods to the Government Sponsored Schemes category.
- (f) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. The programme has spent slightly more than the baseline but this is due to work being brought forward from later in the control period.
- (g) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Costs are in line with the baseline. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. Expenditure is slightly lower than the baseline as elements of the programme have been deferred into future years.
- (b) Walsall to Rugeley electrification – this project will provide the infrastructure to enable the running of electric rolling stock between Walsall and Rugeley Valley, a route with regional and strategic value which will help accommodate increased commuter demand into Birmingham. Expenditure is lower than the baseline as work has been deferred into future years.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs are slightly higher than target as work has been accelerated from future years.
 - (b) North West train lengthening - This project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. In line with the baseline agreed following the Hendy review there was limited activity on this project in the first two years of the control period.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notably Birmingham City Council. The costs of this programme for the control period to date are lower than the agreed Hendy baseline as a result of more of the programme being funded through cash contributions from third party (included in the PAYG category of this statement) but this has been treated as neutral when assessing financial performance.
 - (b) Bromsgrove Elec - Midlands Improvements Programme - This project is providing infrastructure to support an increase in capacity by extending a service of three trains per hour which currently terminate and turn round at Longbridge to Bromsgrove. This project was re-scheduled following the Hendy Review so has had its commissioning pushed back to later in the control period.
 - (c) Redditch Branch Enhancement - This project will provide the infrastructure to support the primary output of increased capacity in the form of an additional train path per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (d) Station Security – This programme planned to deliver enhanced vehicle access control arrangements across key franchised stations. As part of the Hendy review, the phasing of this project was amended. Expenditure in the control period to date is in line with this new phasing.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects –. Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is below target due to re-profiling of activity into future years.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Therefore the expenditure is below target for the year and control period to date.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. The expenditure for the control period is below the target as work has been re-profiled until later years of the control period.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail have to make based on the cash constraints facing the business this control period.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) Government sponsored – the main programme in this category in the current year was NW Electrification which included the reclassification of expenditure included in the PR13 funded element of the NW Electrification programme into the Government sponsored category. Similarly, last year, Northern Hub Huyton & Roby was included as a Government sponsored scheme but, as agreed with the DfT, this expenditure now forms part of the PR13-funded scope under the Northern Hub programme.
 - (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in previous years and so there is limited cost this year. Also, there were no other similarly large schemes undertaken this year by Network Rail and so the investment in this category is lower than the previous year.
 - (c) Schemes promoted by third parties – the item in this category which accounts for the vast majority of the expenditure was East West Rail Phase 1. This was re-classified from the PR13 expenditure discussed above. The expenditure on this scheme is much higher than anything else in the control period to date.
 - (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and in the prior year to CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a). The extra costs on Manchester Victoria results in financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (e) PAYGO – Significant programmes in the year include Birmingham Gateway and the Bolton Blackburn Capacity Enhancement.

Statement 4: Net debt and financial ratios, London North West

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	8,203	7,932	(271)			
Adjustment for opening control period debt	-	(129)	(129)			
Opening net debt	8,203	7,803	(400)	7,271	7,100	(171)
Income						
Grant income	(995)	(979)	16	(1,970)	(1,947)	23
Fixed charges	(83)	(66)	17	(183)	(153)	30
Variable charges	(271)	(283)	(12)	(534)	(538)	(4)
Other single till income	(214)	(167)	47	(373)	(327)	46
Total income	(1,563)	(1,495)	68	(3,060)	(2,965)	95
Expenditure						
Network operations	133	105	(28)	246	213	(33)
Support costs	95	107	12	191	219	28
Traction electricity, industry costs and rates	132	145	13	256	266	10
Network maintenance	310	281	(29)	606	568	(38)
Schedule 4	53	45	(8)	107	94	(13)
Schedule 8	9	1	(8)	28	2	(26)
Renewals	708	526	(182)	1,334	1,046	(288)
PR13 enhancement	526	544	18	1,178	1,027	(151)
Non-PR13 enhancement	202	-	(202)	240	-	(240)
Total expenditure	2,168	1,754	(414)	4,186	3,435	(751)
Financing						
Interest expenditure on nominal debt - FIM covered	77	119	42	190	236	46
Interest expenditure on index linked debt - FIM covered	54	57	3	108	111	3
Expenditure on the FIM	73	89	16	154	171	17
Interest expenditure on government borrowing	61	-	(61)	82	-	(82)
Interest on cash balances held by Network Rail	(2)	(3)	(1)	(4)	(4)	-
Total interest costs	263	262	(1)	530	514	(16)
Accretion on index linked debt - FIM covered	50	116	66	99	230	131
Total financing costs	313	378	65	629	744	115
Corporation tax	-	-	-	(1)	1	2
Other	(125)	-	125	(29)	125	154
Movement in net debt	793	637	(156)	1,725	1,340	(385)
Closing net debt	8,996	8,440	(556)	8,996	8,440	(556)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	1.01	1.12	1.05
FFO/interest	3.00	3.15	3.10
Net debt/RAB (gearing)	69.3%	70.3%	70.8%
FFO/debt	9.7%	9.2%	9.6%
RCF/debt	6.5%	6.3%	6.5%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to London North West has increased by £0.8bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.6bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accruing debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The favourable variance to the regulator's determination is mainly due to lower interest costs which have been helped by increased income and lower support costs. These variances are addressed in more detail in other statements of these Regulatory financial statements.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines May 2016, in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, London North West

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	995	979	16	16	-	-	-	-
Fixed Income	83	66	17	17	-	-	-	-
Variable Income	210	211	(1)	-	-	-	(1)	(1)
Other Single Till Income	214	167	47	-	-	-	47	47
Opex memorandum account	(1)	-	(1)	(2)	-	-	1	1
Total Income	1,501	1,423	78	31	-	-	47	47
Expenditure								
Network operations	133	105	(28)	-	-	-	(28)	(28)
Support costs	95	107	12	1	-	-	11	11
Industry costs and rates	61	61	-	2	-	-	(2)	(2)
Traction electricity	10	11	1	-	-	-	1	1
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	310	281	(29)	-	(4)	-	(25)	(25)
Schedule 4 costs	53	45	(8)	-	11	-	(19)	(19)
Schedule 8 costs	9	1	(8)	-	-	-	(8)	(8)
Renewals	708	526	(182)	-	74	-	(256)	(64)
PR13 Enhancements	526	732	206	-	202	-	4	1
Non PR13 Enhancements	202	-	(202)	-	(191)	-	(11)	(11)
Financing Costs	313	378	65	65	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	2,420	2,248	(172)	68	93	-	(333)	(144)
Total:			(94)	99	93	-	(286)	(97)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(97)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(12)
Under-delivery of train performance requirements (CaSL)								(1)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(13)
Total financial out / (under) performance to be recognised								(110)

Statement 5a: Total financial performance, London North West - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 C Favourable / (Adverse)	Variance not included in total financial performance D	Variances in volume of work E	Other adjustments to PR13 F	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
Income	A	B	C	D	E	F	G	H
Grant Income	1,980	1,957	23	23	-	-	-	-
Fixed Income	184	154	30	30	-	-	-	-
Variable Income	417	417	-	-	-	-	-	-
Other Single Till Income	375	327	48	-	-	-	48	48
Opex memorandum account	(4)	-	(4)	(7)	-	-	3	3
Total Income	2,952	2,855	97	46	-	-	51	51
Expenditure	A	B	C	D	E	F	G	H
Network operations	246	213	(33)	-	-	-	(33)	(33)
Support costs	192	217	25	7	-	-	18	18
Industry costs and rates	122	122	-	5	-	-	(5)	(5)
Traction electricity	14	19	5	-	-	-	5	5
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	609	571	(38)	-	6	-	(44)	(44)
Schedule 4 costs	108	95	(13)	-	14	-	(27)	(27)
Schedule 8 costs	29	2	(27)	-	-	-	(27)	(27)
Renewals	1,341	1,052	(289)	-	135	-	(424)	(106)
PR13 Enhancements	1,183	1,282	99	-	139	-	(40)	(10)
Non PR13 Enhancements	240	-	(240)	-	(221)	-	(19)	(19)
Financing Costs	632	744	112	112	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	1	2	-	2	-	-	-
Total Expenditure	4,715	4,319	(396)	124	76	-	(596)	(248)
Total:			(299)	170	76	-	(545)	(197)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(197)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(31)
Under-delivery of train performance requirements (CaSL)								(6)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(38)
Total financial out / (under) performance to be recognised								(235)
	2015-16			Cumulative				
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance		
Breakdown of variance not included in total financial performance - Variable income:								
Adjustments for external traction electricity	(61)	(72)	11	(121)	(124)	3		
Total variance not included in total	(61)	(72)	11	(121)	(124)	3		
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	1	1	-	1		
Release of CP4 long distance financial penalty provision	-	-	-	6	-	6		
Total variance not included in total	1	-	1	7	-	7		
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	61	72	(11)	121	124	(3)		
Total variance not included in total	61	72	(11)	121	124	(3)		

Statement 5a: Total financial performance, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variance that has arisen is largely due to non-PR13 income and inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for these items.
- (3) Variable income – some minor financial underperformance has been recognised in this category due to slightly lower Variable usage income compared to the regulatory expectation. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – significant outperformance has been recognised this year mostly due to additional property income partly offset by lower than expected freight income. The main reason for the increase in property income is the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Lower freight income is mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income.

Statement 5a: Total financial performance, London North West – continued

in £m 2015-16 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on ORR fees attributed to London North West have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are significantly higher than the regulator's assumptions. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base much higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements, such as those at Manchester and Rugby. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the regulator's target due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (7) Support costs – support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. One-off savings in Group include reductions in amounts payable to senior staff under performance related pay arrangements and lower than expected re-organisation expenses. Following agreement with trade unions to avert industrial action in Summer 2015 (and the associated disruption to the millions of people who rely on the train network every day) no compulsory redundancies were made in 2015/16. An adjustment is made to the Support baseline to reflect the financial impact of capital schemes funded through the spend to save framework. A portion of the capital expenditure funded through this mechanism is supposed to arise from cost savings in future years of the control period.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. The amounts included in the Variances not included in total financial performance column refer to net overspends that are expected to be reimbursed through the Opex memorandum (refer to Statement 10).
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company. Some minor financial outperformance has been recognised in the current year.

Statement 5a: Total financial performance, London North West – continued

in £m 2015-16 prices unless stated

- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. This variance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator.
- (12) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Landslips caused by weather, such as those in Carlisle and Milton Keynes, added to compensation costs, as did the overrun of some possessions where completion of the required activities were considered paramount to the performance of the route and so extra time was taken to finish the works.
- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. Performance in the year was also impacted by weather related incidents, including flooding in the Carlisle area (as reported extensively in the media) as well as cable failures caused by vandalism in the Birmingham area.
- (14) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. The underperformance recognised in the current year relates to Manchester Victoria where the costs of the project exceeded the baseline agreed with the regulator.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Statement 5a: Total financial performance, London North West – continued

in £m 2015-16 prices unless stated

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, London North West

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(94)	(22)	(72)	(18)		(18)	-	-
Signalling	(44)	24	(68)	(17)		(16)	(1)	-
Civils	(45)	39	(84)	(21)		(8)	(13)	-
Buildings	(10)	10	(20)	(5)		(3)	(2)	-
Electrical power and fixed plant	24	40	(16)	(4)		1	(5)	-
Telecoms	15	15	-	-		(1)	1	-
Wheeled plant and machinery	6	6	-	-		-	-	-
IT	(13)	(13)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(24)	(28)	4	1		2	(1)	-
Total	(182)	74	(256)	(64)		(43)	(21)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(159)	1	(160)	(40)		(41)	1	-
Signalling	(73)	31	(104)	(26)		(19)	(7)	-
Civils	(38)	54	(92)	(23)		(10)	(13)	-
Buildings	(4)	24	(28)	(7)		(3)	(4)	-
Electrical power and fixed plant	55	83	(28)	(7)		-	(7)	-
Telecoms	21	25	(4)	(1)		(1)	-	-
Wheeled plant and machinery	29	29	-	-		-	-	-
IT	(33)	(33)	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	(89)	(81)	(8)	(2)		3	(5)	-
Total	(289)	135	(424)	(106)		(71)	(35)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, London North West - continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. About one-fifth of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Costs in the current year have also suffered efficiency initiatives not realising planned savings. The in-sourcing of High Output delivery at the end of 2014/15 as expected to deliver unit cost savings which have not arisen, largely due to access conflicts which contributed to volumes being about one-third lower than expected. The reduction in volumes does not result in a proportionate decrease in cost. There were a number of projects with sunk costs where volumes were not delivered for Plain Line track projects. In addition, other efficiencies assumed in the determination were not achieved. Finally, extra fencing and drainage costs were incurred. The unit rates in the determination were based on centrally derived, modelled rates which have proven to be an unrealistic baseline in light of the unit rates experienced this year in the route.
- (3) Signalling – as with the previous year, financial underperformance has been reported in 2015/16. This has largely been driven by a few specific schemes which have encountered some unforeseen cost pressures. These include extra costs on Bromsgrove (where the project has been re-phased and now has a revised commissioning date), Birmingham New Street and Banbury (due to project acceleration which incurred extra contractor costs). In addition, extra scope has been required for signal post remedial works along with reinstating railway sidings at Knowsley and extra work on Manchester North Recontrol project. The determination assumed that efficiencies could be delivered through the re-design of signalling systems to reduce the number of units required. This assumption has proved to be over-simplified. Instead, the volumes required have increased on many jobs as the projects mature and designs come into sharper focus. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource.
- (4) Civils – as with the previous year, financial underperformance has been recognised, although the amount reported this year is significantly larger than in 2014/15. This included the impact of a number of emergency works following adverse weather and landslips which had no corresponding funding in the determination (including Harbury (Warwickshire) Harbury West, Carlisle and Milton Keynes). Extra structures work has also been required at Chorley, Shirebrook and Bull Ring. This has been exacerbated by overoptimistic contracting efficiencies included in the baselines which did not materialise and the use of modelled, hypothetical rates in the baseline which did not reflect the real cost charged by contractors for completing works this year.
- (5) Buildings – once again, financial underperformance has been reported for this asset. This was due to a combination of overoptimistic unit rates in the determination and extra scope. Unit rates in the baseline were based on centrally-prepared modelled unit rates which assumed a level of contractor savings which have proven to be unrealistic. Extra scope has been required at Manchester Victoria and Liverpool Moorfield (escalators).

Statement 5b: Total financial performance - renewals variance analysis, London North West - continued

in £m 2015-16 prices unless stated

- (6) Electrical power and fixed plant – as with the previous year, financial underperformance has been recognised for this asset. Financial performance has been impacted by an inability to achieve the efficiency targets assumed by the regulator. Also, there has been additional scope needed to deliver the required workbank, including Manchester North Re-control.
- (7) Other renewals – in last year's Regulatory financial statements underperformance was recognised on the FTN programme, a project rolled forward from CP4. Following a reduction in the expected final costs of this project some outperformance has been recognised this year which partly mitigates the underperformance reported in the previous year.

Statement 5c: Total financial performance - enhancement variance analysis, London North West

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	122	138	-	(16)	(4)
West coast power supply upgrade	(9)	(29)	-	20	5
Birmingham New St Gateway	82	62	-	20	5
Manchester Victoria	(11)	-	-	(11)	(11)
Northern Hub	87	107	-	(20)	(5)
Other Enhancements	(267)	(267)	-	-	-
Total	4	11	-	(7)	(10)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	7	27	-	(20)	(5)
West coast power supply upgrade	2	2	-	-	-
Birmingham New St Gateway	51	51	-	-	-
Manchester Victoria	(19)	-	-	(19)	(19)
Northern Hub	2	22	-	(20)	(5)
Other Enhancements	(184)	(184)	-	-	-
Total	(141)	(82)	-	(59)	(29)

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the current year. The reason for the increased costs since Hendy include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.
- (2) West coast power supply upgrade – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (3) Birmingham New St Gateway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (4) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB. This has led to negative FPM being declared in both years of the control period as programme costs have continued to increase, including contractor variation orders received after the programme was substantially complete. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance has been classified as financial underperformance.
- (5) Northern Hub – underperformance has been recognised this year following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is mainly due to increased scope arising from worse than expected asset condition necessitating extra remediation costs. In addition, a new procurement model is being used for this programme which is proving most costly than the expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

in £m 2015-16 prices unless stated

- (6) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, London North West

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	119	124	(5)	-	-	-	(5)	
Capacity charge	241	244	(3)	-	-	-	(3)	
Electricity asset utilisation charge	9	9	-	-	-	-	-	
Property income	161	98	63	-	-	-	63	
Expenditure	-	-	-	-	-	-	-	
Network operations	246	240	(6)	-	-	-	(6)	
Support costs	192	213	21	-	6	-	15	
RSSB and BT Police	43	39	(4)	-	-	-	(4)	
Network maintenance	609	548	(61)	13	-	-	(74)	
Schedule 4 costs	108	83	(25)	2	-	-	(27)	
Schedule 8 costs	29	-	(29)	-	-	-	(29)	
Renewals	1,341	1,011	(330)	94	-	(318)	(106)	
Total REBS performance			(379)	109	6	(318)	(176)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(31)	
Under-delivery of train performance requirements (CaSL)							(6)	
Total adjustment for under delivery of outputs and reduced sustainability							(37)	
Cumulative performance to end of 2015-16							(213)	
Less cumulative outperformance recognised up to the end of 2014-15							(111)	
Net REBS performance for 2015-16							(102)	

Where: $C = B - A$
And: $F = (C - D - E) \times 75\%$
And: $G = (C - D - E - F)$

Statement 5d: Total financial performance – REBS performance, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	995	979	16	1,980	1,957	23	985
Franchised track access income							
Fixed charges	83	66	17	184	154	30	101
Variable charges							
Variable usage charge	46	47	(1)	92	92	-	46
Traction electricity charges	61	72	(11)	121	124	(3)	60
Electrification asset usage charge	4	4	-	9	9	-	5
Capacity charge	121	121	-	239	241	(2)	118
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	39	39	-	77	75	2	38
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	271	283	(12)	538	541	(3)	267
Total franchised track access income	354	349	5	722	695	27	368
Total franchised track access and grant income	1,349	1,328	21	2,702	2,652	50	1,353
Other single till income							
Property income	110	54	56	161	103	58	51
Freight income	17	26	(9)	37	48	(11)	20
Open access income	-	1	(1)	1	2	(1)	1
Stations income	63	60	3	127	122	5	64
Facility and financing charges	12	14	(2)	24	27	(3)	12
Depots Income	11	11	-	23	24	(1)	12
Other income	1	1	-	2	1	1	1
Total other single till income	214	167	47	375	327	48	161
Total income	1,563	1,495	68	3,077	2,979	98	1,514

Statement 6a: Analysis of income, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was higher than the determination. This is a combination of inflation benefits and from providing extra fixed access arrangements that were not included in the regulatory targets. The benefit that arises from the difference between the inflation rates used to calculate the regulatory allowance in the above table, and the rates used to calculate the actual fixed charge payments made by operators as explained in the above comment is not reported in the assessment of financial performance (refer to Statement 5). The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators which is largely in line with the prior year. The control period to date variance reflects the inflation differences noted above and the continued provision of additional services. Fixed charges are lower than last year but as the amount received is contractual as discussed above and is set in the determination prior year comparisons are not particularly useful. The decrease from last year is largely offset by increased government grant receipts.

Statement 6a: Analysis of income, London North West – continued

in £m 2015-16 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now been more than mitigated meaning the control period to date position is in lower than the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).
- (5) Capacity charge - this is on target with the determination. There has been an increase since last year, which was expected by the regulator, due to more services being provided in the current year.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as explained above). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is in line with 2014/15 in line with the regulator's expectation.
- (7) Property income – this is higher than the determination due to increased property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The main reason for the increase in sales is the disposal of rights to the future benefits of the Grand Central shopping centre in Birmingham. Property income is noticeably higher than the previous year due to extra sales (Notably Grand Central) and extra rental income. Property rental income has increased compared to 2014/15 as Network Rail has managed to offer desirable rental properties and station units to retailers. Rental yields on much of the property portfolio has increased compared to the previous year which has been helped by some new facilities generating extra income (such as the revamped Birmingham New Street station, Manchester Victoria station and inclusion of a mezzanine level at London Euston). Also, freight rental income has increased to as the benefits of sites purchased under Project Mountfield at the end of CP4 are now being reaped.
- (8) Freight Income – this is well below the regulator's determination and the prior year mostly due to a much lower demand for coal in the wider economy as many coal powered power stations are closed or are reducing output. This has resulted in around a 50 per cent decrease in the volume of coal moved compared to 2014/15, which was partly caused by customers stockpiling coal before changes in tax legislation were introduced in April 2015, resulting in an artificially high prior year comparative. Coal transportation is a key part of the freight income model so a structural decline in this industry has a knock-on effect on Network Rail's income. In addition, the low petrol prices reported extensively in the media this year has meant that transportation by road is a comparatively cheaper haulage option at the current time. In addition, income has been lower than the regulator expected due to lower traction electricity charges. The amount Network Rail charges to freight operators is largely in line with market prices which has meant lower costs for Network Rail (shown in traction electricity costs in Statement 7a) and lower income. The adverse performance to the regulator's assumption in the current year is also the main driver in the lower control period to date position.
- (9) Stations income – income is higher than the regulator's targets continuing the trend from the previous year, which is largely offset by lower than assumed Facility and financing charges income. Income is broadly consistent with the previous year.
- (10) Facility and financing charges – income is lower than the regulator's targets continuing the trend from the previous year, which is largely offset by higher than assumed Stations income. Income is broadly consistent with the previous year.

Statement 6b: Analysis of other single till income, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	47	54	(7)	88	104	(16)	41
Property sales	63	7	56	73	12	61	10
Adjustment for commercial opex	-	(7)	7	-	(13)	13	-
Total property income	110	54	56	161	103	58	51
Freight income							
Freight variable usage charge	13	16	(3)	27	31	(4)	14
Freight traction electricity charges	3	5	(2)	7	9	(2)	4
Freight electrification asset usage charge	-	1	(1)	-	1	(1)	-
Freight capacity charge	1	2	(1)	2	3	(1)	1
Freight only line charge	-	1	(1)	1	2	(1)	1
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	-	2	(2)	-
Total freight income	17	26	(9)	37	48	(11)	20
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	1	(1)	1	2	(1)	1
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	1	(1)	1	2	(1)	1
Stations income							
Managed stations income							
Long term charge	6	7	(1)	13	14	(1)	7
Qualifying expenditure	18	14	4	36	29	7	18
Total managed stations income	24	21	3	49	43	6	25
Franchised stations income							
Long term charge	33	33	-	65	66	(1)	32
Stations lease income	6	6	-	13	13	-	7
Total franchised stations income	39	39	-	78	79	(1)	39
Total stations income	63	60	3	127	122	5	64
Facility and financing charges							
Facility charges	12	14	(2)	24	27	(3)	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	12	14	(2)	24	27	(3)	12
Depots income	11	11	-	23	24	(1)	12
Other	1	1	-	2	1	1	1
Total other single till income	214	167	47	375	327	48	161

Statement 6b: Analysis of other single till income, London North West (unaudited) - continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	60	56	(4)	118	113	(5)	58
Signalling shift managers	3	3	-	6	7	1	3
Local operations managers	4	4	-	8	8	-	4
Controllers	7	8	1	15	15	-	8
Electrical control room operators	2	2	-	5	5	-	3
Total signaller expenditure	76	73	(3)	152	148	(4)	76
Non-signaller expenditure							
Mobile operations managers	11	8	(3)	21	16	(5)	10
Managed stations	17	9	(8)	30	19	(11)	13
Performance	3	3	-	6	7	1	3
Customer relationship executives	3	2	(1)	6	3	(3)	3
Route enhancement managers	-	-	-	5	-	(5)	5
Weather	-	5	5	-	10	10	-
Other	3	3	-	6	6	-	3
Operations delivery	1	-	(1)	1	-	(1)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	25	7	(18)	37	14	(23)	12
Other operating income	(6)	(5)	1	(18)	(10)	8	(12)
Total non-signaller expenditure	57	32	(25)	94	65	(29)	37
Total network operations expenditure	133	105	(28)	246	213	(33)	113
Support costs							
Core support costs							
Human resources	8	16	8	19	32	13	11
Information management	16	14	(2)	36	28	(8)	20
Government and corporate affairs	3	5	2	7	10	3	4
Group strategy	1	2	1	1	3	2	-
Finance	5	7	2	9	15	6	4
Business services	3	3	-	8	6	(2)	5
Accommodation	14	13	(1)	27	28	1	13
Utilities	10	10	-	19	21	2	9
Insurance	13	11	(2)	24	23	(1)	11
Legal and inquiry	2	2	-	5	3	(2)	3
Safety and sustainable development	6	2	(4)	13	5	(8)	7
Strategic sourcing	2	3	1	3	5	2	1
Business change	-	1	1	2	1	(1)	2
Other corporate functions	7	1	(6)	14	2	(12)	7
Core support costs	90	90	-	187	182	(5)	97
Other support costs							
Asset management services	9	10	1	17	17	-	8
Network Rail telecoms	10	9	(1)	22	21	(1)	12
National delivery service	-	1	1	-	1	1	-
Infrastructure Projects	(3)	-	3	(8)	-	8	(5)
Commercial property	(3)	(1)	2	(3)	(1)	2	-
Group costs	(8)	(2)	6	(23)	(3)	20	(15)
Total other support costs	5	17	12	5	35	30	-
Total support costs	95	107	12	192	217	25	97
Traction electricity, industry costs and rates							
Traction electricity	71	83	12	135	143	8	64
Business rates	37	37	-	75	74	(1)	38
British transport police costs	19	17	(2)	39	34	(5)	20
RSSB costs	2	2	-	4	4	-	2
ORR licence fee and railway safety levy	2	4	2	3	9	6	1
Reporters fees	-	1	1	-	1	1	-
Other industry costs	1	1	-	1	1	-	-
Total traction electricity, industry costs and rates	132	145	13	257	266	9	125
Total network operations expenditure, support costs, traction electricity, industry costs and rates	360	357	(3)	695	696	1	335

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are significantly higher than the regulator’s assumptions. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base much higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements, such as those at Manchester and Rugby. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. There are also some extra managed stations costs due to redevelopment (such as Birmingham New Street and London Euston). Costs are also higher than last year and the determination assumption due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Also, there were a few non-recurring items in the prior year (including the settlement of commercial claims) which flattered the previous year’s result. Lastly, costs are higher than the previous year and the regulator’s target due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts.
- (5) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are lower than the previous year following further devolution of responsibilities to routes and other business areas and other efficiencies made through continuing cost control. Further breakdown of HR costs can be found in Statement 7b.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2015-16 prices unless stated

- (6) Information Management – costs are higher than the determination. Information Management costs incurred centrally and are allocated to the operational routes on the basis of headcount. At a network wide level the costs are in line with the determination meaning that the higher costs recognised in London North West is due to a proportionately higher increase in the headcount in this route compared to the other routes. The reductions compared to the prior year are due to reduction in headcount (both permanent and agency staff) following re-alignment of roles and responsibilities as well as better prices obtained on certain contractors through successful negotiations and re-tendering of services.
- (7) Government and corporate affairs – costs are lower than the determination in the year and control period to date. The variance this year arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Route services as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising. These factors contribute to the control period to date variance too. The improvement in costs since last year includes the transfer of responsibility for Railway Heritage Trust to Finance but also to some minor efficiencies.
- (8) Finance – costs were lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent. The slight increase compared to the prior year is due to the transfer of Railway Heritage Trust activities from Government & Corporate Affairs during the year which has offset some minor efficiencies achieved by reducing agency staff costs.
- (9) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events. Costs are higher than last year due to increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail and there have been overall increases in market premiums across the entire insurance industry. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive.
- (10) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are partly funded by savings made in these areas. Costs are in line with the previous year.
- (11) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (12) Network Rail telecoms - costs for the year and the control period to date are higher than the determination which assumed a quicker implementation of efficiency initiatives, particularly around reducing landline, cloud and data usage acquired from suppliers. The reduction in costs compared to last year has been achieved through better contract negotiation and procurement as well as other efficiencies within the communication estate. Also, as noted in last year's Regulatory financial statements costs in 2014/15 included some one-off project costs associated with FTN/GSM-R which have not recurred.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, London North West – continued

in £m 2015-16 prices unless stated

- (13) Infrastructure Projects - in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is broadly in line with the previous year.
- (14) Commercial Property – net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites reflecting market demand. In addition, extra revenue has been earned from stations, including the revamped Manchester Victoria station.
- (15) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would receive credits relating to Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination but savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements and the favourable settlement of commercial claims. The net credit position in Group is lower than the prior year. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (16) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year with the exception of traction electricity costs. This group of costs is lower than the determination mostly due to lower Traction electricity costs which are driven by market rates which is partly offset by higher Business rates and British Transport Police costs.
- (17) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6a and Statement 6b). Control period to date costs are slightly lower than the regulator assumed, again with this saving being largely offset by lower traction electricity income received. Costs are higher than the previous year reflecting market prices for electricity.
- (18) British transport police (BTP) costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	57	63	62
MOMS	6	10	11
Control	11	14	12
Planning & Performance Staff Costs	7	10	11
Managed Stations Staff Costs	4	6	7
Operations Management Staff Costs	6	12	14
Other	30	(2)	16
Total operations & customer services costs	121	113	133
Total Network Operations	121	113	133
Support			
Human resources			
Functional support	7	5	3
Training (inc Westwood)	5	2	1
Graduates	1	-	1
Apprenticeships	2	2	2
Other	1	2	1
Total human resources	16	11	8
Information management			
Support	1	1	-
Projects	2	1	-
Licences	-	-	-
Business operations	11	18	16
Other	-	-	-
Total information management	14	20	16
Finance	3	4	5
Business Change	2	2	-
Contracts & Procurement	2	-	-
Strategic Sourcing (National Supply Chain)	-	1	2
Planning & development	4	-	1
Safety & compliance	5	-	-
Other corporate services	14	4	4
Commercial property	25	13	11
Infrastructure Projects	(14)	(5)	(3)
Route Services	2	4	4
Asset management & Engineering/Asset heads	34	-	-
National delivery service	2	-	-
Private party	-	-	-
Utilities	-	9	10
Network Rail Telecoms	-	12	10
Digital Railway	-	4	5
Safety Technical & Engineering	-	10	10
Government & Corporate Affairs	-	4	3
Business Services	-	5	3
Route Asset Management	-	-	(1)
Legal and inquiry	-	3	2
Group/central			
Pensions	1	-	-
Insurance	9	11	13
Redundancy/reorganisation costs	16	4	3
Staff incentives/Bonus Reduction	2	(6)	(2)
Accommodation & Support Recharges	(2)	(7)	(7)
Commercial claims settlements	(1)	-	(2)
ORR financial penalty	19	(6)	-
Other	1	-	-
Total group/central costs	45	(4)	5
Total support	154	97	95
Total network operations and support costs	275	210	228

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	147	109	(38)	283	225	(58)	136
Signalling	46	36	(10)	93	73	(20)	47
Civils	32	35	3	57	69	12	25
Buildings	6	9	3	12	20	8	6
Electrical power and fixed plant	26	24	(2)	55	48	(7)	29
Telecoms	6	4	(2)	12	8	(4)	6
Other network operations	40	48	8	88	97	9	48
Asset management services	12	9	(3)	20	17	(3)	8
National Delivery Service	(2)	10	12	(3)	21	24	(1)
Property	3	1	(2)	4	2	(2)	1
Group	(6)	(4)	2	(12)	(9)	3	(6)
Total maintenance expenditure	310	281	(29)	609	571	(38)	299

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are higher than the previous year which includes the impact of extra Reactive maintenance works this year, additional structures inspections costs and extra investment in projects to improve train performance and asset reliability. These have been offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway). The prior year results were also flattered by some non-recurring one-off savings.
- (2) Track – costs are higher than the determination which includes the impact of a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services category). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Missing this exit rate for efficiency has resulted in a higher cost based across the control period to date and is expected to continue for the remainder of CP5. Within the route, a number of responsibilities have transferred from Other network operations to Track this year, in order to improve accountability and cost control. Whilst there is no overall impact of this change on Maintenance expenses there are higher costs in the Track category (offset by savings in Other network operations). Costs are higher than the previous year partly offset by the savings shown in the above table in National Delivery Services but also due to extra work being undertaken to safeguard safety and performance in the face of ever-increasing network traffic, and the impact of non-recurring one-off savings in 2014/15.
- (3) Signalling - costs are consistent with the previous year although, once more, higher than the determination. This is largely due to higher costs at the end of the prior control period than the regulator assumed. Expected efficiencies inherent in the regulator's determination were not realised meaning achieving the efficiency targets in CP5 was always unlikely. In addition, few net efficiencies have been achieved during the current control period. One of the contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs. Network Rail's measure of signalling reliability has been higher than target throughout the year, suggesting that these extra costs have delivered improvements.
- (4) Civils – costs were lower than the determination as a result of lower than expected 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. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs in the control period to date are lower than the determination assumption which is mainly due to significantly less reactive maintenance required in the first year of the control period. The increase in costs compared to the previous year are due to a combination of increased reactive maintenance and inspection costs partly offset by a movement of some responsibilities to Asset Management Services.
- (5) Buildings – all 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. Expenditure in the current (and previous) year in this area is less than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Reactive maintenance variances also account for the lower control period to date position. Overall, reactive maintenance expenditure is higher than the previous year, but the amount relating to Buildings has remained largely consistent.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (6) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network through expenditure on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving. In addition, costs are favourable to the determination and the previous year as there has been a transfer of responsibilities to Track to improve local accountability and decision-making. As noted above, this increases the expenses reported within the Track category.
- (7) Asset management services - costs are higher than the regulator's assumption this year. This is mostly attributable to a transfer of responsibilities from Civils and additional activity undertaken by London North West to understand and manage the assets in their area. The same factors account for the higher expenses in the current year compared to 2014/15.
- (8) National Delivery Services – as noted above, and in previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	216	122	(94)	426	267	(159)	210
Signalling	171	127	(44)	322	249	(73)	151
Civils	149	104	(45)	248	210	(38)	99
Buildings	53	43	(10)	93	89	(4)	40
Electrical power and fixed plant	19	43	24	37	92	55	18
Telecoms	15	30	15	35	56	21	20
Wheeled plant and machinery	22	28	6	38	67	29	16
Information Technology	33	20	(13)	74	41	(33)	41
Property	2	5	3	7	9	2	5
Other renewals	28	4	(24)	61	(28)	(89)	33
Total renewals expenditure	708	526	(182)	1,341	1,052	(289)	633

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected which is mainly due to higher Track, Signalling and Civils costs. This higher expenditure is a consequence of higher like-for-like costs partly offset by a deferral of activity into future years. The higher like-for-like costs has resulted in financial underperformance in the current year as reported in Statement 5. Costs are higher than the prior year with the largest contribution coming from increased Civils spend.
- (2) Track – expenditure in the year was higher than the determination which was a combination of acceleration of activity and higher like-for-like costs. These extra costs are partly due to differences in the underlying track costs at the end of CP4 compared to the regulator's assumption. This meant a level of financial underperformance was expected this control period. In addition, the experiences of the opening year of the control period suggested that the efficiency targets in Network Rail's plans were too optimistic. The in-sourcing of High Output delivery at the end of 2014/15 as expected to deliver unit cost savings which have not arisen, largely due to access conflicts which contributed to volumes being about one-third lower than expected. The reduction in volumes does not result in a proportionate decrease in cost. There were a number of projects with sunk costs where volumes were not delivered for Plain Line track projects. Finally, extra fencing and drainage costs were incurred. The unit rates in the determination were based on centrally derived, modelled rates which have proven to be an unrealistic baseline in light of the unit rates experienced this year in the route. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is broadly in line with the previous year.
- (3) Signalling – expenditure in the year was higher than the determination which was a combination of deferral of activity and higher like-for-like costs. These include extra costs on Bromsgrove (where the project has been re-phased and now has a revised commissioning date), Birmingham New Street and Banbury (due to project acceleration which incurred extra contractor costs). In addition, extra scope has been required for signal post remedial works along with reinstating railway sidings at Knowsley and extra work on Manchester North Recontrol project. The determination assumed that efficiencies could be delivered through the re-design of signalling systems to reduce the number of units required. This assumption has proved to be over-simplified. Instead, the volumes required have increased on many jobs as the projects mature and designs come into sharper focus. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year reflecting additional Minor Works required to maintain appropriate asset condition.
- (4) Civils – expenditure in the year was higher than the determination which was a combination of deferral of activity and higher like-for-like costs. These extra costs included the impact of a number of emergency works following adverse weather and landslips which had no corresponding funding in the determination (including Harbury (Warwickshire) Harbury West, Carlisle and Milton Keynes). Extra structures work has also required at Chorley, Shirebrook and Bull Ring. This has been exacerbated by overoptimistic contracting efficiencies included in the baselines which did not materialise and the use of modelled, hypothetical rates in the baseline which did not reflect the real cost charged by contractors for completing works this year. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year including extra Earthworks and Underbridges costs arising from the emergency works noted above.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (5) Buildings – expenditure in the year was higher than the determination which was a combination of deferral of activity and higher like-for-like costs. The extra costs were due to a combination of overoptimistic unit rates in the determination (were based on centrally-prepared modelled unit rates which assumed a level of contractor savings which have proven to be unrealistic) and extra project scope (including Manchester Victoria and Liverpool Moorfield (escalators). Consequently, Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure was higher than the previous year due to extra investment on Franchised stations, including the extra investment at Liverpool Underground Moorfield.
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. The largest component of this underspend is the Fixed Plant category as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. In addition, like-for-like costs have been higher than the regulator assumed as the efficiency targets set appear too optimistic. Also, there has been additional scope needed to deliver the required workbank, including Manchester North Re-control. As a result Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is broadly consistent with the previous year.
- (7) Telecoms – expenditure in the year was lower than the determination which is due to a deferral of activity into future years). In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Expenditure was lower than the previous year due to lower investment in central programmes, an element of which is apportioned to each of the operational routes. In the previous year there was considerable investment in FTNx projects which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15.
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2015-16 prices unless stated

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
- c. Small Plant - expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN and ORBIS (as noted above). Some financial outperformance has been recognised this year due to reductions in expected FTN project costs which mitigates some of the financial underperformance recognised last year. Network Rail retains 25 per cent of this outperformance when assessing the level of capital expenditure that can be added to the RAB in accordance with the Regulatory Accounting Guidelines (May 2016).

Statement 9b: Detailed analysis of renewals expenditure, London North West

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	61	49	(12)	118	94	(24)
High output renewal	55	22	(33)	132	65	(67)
Plain line refurbishment	18	8	(10)	28	16	(12)
S&C renewal	31	21	(10)	79	49	(30)
S&C refurbishment	7	6	(1)	9	10	1
Track non-volume	13	10	(3)	23	22	(1)
Off track	31	6	(25)	37	11	(26)
Total track	216	122	(94)	426	267	(159)
Signalling						
Full conventional resignalling	91	60	(31)	183	159	(24)
Modular resignalling	-	1	1	-	3	3
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	12	16	4	21	26	5
Targeted component renewal	1	4	3	4	9	5
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	10	14	4	32	32	-
Level crossings	6	7	1	13	10	(3)
Minor works	47	16	(31)	63	(9)	(72)
Centrally managed costs	4	9	5	6	19	13
Other	-	-	-	-	-	-
Total signalling	171	127	(44)	322	249	(73)
Civils						
Underbridges	40	45	5	72	90	18
Overbridges	9	9	-	18	16	(2)
Bridgeguard 3	12	-	(12)	13	-	(13)
Major structures	4	6	2	13	9	(4)
Tunnels	15	7	(8)	23	18	(5)
Other assets	13	9	(4)	21	22	1
Structures other	2	6	4	4	11	7
Earthworks	52	22	(30)	83	44	(39)
Other	2	-	(2)	1	-	-
Total civils	149	104	(45)	248	210	(38)
Buildings						
Managed stations	3	10	7	9	19	10
Franchised stations	40	28	(12)	68	59	(9)
Light maint depots	3	1	(2)	4	2	(2)
Depot plant	1	1	-	1	3	2
Lineside buildings	2	1	(1)	4	2	(2)
MDU buildings	3	1	(2)	6	3	(3)
NDS depots	1	1	-	1	1	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	53	43	(10)	93	89	(4)

Statement 9b: Detailed analysis of renewals expenditure, London North West - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	4	2	2	12	10
Overhead Line	2	5	3	5	8	3
DC distribution	1	2	1	1	6	5
Conductor rail	-	2	2	-	2	2
SCADA	-	2	2	-	9	9
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	2	1	2	5	3
Fixed plant	13	26	13	27	50	23
Total electrical power and plant	19	43	24	37	92	55
Telecoms						
Operational communications	-	3	3	-	3	3
Network	1	2	1	2	4	2
SISS	4	6	2	6	13	7
Projects and other	1	13	12	3	20	17
Non-route capital expenditure	9	6	(3)	24	16	(8)
Total telecoms	15	30	15	35	56	21
Wheeled plant and machinery						
High output	10	2	(8)	14	22	8
Incident response	-	1	1	-	1	1
Infrastructure monitoring	1	1	-	2	1	(1)
Intervention	2	13	11	4	20	16
Materials delivery	3	1	(2)	8	1	(7)
On track plant	3	6	3	5	7	2
Seasonal	1	1	-	1	9	8
Locomotives	-	-	-	-	-	-
Fleet support plant	-	2	2	-	3	3
Road vehicles	2	1	(1)	4	3	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	22	28	6	38	67	29
Information Technology						
IM delivered renewals	30	18	(12)	64	37	(27)
Traffic management	3	2	(1)	10	4	(6)
Total information technology	33	20	(13)	74	41	(33)
Property						
MDUs/offices	1	4	3	6	7	1
Commercial estate	1	1	-	1	2	1
Corporate services	-	-	-	-	-	-
Total property	2	5	3	7	9	2
Other renewals						
Asset information strategy	17	12	(5)	18	27	9
Intelligent infrastructure	2	3	1	5	6	1
Faster isolations	2	9	7	3	17	14
LOWS	1	1	-	1	1	-
Small plant	-	2	2	2	5	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	(23)	(23)	-	(84)	(84)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	6	-	(6)	32	-	(32)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	28	4	(24)	61	(28)	(89)
Total renewals	708	526	(182)	1,341	1,052	(289)

Statement 9b: Detailed analysis of renewals expenditure, London North West (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North West

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	53	45	(8)	108	95	(13)	55
Access charge supplement Income	(39)	(39)	-	(77)	(75)	2	(38)
Net (income)/cost	14	6	(8)	31	20	(11)	17
Schedule 8							
Performance element income	(1)	-	1	(1)	-	1	-
Performance element costs	10	1	(9)	30	2	(28)	20
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	9	1	(8)	29	2	(27)	20

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	1	3	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	1	1
RSSB Costs	-	1	1
ORR licence fee and railway safety levy	(2)	(4)	(2)
Reporters fees	-	(2)	(2)
Other industry costs	-	(1)	(1)
Difference in CP4 opex memo	-	(2)	(2)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	(4)	(3)

Statement 10: Other information, London North West – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs Performance element costs were higher than the regulator assumed. Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Landslips caused by weather, such as those in Carlisle and Milton Keynes, added to compensation costs, as did the overrun of some possessions where completion of the required activities were considered paramount to the performance of the route and so extra time was taken to finish the works. Net costs were slightly lower than the previous year, reflecting lower Performance element costs.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2015/16. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a concerted effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in the control period unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the control period due to infrastructure failures and fatalities, continuing the trend witnessed in the previous year. Given the 2014/15 Schedule 8 costs, achieving the regulatory target this year was extremely unlikely. Performance in the year was also impacted by weather related incidents, including flooding in the Carlisle area (as reported extensively in the media) as well as cable failures caused by vandalism in the Birmingham area. Schedule 8 costs were lower than the previous year illustrating the performance improvements that have been made during the past year.
- (3) The opex memorandum shows a slightly negative balance for the year which is a combination of amounts earned under the Volume Incentive (see Statement 12) being offset by costs of the regulator attributed to London North West being lower than the determination allowance.

Statement 12: Volume incentives, London North West

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	2	0	71	71	0.7%	1.47	pence per passenger train mile
Passenger farebox (millions)	10	2	1,952	1,821	2.9%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	0	7	7	2.7%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(2)	(1)	6,735	6,678	3.7%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	8	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North West – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result, compounding the outperformance experienced in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.
- (3) Freight gross tonne miles declined this year, reflecting many of the wider issues facing the rail freight industry at this time, with cheaper alternatives (such as road haulage owing to petrol prices) and over estimation of growth that would occur in the market resulting in a loss made under this part of the metric.

Statement 14: Renewals volumes, unit costs and expenditure, London North West

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	580	231	134	-	134	401	302	121	-	121	(179)	71	(13)	-	-	(13)	(13)
	Conventional		565	108	61	-	61	554	92	51	-	51	(10)	(16)	(10)	-	-	(10)	(10)
	High Output		604	91	55	-	55	343	140	48	-	48	(262)	49	(7)	-	-	(7)	(7)
	Refurbishment		563	32	18	-	18	314	70	22	-	22	(248)	38	4	-	-	4	4
	S&C	point ends	342	111	38	-	38	199	161	32	-	32	(144)	50	(6)	-	-	(6)	(6)
	Track Drainage		2	10,304	24	-	24	-	-	6	-	6	(2)	(10,304)	(18)	-	-	(18)	(18)
	Renewal	lm	n/a	8,099	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(8,099)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,542	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1,542)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	663	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(663)	n/a	n/a	n/a	n/a	n/a
	Fencing	km	44	298	13	-	13	66	91	6	-	6	22	(207)	(7)	-	-	(7)	(7)
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(5)	(5)		
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				209	7	216			165	4	169				(44)	(3)	(47)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	104	n/a	n/a	n/a	-	82	n/a	n/a	n/a	-	-	(22)	(22)
	Full conventional resignalling	SEU	200	455	91	-	91	178	359	64	-	64	(22)	(96)	(27)	-	-	(27)	(27)
	Modular resignalling	SEU	-	-	-	-	-	-	-	2	-	2	-	-	2	-	-	2	2
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	387	31	12	-	12	213	61	13	-	13	(174)	30	1	-	-	1	1
	Targeted component renewal	SEU	56	18	1	-	1	188	16	3	-	3	132	(2)	2	-	-	2	2
	Level crossings	No.	2,000	3	6	-	6	700	10	7	-	7	(1,300)	7	1	-	-	1	1
	Signalling other		-	-	-	61	61	-	-	-	39	39	-	-	-	(22)	(22)		
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	10	10	n/a	n/a	n/a	15	15	n/a	n/a	n/a	5	5		
	Minor works		n/a	n/a	n/a	47	47	n/a	n/a	n/a	16	16	n/a	n/a	n/a	(31)	(31)		
	Centrally managed costs		n/a	n/a	n/a	4	4	n/a	n/a	n/a	8	8	n/a	n/a	n/a	4	4		
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				110	61	171			89	39	128				(21)	(22)	(43)	
Civils	Key structures		n/a	n/a	n/a	-	80	n/a	n/a	n/a	-	79	n/a	n/a	n/a	-	-	(1)	(1)
	Underbridges	m2	2	20,642	40	-	40	2	32,692	55	-	55	(0)	12,050	15	-	-	15	15
	Overbridges (incl BG3)	m2	6	3,293	21	-	21	2	5,315	13	-	13	(4)	2,022	(8)	-	-	(8)	(8)
	Tunnels	m2	4	4,137	15	-	15	0	18,939	8	-	8	(3)	14,802	(7)	-	-	(7)	(7)
	Major structures	m2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(1)	(1)		
	Other structures assets		n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	12	n/a	n/a	n/a	-	-	(1)	(1)
	Culverts	m2	18	109	2	-	2	5	666	3	-	3	(14)	557	1	-	-	1	1
	Footbridges	m2	11	378	4	-	4	7	303	2	-	2	(4)	(75)	(2)	-	-	(2)	(2)
	Coastal & Estuary Defences	m	2	1,265	3	-	3	2	1,212	2	-	2	(1)	(53)	(1)	-	-	(1)	(1)
	Retaining Walls	m2	11	360	4	-	4	7	743	5	-	5	(4)	383	1	-	-	1	1
	Earthworks	5-chain	82	503	41	-	41	40	496	20	-	20	(41)	(7)	(21)	-	-	(21)	(21)
	EW Drainage		1	20,003	11	-	11	-	-	5	-	5	(1)	(20,003)	(6)	-	-	(6)	(6)
	Renewal	lm	n/a	4,533	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(4,533)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	762	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(762)	n/a	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	9,499	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(9,499)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	5,209	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(5,209)	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	2	2	n/a	-	n/a	3	3	n/a	n/a	n/a	1	1		
	Other		n/a	n/a	n/a	2	2	n/a	-	n/a	(13)	(13)	n/a	n/a	n/a	(15)	(15)		
	Total				141	8	149			113	(7)	106				(28)	(15)	(43)	

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m				
			£k/unit	Volume unit			£k/unit	Volume unit			£k/unit	Volume unit						
Buildings	Franchised Stations		n/a	n/a	n/a	-	40	n/a	n/a	n/a	-	35	n/a	n/a	n/a	n/a	(5)	
	Footbridges	m2	9	340	3	-	3	n/a	376	n/a	n/a	-	n/a	36	n/a	n/a	-	
	Train Sheds	m2	0	11,800	5	-	5	n/a	600	n/a	n/a	-	n/a	(11,200)	n/a	n/a	-	
	Canopies	m2	2	855	2	-	2	n/a	706	n/a	n/a	-	n/a	(149)	n/a	n/a	-	
	Platforms	m2	8	1,178	10	-	10	n/a	16,000	n/a	n/a	-	n/a	14,822	n/a	n/a	-	
	Buildings	m2	0	4,011	2	-	2	n/a	60	n/a	n/a	-	n/a	(3,951)	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	5	-	5	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	13	13	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Managed Stations		n/a	n/a	n/a	-	3	n/a	-	n/a	-	6	n/a	n/a	n/a	n/a	3	
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Lifts & Escalators	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Light Maintenance Depots		429	7	3	-	3	-	n/a	-	n/a	-	1	n/a	(7)	n/a	n/a	(2)
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Depot Shed	m2	-	7	-	-	-	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-	
	Lineside Buildings	m2	1	3,135	2	-	2	-	n/a	-	n/a	3	n/a	(3,135)	n/a	n/a	1	
	MDU Buildings	m2	2	1,615	3	-	3	-	n/a	-	n/a	1	n/a	(1,615)	n/a	n/a	(2)	
	Depot Plant		-	-	-	1	1	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	-	
	NDS Depots		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)	
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(10)	n/a	n/a	n/a	n/a	(10)	
Total					36	17	53					37					(16)	

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	
			£k/unit	unit			£m	£m			£k/unit	unit			£m	£m			£k/unit
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	3		
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	11	n/a	n/a	-	n/a	11	n/a	n/a	-		
	Structure Renewals	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-		
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	400	5	n/a	n/a	2	n/a	5	n/a	n/a	2		
	AC distribution		-	-	-	-	2	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	2		
	HV Switchgear Renewal	No.	167	6	1	-	1	n/a	8	n/a	n/a	-	n/a	2	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	16	n/a	n/a	-	n/a	16	n/a	n/a	-		
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-		
	HV Cables	km	-	-	1	-	1	n/a	2	n/a	n/a	-	n/a	2	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	1	-	-	-	n/a	1	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	9	n/a	-	n/a	n/a	28	n/a	n/a	n/a	n/a	19		
	Signalling Power Cable Renewal	km	-	-	6	-	6	n/a	92	n/a	n/a	-	n/a	92	n/a	n/a	-		
	Principle Supply Point Renewal	No.	67	15	1	-	1	n/a	2	n/a	n/a	-	n/a	(13)	n/a	n/a	-		
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	35	113	4	-	4	n/a	25	n/a	n/a	-	n/a	n/a	n/a	n/a	(4)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1		
	Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Other electrical power		-	-	-	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Total				13	6	19					44					25		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	4	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	2		
	Customer Information Systems	No.	-	-	-	-	-	n/a	31	n/a	n/a	-	n/a	31	n/a	n/a	-		
	Public Address	No.	-	-	2	-	2	n/a	747	n/a	n/a	-	n/a	747	n/a	n/a	-		
	CCTV	No.	13	150	2	-	2	n/a	402	n/a	n/a	-	n/a	252	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	9	n/a	n/a	-	n/a	9	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	201	n/a	n/a	-	n/a	201	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	30	-	-	-	n/a	83	n/a	n/a	-	n/a	53	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1		
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)		
	Non route capex		n/a	n/a	n/a	9	9	n/a	-	n/a	n/a	20	n/a	n/a	n/a	n/a	11		
	Total				4	11	15					28					13		

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m			
Wheeled plant and machinery	High output		n/a	n/a	n/a	10	10	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(8)	(8)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	13	13	n/a	n/a	n/a	11	11		
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(1)	(1)		
	On track plant		n/a	n/a	n/a	3	3	n/a	n/a	n/a	6	6	n/a	n/a	n/a	3	3		
	Seasonal		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						22	22	31						31	9				9
IT	IM delivered renewals		n/a	n/a	n/a	30	30	n/a	n/a	n/a	25	25	n/a	n/a	n/a	(5)	(5)		
	Traffic management		n/a	n/a	n/a	3	3	n/a	n/a	n/a	8	8	n/a	n/a	n/a	5	5		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						33	33	33						33	-				-
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2		
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						2	2	4						4	2				2
Other renewals	Asset information strategy		n/a	n/a	n/a	17	17	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(6)	(6)		
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2		
	Faster isolations		n/a	n/a	n/a	2	2	n/a	n/a	n/a	9	9	n/a	n/a	n/a	7	7		
	LOWS		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	6	6	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(6)	(6)		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6			
Total						28	28	32						32	4				4
Total Renewals							708	612							(96)				

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	593	469	278	-	278	489	568	278	-	278	(103)	99	-	-	-	-	-
	Conventional		628	188	118	-	118	606	188	114	-	114	(21)	-	(4)	-	-	-	(4)
	High Output		617	214	132	-	132	470	270	127	-	127	(146)	56	(5)	-	-	-	(5)
	Refurbishment		418	67	28	-	28	336	110	37	-	37	(82)	43	9	-	-	-	9
	S&C	point ends	524	168	88	-	88	227	304	69	-	69	(297)	136	(19)	-	-	-	(19)
	Track Drainage		3	10,304	29	-	29	-	-	13	-	13	(3)	(10,304)	(16)	-	-	-	(16)
	Renewal	lm	n/a	8,099	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(8,099)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,542	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1,542)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	663	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(663)	n/a	n/a	n/a	n/a	n/a
	Fencing	km	45	469	21	-	21	55	182	10	-	10	10	(287)	(11)	-	-	-	(11)
	Slab Track		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	-	-	1
	Off track		n/a	n/a	n/a	8	8	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(4)	-	-	(4)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				416	10	426			370	7	377				(46)	(3)		(49)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	208	n/a	n/a	n/a	-	195	n/a	n/a	n/a	-	-	-	(13)
	Full conventional resignalling	SEU	308	595	183	-	183	222	731	162	-	162	(86)	136	(21)	-	-	-	(21)
	Modular resignalling	SEU	-	-	-	-	-	103	39	4	-	4	103	39	4	-	-	-	4
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	356	59	21	-	21	256	78	20	-	20	(100)	19	(1)	-	-	-	(1)
	Targeted component renewal	SEU	222	18	4	-	4	391	23	9	-	9	169	5	5	-	-	-	5
	Level crossings	No.	1,857	7	13	-	13	1,000	14	14	-	14	(857)	7	1	-	-	-	1
	Signalling other		-	-	-	101	101	-	-	-	51	51	-	-	-	(50)	-	-	(50)
	ERTMS train fitment	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	ERTMS other costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	Operating strategy other capex	n/a	n/a	n/a	n/a	32	32	n/a	n/a	n/a	32	32	n/a	n/a	n/a	n/a	-	-	-
	Minor works	n/a	n/a	n/a	n/a	63	63	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(61)	-	-	(61)
	Centrally managed costs	n/a	n/a	n/a	n/a	6	6	n/a	n/a	n/a	17	17	n/a	n/a	n/a	11	-	-	11
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				221	101	322			209	51	260				(12)	(50)		(62)
Civils	Key structures		n/a	n/a	n/a	-	139	n/a	n/a	n/a	-	157	n/a	n/a	n/a	-	-	-	18
	Underbridges	m2	2	36,606	72	-	72	2	55,232	107	-	107	(0)	18,626	35	-	-	-	35
	Overbridges (incl BG3)	m2	4	8,808	31	-	31	2	16,197	26	-	26	(2)	7,389	(5)	-	-	-	(5)
	Tunnels	m2	2	11,529	23	-	23	1	30,002	19	-	19	(1)	18,473	(4)	-	-	-	(4)
	Major structures	m2	n/a	n/a	n/a	13	13	n/a	n/a	n/a	5	5	n/a	n/a	n/a	(8)	-	-	(8)
	Other structures assets		n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	-	-	3
	Culverts	m2	11	457	5	-	5	7	824	6	-	6	(4)	367	1	-	-	-	1
	Footbridges	m2	16	378	6	-	6	7	611	4	-	4	(9)	233	(2)	-	-	-	(2)
	Coastal & Estuary Defences	m	3	1,543	4	-	4	1	2,202	3	-	3	(1)	659	(1)	-	-	-	(1)
	Retaining Walls	m2	3	2,257	6	-	6	4	2,698	11	-	11	1	441	5	-	-	-	5
	Earthworks	5-chain	59	1,103	65	-	65	35	1,121	39	-	39	(24)	18	(26)	-	-	-	(26)
	EW Drainage		1	24,051	18	-	18	-	-	15	-	15	(1)	(24,051)	(3)	-	-	-	(3)
	Renewal	lm	n/a	5,616	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(5,616)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	853	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(853)	n/a	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	11,229	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(11,229)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	6,353	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(6,353)	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	4	4	n/a	-	n/a	7	7	n/a	n/a	n/a	3	-	-	3
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(29)	(29)	n/a	n/a	n/a	(30)	-	-	(30)
	Total				230	18	248			230	(17)	213				-	(35)		(35)

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

Cumulative		Actual				Network Rail Business Plan				Difference to Business Plan				Other non-			
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	68	n/a	n/a	n/a	-	82	n/a	n/a	n/a	n/a	14
	Footbridges	m2	9	452	4	-	4	n/a	825	n/a	n/a	-	n/a	373	n/a	n/a	-
	Train Sheds	m2	1	11,800	8	-	8	n/a	1,819	n/a	n/a	-	n/a	(9,981)	n/a	n/a	-
	Canopies	m2	2	2,302	5	-	5	n/a	2,183	n/a	n/a	-	n/a	(119)	n/a	n/a	-
	Platforms	m2	1	12,676	19	-	19	n/a	41,402	n/a	n/a	-	n/a	28,726	n/a	n/a	-
	Buildings	m2	1	4,036	3	-	3	n/a	60	n/a	n/a	-	n/a	(3,976)	n/a	n/a	-
	Lifts & Escalators	No.	2,000	4	8	-	8	n/a	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Other		-	-	-	21	21	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	9	n/a	-	n/a	-	12	n/a	n/a	n/a	n/a	3
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	5	202	1	-	1	n/a	-	n/a	n/a	-	n/a	(202)	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	2	-	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		444	9	4	-	4	-	-	n/a	-	4	n/a	(9)	n/a	n/a	-
	Buildings	m2	-	2	-	-	-	n/a	-	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Depot Shed	m2	-	7	-	-	-	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Lineside Buildings	m2	1	3,295	4	-	4	0	-	n/a	n/a	9	n/a	(3,295)	n/a	n/a	5
	MDU Buildings	m2	2	2,682	6	-	6	-	-	n/a	n/a	7	n/a	(2,682)	n/a	n/a	1
	Depot Plant		-	-	-	1	1	n/a	-	n/a	n/a	4	n/a	-	n/a	n/a	3
	NDS Depots		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(20)	n/a	n/a	n/a	n/a	(20)
Total					66	27	93					98					5

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m		unit	£m	£m	£m		unit	£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	5	n/a	n/a	n/a	n/a	7	n/a	n/a	n/a	n/a	2		
	wiring	wire runs	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	11	n/a	n/a	-	n/a	11	n/a	n/a	-		
	Structure Renewals	No.	-	3	-	-	-	n/a	7	n/a	n/a	-	n/a	4	n/a	n/a	-		
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	400	5	n/a	n/a	2	n/a	5	n/a	n/a	2		
	AC distribution		-	-	-	-	2	n/a	-	n/a	n/a	12	n/a	n/a	n/a	n/a	10		
	HV Switchgear Renewal	No.	43	23	1	-	1	n/a	24	n/a	n/a	-	n/a	1	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	33	n/a	n/a	-	n/a	33	n/a	n/a	-		
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	1	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	4		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-		
	HV Cables	km	-	-	1	-	1	n/a	4	n/a	n/a	-	n/a	4	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	4	-	-	-	n/a	2	n/a	n/a	-	n/a	(2)	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	21	n/a	-	n/a	n/a	51	n/a	n/a	n/a	n/a	30		
	Signalling Power Cable Renewal	km	-	-	13	-	13	n/a	170	n/a	n/a	-	n/a	170	n/a	n/a	-		
	Principle Supply Point Renewal	No.	118	17	2	-	2	n/a	6	n/a	n/a	-	n/a	(11)	n/a	n/a	-		
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	53	113	6	-	6	n/a	87	n/a	n/a	-	n/a	n/a	n/a	n/a	(6)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	10	n/a	n/a	n/a	n/a	10		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	2	2	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	3			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total					24	13	37					92					55		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	6	n/a	n/a	n/a	n/a	11	n/a	-	n/a	n/a	5		
	Customer Information Systems	No.	-	-	-	-	-	n/a	31	n/a	n/a	-	n/a	31	n/a	n/a	-		
	Public Address	No.	-	-	2	-	2	n/a	747	n/a	n/a	-	n/a	747	n/a	n/a	-		
	CCTV	No.	13	301	4	-	4	n/a	402	n/a	n/a	-	n/a	101	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	9	n/a	n/a	-	n/a	9	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	1		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	201	n/a	n/a	-	n/a	201	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	30	-	-	-	n/a	83	n/a	n/a	-	n/a	53	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	2	2	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	1		
	Projects and other		n/a	n/a	n/a	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(3)		
	Non route capex		n/a	n/a	n/a	24	24	n/a	-	n/a	n/a	37	n/a	n/a	n/a	n/a	13		
Total					6	29	35					52					17		

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2015-16 prices unless stated

Cumulative		Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Total Cost £m
				£m	costs £m				£m	costs £m				£m	costs £m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	14	n/a	n/a	n/a	n/a	22	n/a	n/a	n/a	n/a	8
	Incident response		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	Infrastructure monitoring		n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	1
	Intervention		n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	19	n/a	n/a	n/a	n/a	15
	Materials delivery		n/a	n/a	n/a	8	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	(6)
	On track plant		n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	8	n/a	n/a	n/a	n/a	3
	Seasonal		n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	7	n/a	n/a	n/a	n/a	6
	Locomotives		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fleet support plant		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Road vehicles		n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	(1)
	S&C delivery		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Other			n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						38					69					31
IT	IM delivered renewals		n/a	n/a	n/a	64	n/a	n/a	n/a	n/a	53	n/a	n/a	n/a	n/a	(11)
	Traffic management		n/a	n/a	n/a	10	n/a	n/a	n/a	n/a	14	n/a	n/a	n/a	n/a	4
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						74					67					(7)
Property	MDUs/offices		n/a	n/a	n/a	6	n/a	n/a	n/a	n/a	6	n/a	n/a	n/a	n/a	-
	Commercial estate		n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	Corporate services		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total						7					7					-
Other renewals	Asset information strategy		n/a	n/a	n/a	18	n/a	n/a	n/a	n/a	25	n/a	n/a	n/a	n/a	7
	Intelligent infrastructure		n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	9	n/a	n/a	n/a	n/a	4
	Faster isolations		n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	18	n/a	n/a	n/a	n/a	15
	LOWS		n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Small plant		n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	2
	Research and development		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Phasing overlay		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	West Coast		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	CP4 Rollover		n/a	n/a	n/a	32	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(32)
	Other		n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	12	n/a	n/a	n/a	n/a	12
Total						61					68					7
Total Renewals						1,341		1,303						(38)		

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain line – volumes delivered in the current year has been lower than planned, with additional Conventional works being more than offset by lower High Output and Refurbishment activity.
 - a. Conventional – volumes delivered in the current year are higher than the plan largely reflecting a catch up of shortfalls in the opening year of the control period.
 - b. High Output - this year the high output programme has delivered relatively well, but output is still lower than planned due to losses resulting from difficulties obtaining necessary access for elements of the inflight campaigns. It is anticipated that this shortfall will be mitigated through extra delivery in later years of the control period compared to the plan.
 - c. Refurbishment – volumes delivered are lower than the plan, work bank is down from plan which is largely due to the more emergent status of work in this area; planning cycles can be more fluid in nature which may result in increasing levels of deviation from plan as the control period progresses. The latest view for the control period is that the total volumes delivered will be lower than the plan as alternative asset management strategies are enacted (such as increased levels of Conventional activity).
- (5) Track - Switches & Crossings – volumes delivered in the current year are below plan due to lower than anticipated Refurbishment capability and a reduction in the level of Full Renewal planned due to plan rationalisation. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively.
- (6) Track – Drainage – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (7) Track – Fencing – volumes delivered in the year are higher than the plan. The plan was based on some high level assumptions of the activity required and included an even phasing of volumes across the control period. Actual delivery has been, and will continue to be, more unequal in its distribution throughout CP5.
- (8) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (9) Signalling - Full Conventional Resignalling – volumes recognised in the year has higher than the plan. This was predominantly due to commissioning of Wolverhampton PSB Re-signalling project this year. The CP5 Business Plan assumed that this would be complete in the opening year of the control period.
- (10) Signalling - Partial Conventional Resignalling – volumes were lower than the plan assumed this year, mainly due to a re-profiling of activity within the control period. Delays in the design and contracting of certain jobs, along with access to the network, have contributed to this variance.
- (11) Signalling – Level Crossings – Volumes delivered in the year were lower than the plan, mainly due to projects at Culgaith and Low House being deferred to next year following access issues where priority was given to works on the East Coast Main Line.
- (12) Civils - Underbridges – volumes delivered in the year are lower than the CP5 Business Plan. This is predominantly due to various access issues in relation to Eskmeal Viaduct (sensitivity of works at an Site of Special Scientific Interest), Great Ducie Street (with plans realigned to meet road access), Reddish Viaduct (disputed access by the operators) and Croal Viaduct has been deferred due to design delays.
- (13) Civils - Overbridges – volumes delivered in the current year are lower than expected. This is mainly due to possession-based restrictions and amendments made within the workbank following bottom-up development of plans.
- (14) Civils - Tunnels – volumes delivered in the year were lower than the plan, which was impacted by the deferral of the Disley project to 2016/17 as a result of delays in obtaining the required access to complete the necessary works.
- (15) Civils – Culverts – volume delivery in the year was lower than the plan which partly reflected acceleration of activity into the first year of the control period. Many of the CP5 Business Plan volumes not associated with the first year of the control period were based on asset management assumptions of the level of works that would be undertaken each year rather than a bottom up assessment on a job-by-job basis.
- (16) Civils – Footbridges – volumes delivered in the year were higher than the plan which included the catch up of activity and projects deferred from the opening year of the control period.
- (17) Civils – Retaining Walls – volumes delivered in the year were lower than the plan mostly due to deferrals of activities into future years as access issues towards the end of the year prevented anticipated works being completed.
- (18) Civils – Earthworks Drainage – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period.
- (19) Buildings - Franchised Stations – Train Sheds – volumes delivered in the year are noticeably higher than the plan. This was mostly due to extra work undertaken as part of the Manchester Victoria station redevelopment which was not included in the original plan.
- (20) Buildings - Franchised Stations – Canopies – volumes delivered in the year were higher than the plan and includes a catch up of activity deferred from the first year of the control period and an acceleration of works originally planned for 2016/17.
- (21) Buildings - Franchised Stations – Platforms – volumes reported this year were lower than the CP5 Business Plan. This is mostly due to re-scoping of the requirements of the Liverpool Underground Moorfields project.

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2015-16 prices unless stated

- (22)Buildings - Franchised Stations – Buildings – volumes delivered in the year are higher than the CP5 Business Plan. It is anticipated that this trend will continue throughout the control period as the CP5 Business Plan underestimated the level of work required in this area to maintain the appropriate level of asset quality.
- (23)Buildings – Lineside Buildings – the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period. Activity this year relates to Crewe Power Signal Box works.
- (24)Buildings – MDU Buildings - the CP5 Business Plan contained no volumes for this type of activity and so it is expected that actual volumes will exceed this during the control period. Activity this year includes works at Barrow in Furness, Gresty Road and Chinley.
- (25)Electrification – Mid-Life Refurbishment – volumes delivered in the year is lower than the CP5 Business Plan. This pattern is expected to continue for the remainder of the control periods as activity is deferred into the future. Resource constraints facing the organisation has resulted in a re-prioritisation of the workbank so that funds are used optimally.
- (26)Electrification – Booster Transformers – no volumes have been delivered in the year. This pattern is expected to continue for the remainder of the control periods as activity is deferred into the future. Resource constraints facing the organisation has resulted in a re-prioritisation of the workbank so that funds are used optimally.
- (27)Electrification - Signalling Power Cables – volumes delivered this year are lower than the plan due to contractor resource availability and so, as a result, volumes have been deferred to future years of the control period.
- (28)Electrification – Principle point renewals – volumes delivered this year are higher than the plan as activity originally planned for 2016/17 has been accelerated into the current year to take advantage of resource availability. In addition, some work deferred from the opening year of the control period has been delivered in the current year.
- (29)Electrification - Points Heaters – volumes delivered in the year are higher than the plan which includes the incorporation of previously deferred activity from the opening year of the control period into the current year's workbank.
- (30)Telecoms - Customer Information Systems - Volumes are lower than plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (31)Telecoms – Public Address - Volumes are below plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (32)Telecoms – CCTV - Volumes reported in the current year are lower than the plan due to activity being reprofiled into future years, especially into the fourth year of the control period. Volumes delivered across the control period for this category are anticipated to exceed the CP5 Business Plan.
- (33)Telecoms – Processor Controlled Concentrator – no volumes have been reported in the current year. These have been replanned for year four of the control period to optimise delivery.
- (34)Telecoms – Driver Only Operation - Mirrors - Volumes are below plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.

Statement 1: Summary regulatory financial performance, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	188	185	3	375	371	4	187
Fixed Income	13	13	-	29	29	-	16
Variable Income	98	104	(6)	196	197	(1)	98
Other Single Till Income	72	81	(9)	152	157	(5)	80
Opex memorandum account	(1)	-	(1)	1	-	1	2
Total Income	370	383	(13)	753	754	(1)	383
Operating expenditure							
Network operations	50	30	(20)	93	62	(31)	43
Support costs	30	32	2	56	62	6	26
Traction electricity, industry costs and rates	49	59	10	103	106	3	54
Network maintenance	64	62	(2)	132	123	(9)	68
Schedule 4	29	12	(17)	42	28	(14)	13
Schedule 8	25	-	(25)	45	-	(45)	20
Total operating expenditure	247	195	(52)	471	381	(90)	224
Capital expenditure							
Renewals	191	155	(36)	354	320	(34)	163
PR13 enhancement expenditure	97	81	(16)	197	160	(37)	100
Non PR13 enhancement expenditure	1	-	(1)	4	-	(4)	3
Total capital expenditure	289	236	(53)	555	480	(75)	266
Other expenditure							
Financing costs	80	97	17	160	189	29	80
Corporation tax (received)/paid	-	-	-	-	1	1	-
Total other expenditure	80	97	17	160	190	30	80
Total expenditure	616	528	(88)	1,186	1,051	(135)	570

Statement 1: Summary regulatory financial performance, Sussex - continued

In £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to lower than expected property income. This is set out in more detail in Statement 6a. Income is lower than the previous year also due to adverse variances in Property revenue.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a
- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather events causing disruption. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year which is due to the cyclical nature of renewals activities across the control period.

Statement 1: Summary regulatory financial performance, Sussex – continued

in £m 2015-16 prices unless stated

- (14) Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. There was very little expenditure in this category in the year.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, Sussex

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,802	2,705	97
Indexation to 2013-14 prices	131	127	4
Opening RAB for the year (2014-15 prices)	2,933	2,832	101
Indexation for the year	31	30	1
Opening RAB (2015-16 prices)	2,964	2,862	102
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	180	155	25
PR13 enhancements	98	55	43
Non-PR13 enhancements	1	-	1
Total enhancements	99	55	44
Amortisation	(137)	(137)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	3,106	2,935	171

RAB Regulatory financial position - cumulative, Sussex

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	2,769	2,964	2,769
Adjustments for the actual capital expenditure outturn in CP4	79	-	79
Renewals	150	180	330
PR13 enhancements	102	98	200
Non-PR13 enhancements	1	1	2
Total enhancements	103	99	202
Amortisation	(137)	(137)	(274)
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB	2,964	3,106	3,106

Statement 2a: RAB - Regulatory financial position, Sussex – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity within the control period. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, Sussex – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Sussex

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	164	155	319
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	55	-	55
Capitalised financing on CP4 deferrals	1	2	3
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	220	157	377
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(111)	(6)	(117)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(7)
Adjustments for efficient overspend	52	40	92
Capitalised financing on efficient overspend	1	3	4
25% retention of efficient overspend	(13)	(10)	(23)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	4	2	6
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	-	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	150	180	330
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	1	1
Adjustment for 25% retention of efficient overspend	14	10	24
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	(1)	-	(1)
Total actual renewals expenditure (see statement 9)	163	191	354

Statement 2b: RAB - reconciliation of expenditure, Sussex - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	66	55	121
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	7	(7)	-
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	39	39
Capitalised financing on Baseline adjustments	-	1	1
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	73	88	161
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	29	2	31
Capitalised financing on acceleration / (deferrals) of expenditure	1	1	2
Adjustments for efficient overspend	-	-	-
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	8	8
agreements - retention of efficient overspend	-	(1)	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	(1)	-	(1)
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	102	98	200
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	3
overspend	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	(1)	-	(1)
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	1	1	2
Total enhancements (added to the RAB - see statement 2a)	103	99	202
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(1)	(2)	(3)
Adjustment for 25% retention of efficient overspend	-	1	1
Other Adjustments	1	-	1
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	15	11	26
Other adjustments	(1)	-	(1)
Total actual enhancement expenditure (see statement 3)	117	109	226

Statement 2b: RAB - reconciliation of expenditure, Sussex – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, Sussex – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Thameslink).
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	(1)	(1)	-	1	1
Stations - Access for All (AfA)	1	(8)	(9)	2	1	(1)
Development	11	33	22	36	35	(1)
Level crossing safety	-	-	-	1	1	-
Passenger journey improvement	-	(5)	(5)	-	-	-
The strategic rail freight network	-	(4)	(4)	-	-	-
Total funds	12	15	3	39	38	(1)
Committed projects						
Thameslink	34	11	(23)	62	37	(25)
Total committed projects	34	11	(23)	62	37	(25)
Named schemes						
Airports & Ports:						
Redhill additional platform	4	3	(1)	5	5	-
Total airports & Ports	4	3	(1)	5	5	-
HLOS capacity metric schemes						
Uckfield line train lengthening	13	12	(1)	14	13	(1)
Sussex traction power supply upgrade	4	-	(4)	5	5	-
London Victoria station capacity improvements	-	-	-	1	1	-
Total HLOS capacity metric schemes	17	12	(5)	20	19	(1)
CP4 Project Rollovers						
Battersea Park Station Platform Lengthening	-	(1)	(1)	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	5	1
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
Station security	-	(1)	(1)	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	(2)	(2)	5	6	1
Other projects						
Seven day railway projects	5	5	-	12	12	-
ERTMS Cab fitment	-	1	1	-	1	1
R&D allowance	-	1	1	-	1	1
Income generating property schemes	25	38	13	54	41	(13)
Other income generating investment framework schemes	-	(3)	(3)	-	-	-
Total other projects	30	42	12	66	55	(11)
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	97	81	(16)	197	160	(37)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	1	-	(1)
Total Government sponsored schemes	1	-	(1)	1	-	(1)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	1	-	(1)	4	-	(4)
Total Network Rail funded enhancements (see Statement 1)	98	81	(17)	201	160	(41)
Third Party PAYG	11	-	(11)	25	-	(25)
Total enhancements (see statement 2b)	109	81	(28)	226	160	(66)

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being programmes with their own protocol (such as Thameslink). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £98m (as shown in Statement 1). This comprises the total enhancement figure in the table above £109m less the PAYG schemes funded by third parties (£11m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is slightly higher than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period matches the baseline.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year and control period to date is higher than the determination which is mostly due to underperformance. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Redhill additional platform - this project will provide the infrastructure to support additional operational resilience and platform capacity at Redhill via joining / splitting up to 12 car. It also facilitates an additional train per hour from Reading to Gatwick. Progress on this project is in line with the Hendy review expectations.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Uckfield line train lengthening - The key output of this project is the provision of extra capacity between East Croydon and London Bridge, and on the Oxted Line by enabling 10-car trains to operate. Expenditure is on target with the baseline.
 - (b) Sussex traction power supply upgrade - The principal objective of this scheme is to develop options to deliver power supply capability in, to provide for the additional traffic Thameslink Programme. Expenditure was on target with the baseline.
 - (c) London Victoria station capacity improvements – this programme was planned to increase passenger capacity at London Victoria station, one of the most heavily-used stations on the network. Following the Hendy review and re-prioritisation of other schemes this programme has been delayed until CP6.

Statement 3: Analysis of enhancement capital expenditure, Sussex – continued

- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Battersea Park Station Platform Lengthening – This project was planned to increase capacity at the station. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.
 - (b) Gatwick Airport Remodelling and Passenger Capacity – this is part of a wider programme to provide improvements to the station environment which will offer a much improved passenger experience by relieving overcrowding, improving vertical circulation, horizontal flows and providing a more integrated concourse which offers intuitive connection with airport terminals and/or onward travel. Expenditure on this element of the programmes in line with the Hendy baseline and is substantially complete.
 - (c) East Croydon Passenger Capacity Scheme - Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (d) Station Security – This programme planned to deliver enhanced vehicle access control arrangements across key franchised stations. As part of the Hendy review, the phasing of this project was amended. Expenditure in the control period to date is in line with this new phasing.
- (10) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – Expenditure is on target with the baseline.
 - (b) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Therefore the expenditure is below the target for the year and control period to date.
 - (c) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (d) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) PAYGO – The largest programme in the year was the West London Line Train Lengthening scheme.

Statement 4: Net debt and financial ratios, Sussex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	2,056	2,002	(54)			
Adjustment for opening control period debt	-	(31)	(31)			
Opening net debt	2,056	1,971	(85)	1,846	1,804	(42)
Income						
Grant income	(188)	(185)	3	(373)	(368)	5
Fixed charges	(13)	(13)	-	(29)	(29)	-
Variable charges	(98)	(104)	(6)	(195)	(197)	(2)
Other single till income	(72)	(81)	(9)	(151)	(159)	(8)
Total income	(371)	(383)	(12)	(748)	(753)	(5)
Expenditure						
Network operations	50	30	(20)	92	61	(31)
Support costs	30	32	2	55	64	9
Traction electricity, industry costs and rates	49	59	10	102	106	4
Network maintenance	64	62	(2)	131	122	(9)
Schedule 4	29	12	(17)	42	27	(15)
Schedule 8	25	-	(25)	45	-	(45)
Renewals	191	155	(36)	353	317	(36)
PR13 enhancement	97	55	(42)	196	120	(76)
Non-PR13 enhancement	1	-	(1)	4	-	(4)
Total expenditure	536	405	(131)	1,020	817	(203)
Financing						
Interest expenditure on nominal debt - FIM covered	20	31	11	48	60	12
Interest expenditure on index linked debt - FIM covered	13	15	2	27	29	2
Expenditure on the FIM	18	22	4	38	43	5
Interest expenditure on government borrowing	16	-	(16)	21	-	(21)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(2)	(1)
Total interest costs	67	67	-	133	130	(3)
Accretion on index linked debt - FIM covered	13	30	17	26	59	33
Total financing costs	80	97	17	159	189	30
Corporation tax	-	-	-	-	1	1
Other	(33)	-	33	(9)	32	41
Movement in net debt	212	119	(93)	422	286	(136)
Closing net debt	2,268	2,090	(178)	2,268	2,090	(178)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.31	-0.19	0.74
FFO/interest	2.34	1.87	2.79
Net debt/RAB (gearing)	70.1%	73.0%	71.3%
FFO/debt	7.6%	5.5%	8.9%
RCF/debt	4.4%	2.6%	5.7%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Sussex has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.2bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Sussex – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the income given to Sussex would have been insufficient to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with the shortfall being absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). There is a negative value for the AICR in the year (meaning that trading losses (assuming an assumption for steady state renewals) were made this year). This was mostly due to large adverse variances in Network Operations, Schedule 4 and Schedule 8.

(17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is higher than the regulatory comparative due to a number of contributory factors including higher operational costs (including Schedule 8, Network operations and Network maintenance) and the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines May 2016, in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. These factors were partly offset by a lower ratio at the start of the control period that the regulator expected and lower interest costs.

(18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for, Network operations, Schedule 5 and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, Sussex

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	188	185	3	3	-	-	-	-
Fixed Income	13	13	-	-	-	-	-	-
Variable Income	63	63	-	-	-	-	-	-
Other Single Till Income	72	81	(9)	-	-	-	(9)	(9)
Opex memorandum account	(1)	-	(1)	(3)	-	-	2	2
Total Income	335	342	(7)	-	-	-	(7)	(7)
Expenditure								
Network operations	50	30	(20)	-	-	-	(20)	(20)
Support costs	30	32	2	-	-	-	2	2
Industry costs and rates	13	16	3	3	-	-	-	-
Traction electricity	1	1	-	-	-	-	-	-
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	64	62	(2)	-	11	-	(13)	(13)
Schedule 4 costs	29	12	(17)	-	(1)	-	(16)	(16)
Schedule 8 costs	25	-	(25)	-	-	-	(25)	(25)
Renewals	191	155	(36)	-	4	-	(40)	(10)
PR13 Enhancements	97	81	(16)	-	(8)	-	(8)	(1)
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	80	97	17	17	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	581	487	(94)	20	6	-	(120)	(83)
Total:			(101)	20	6	-	(127)	(90)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(90)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(30)
Under-delivery of train performance requirements (CaSL)								(10)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(40)
Total financial out / (under) performance to be recognised								(130)

Statement 5a: Total financial performance, Sussex - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: performance	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F	G = C - D - E - F	H = G or H = G*25%
Income								
Grant Income	375	371	4	4	-	-	-	-
Fixed Income	29	29	-	-	-	-	-	-
Variable Income	127	127	-	-	-	-	-	-
Other Single Till Income	152	157	(5)	-	-	-	(5)	(5)
Opex memorandum account	1	-	1	(2)	-	-	3	3
Total Income	684	684	-	2	-	-	(2)	(2)
Expenditure								
Network operations	93	62	(31)	-	-	-	(31)	(31)
Support costs	56	62	6	1	-	-	5	5
Industry costs and rates	31	32	1	3	-	-	(2)	(2)
Traction electricity	3	3	-	-	-	-	-	-
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	132	123	(9)	-	5	-	(14)	(14)
Schedule 4 costs	42	28	(14)	-	2	-	(16)	(16)
Schedule 8 costs	45	-	(45)	-	-	-	(45)	(45)
Renewals	354	320	(34)	-	58	-	(92)	(23)
PR13 Enhancements	197	160	(37)	-	(29)	-	(8)	(1)
Non PR13 Enhancements	4	-	(4)	-	(4)	-	-	-
Financing Costs	160	189	29	29	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-
Total Expenditure	1,117	981	(136)	33	34	-	(203)	(127)
Total:			(136)	35	34	-	(205)	(129)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(129)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(38)
Under-delivery of train performance requirements (CaSL)								(13)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(51)
Total financial out / (under) performance to be recognised								(180)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(35)	(41)	6	(69)	(70)	1
Total variance not included in total	(35)	(41)	6	(69)	(70)	1
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	1	-	1
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	35	41	(6)	69	70	(1)
Total variance not included in total	35	41	(6)	69	70	(1)

Statement 5a: Total financial performance, Sussex - continued

In £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Other single till income – underperformance has been recognised this year mainly due to the level of property sales in Sussex this year. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. In addition, although property rental income was higher than the previous year the rate of growth was not as high as the regulator's targets which contributed to the underperformance recognised this year.
- (3) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates and ORR costs attributed to Sussex have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Sussex - continued

In £m 2015-16 prices unless stated

- (4) Network operations – costs are higher than the regulator's target. The largest contributor to this is the cost base at the end of CP4 compared to ORR's assumptions. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base notably higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative included migration of signalling control to a new ROC (Regional Operating Centre) at Three Bridges that was designed to achieve staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run as well as some delays in implementation. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (5) Support costs – costs are slightly lower than the determination and so some financial outperformance has been recognised. Support costs outperformance includes one-off savings in Group from reductions in amounts payable to senior staff under performance related pay arrangements and lower than expected re-organisation expenses. Following agreement with trade unions to avert industrial action in Summer 2015 (and the associated disruption to the millions of people who rely on the train network every day) no compulsory redundancies were made in 2015/16.
- (6) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (7) Reporters fees - generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (8) Network maintenance – maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Reactive Maintenance expenditure is lower than the allowance in the determination. This variance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator.
- (9) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. The Schedule 4 baselines include allowances for possessions based on modelled rates. This year, Sussex undertook more activity in areas closer to London which have higher possession costs compared to the modelled rates.

Statement 5a: Total financial performance, Sussex - continued

In £m 2015-16 prices unless stated

- (10) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation.
- (11) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (12) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (13) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (14) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Sussex

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(9)	3	(12)	(3)		(3)	-	-
Signalling	16	24	(8)	(2)		(1)	(1)	-
Civils	(27)	1	(28)	(7)		(6)	(1)	-
Buildings	(4)	4	(8)	(2)		(2)	-	-
Electrical power and fixed plant	(3)	(7)	4	1		2	(1)	-
Telecoms	9	9	-	-		-	-	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	(2)	(2)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(21)	(33)	12	3		3	-	-
Total	(36)	4	(40)	(10)		(7)	(3)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(5)	19	(24)	(6)		(6)	-	-
Signalling	32	60	(28)	(7)		(4)	(3)	-
Civils	(27)	5	(32)	(8)		(7)	(1)	-
Buildings	(11)	5	(16)	(4)		(2)	(2)	-
Electrical power and fixed plant	18	18	-	-		3	(3)	-
Telecoms	8	8	-	-		-	-	-
Wheeled plant and machinery	9	9	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	6	6	-	-		-	-	-
Other renewals	(58)	(66)	8	2		2	-	-
Total	(34)	58	(92)	(23)		(14)	(9)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Sussex - continued

In £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. Nearly half of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. This year, the local route team also made the decision to invest in some extra initiatives to improve the management of the asset and improve train performance. The costs of this were not included in the baseline.
- (3) Signalling – as with the previous year, financial underperformance has been recognised in this category. Extra costs have been incurred to deliver a heritage project following pressure from ORR and local council. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource. Also, targeted efficiencies included in the plan and regulatory targets relating to design to reduce the number of required SEUs on the major programmes have not materialised.
- (4) Civils – financial underperformance has been reported this year, in line with the previous year's trend. The route planned for savings through new framework contracts which have not materialised. Other efficiencies included in the regulator's targets have also proven to be over optimistic compared to the market prices being charged by contractors. In addition, extra work has been delivered for schemes arising from the impact of adverse weather and the damage this has caused in the route this year. Other emergency works have also been deemed necessary to maintain asset condition. Extra costs have also been incurred at Chelsea River bridge following access issues, contractor claims and higher than modelled unit rates, given the unique nature of this asset.
- (5) Buildings – as with the previous year, financial underperformance has been recognised in this category. Many of the efficiency initiatives planned for CP5 have either been delayed (such as reduction in overheads and procurement strategies) or not delivered the expected efficiencies. In light of the current experience with project costs the efficiency assumptions in the determination appear to be overly optimistic. Financial underperformance in the current year includes the unfavourable settlement of contractor claims relating to work undertaken in 2014/15.
- (6) Electrical power and fixed plant – financial outperformance has been recognised this year which mitigates the underperformance reported in last year's Regulatory financial statements. The benefits this year were achieved through better prices obtained from contractors and workbank planning. In addition, volume delivery across major categories was higher than planned (refer to Statement 14) which resulted in lower unit costs (as an increase in volumes does not manifest itself in a proportionate increase in total costs).
- (7) Other renewals – this is mainly due to outperformance recognised this year on projects rolled forward from CP4. This includes reductions in the expected project costs for SCADA which offsets the financial underperformance reported in the previous year. In addition, there has also been some outperformance relating to the favourable settlement of contractor claims for CP4 projects (when the extra costs were reported as financial underperformance).

Statement 5c: Total financial performance - enhancement variance analysis, Sussex

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(23)	(15)	-	(8)	(1)
Other Enhancements	6	6	-	-	-
Total	(17)	(9)	-	(8)	(1)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(25)	(17)	-	(8)	(1)
Other Enhancements	(16)	(16)	-	-	-
Total	(41)	(33)	-	(8)	(1)

Statement 5c: Total financial performance - enhancement variance analysis, Sussex - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with the notable exception being and programmes with their own protocol (such as Thameslink).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to overall programme cost pressures including increased traffic management expenditure. These reasons have led to negative FPM being declared. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (2) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Sussex

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	18	18	-	-	-	-	-	-
Capacity charge	85	85	-	-	-	-	-	-
Electricity asset utilisation charge	2	2	-	-	-	-	-	-
Property income	77	76	1	-	-	-	-	1
Expenditure								
Network operations	93	59	(34)	-	-	-	-	(34)
Support costs	56	61	5	-	1	-	-	4
RSSB and BT Police	12	11	(1)	-	-	-	-	(1)
Network maintenance	132	122	(10)	2	-	-	-	(12)
Schedule 4 costs	42	24	(18)	(2)	-	-	-	(16)
Schedule 8 costs	45	-	(45)	-	-	-	-	(45)
Renewals	354	317	(37)	55	-	(69)	-	(23)
Total REBS performance			(139)	55	1	(69)		(126)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(38)
Under-delivery of train performance requirements (CaSL)								(13)
Total adjustment for under delivery of outputs and reduced sustainability								(51)
Cumulative performance to end of 2015-16								(177)
Less cumulative outperformance recognised up to the end of 2014-15								(52)
Net REBS performance for 2015-16								(125)

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, Sussex – continued

In £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	188	185	3	375	371	4	187
Franchised track access income							
Fixed charges	13	13	-	29	29	-	16
Variable charges							
Variable usage charge	9	9	-	18	18	-	9
Traction electricity charges	35	41	(6)	69	70	(1)	34
Electrification asset usage charge	1	1	-	2	2	-	1
Capacity charge	42	42	-	85	85	-	43
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	11	11	-	22	22	-	11
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	98	104	(6)	196	197	(1)	98
Total franchised track access income	111	117	(6)	225	226	(1)	114
Total franchised track access and grant income	299	302	(3)	600	597	3	301
Other single till income							
Property income	34	43	(9)	77	82	(5)	43
Freight income	-	1	(1)	-	1	(1)	-
Open access income	-	-	-	-	-	-	-
Stations income	27	27	-	54	54	-	27
Facility and financing charges	3	3	-	5	5	-	2
Depots Income	8	7	1	15	14	1	7
Other income	-	-	-	1	1	-	1
Total other single till income	72	81	(9)	152	157	(5)	80
Total income	371	383	(12)	752	754	(2)	381

Statement 6a: Analysis of income, Sussex - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016)), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is in line with the prior year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful.

- (3) Fixed charges – fixed charge income was in line with the determination. The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now more than mitigated meaning the control period to date position is slightly lower than the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Sussex - continued

In £m 2015-16 prices unless stated

- (5) Property income – this is noticeably lower than the determination mainly due to the level of property sales in Sussex this year. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. In the prior year, property sales exceeded the regulator's assumption, illustrating the erratic turnover generated by these types of transactions, and so the control period to date variance to PR13 is marginal. Property rental income has increased since the previous year which includes extra income from retail units at London Victoria station following completion of refurbishment works.

Statement 6b: Analysis of other single till income, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	35	42	(7)	69	80	(11)	34
Property sales	(1)	5	(6)	8	10	(2)	9
Adjustment for commercial opex	-	(4)	4	-	(8)	8	-
Total property income	34	43	(9)	77	82	(5)	43
Freight income							
Freight variable usage charge	-	1	(1)	-	1	(1)	-
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	-	-	-
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	-	1	(1)	-	1	(1)	-
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	5	5	-	10	9	1	5
Qualifying expenditure	5	4	1	10	8	2	5
Total managed stations income	10	9	1	20	17	3	10
Franchised stations income							
Long term charge	12	14	(2)	25	29	(4)	13
Stations lease income	5	4	1	9	8	1	4
Total franchised stations income	17	18	(1)	34	37	(3)	17
Total stations income	27	27	-	54	54	-	27
Facility and financing charges							
Facility charges	3	3	-	5	5	-	2
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	3	3	-	5	5	-	2
Depots income	8	7	1	15	14	1	7
Other	-	-	-	1	1	-	1
Total other single till income	72	81	(9)	152	157	(5)	80

Statement 6b: Analysis of other single till income, Sussex (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	25	16	(9)	52	33	(19)	27
Signalling shift managers	2	1	(1)	4	2	(2)	2
Local operations managers	1	1	-	1	2	1	-
Controllers	3	2	(1)	5	5	-	2
Electrical control room operators	2	1	(1)	4	1	(3)	2
Total signaller expenditure	33	21	(12)	66	43	(23)	33
Non-signaller expenditure							
Mobile operations managers	2	2	-	5	5	-	3
Managed stations	5	3	(2)	10	5	(5)	5
Performance	1	1	-	2	2	-	1
Customer relationship executives	1	1	-	-	1	1	(1)
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	3	3	-
Other	1	-	(1)	2	2	-	1
Operations delivery	-	-	-	1	-	(1)	1
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	3	-	(3)	3	-	(3)	-
HQ - Stations and customer services	1	-	(1)	1	-	(1)	-
HQ - Other	6	2	(4)	8	4	(4)	2
Other operating income	(3)	(1)	2	(5)	(3)	2	(2)
Total non-signaller expenditure	17	9	(8)	27	19	(8)	10
Total network operations expenditure	50	30	(20)	93	62	(31)	43
Support costs							
Core support costs							
Human resources	2	3	1	4	6	2	2
Information management	3	3	-	6	6	-	3
Government and corporate affairs	1	1	-	2	2	-	1
Group strategy	1	1	-	2	2	-	1
Finance	1	1	-	2	3	1	1
Business services	1	1	-	2	2	-	1
Accommodation	8	11	3	16	21	5	8
Utilities	1	3	2	4	6	2	3
Insurance	4	4	-	7	7	-	3
Legal and inquiry	-	-	-	-	-	-	-
Safety and sustainable development	2	-	(2)	3	1	(2)	1
Strategic sourcing	-	-	-	-	1	1	-
Business change	-	1	1	-	1	1	-
Other corporate functions	3	-	(3)	4	-	(4)	1
Core support costs	27	29	2	52	58	6	25
Other support costs							
Asset management services	3	2	(1)	5	1	(4)	2
Network Rail telecoms	3	2	(1)	6	5	(1)	3
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(1)	-	1	(2)	-	2	(1)
Commercial property	-	-	-	-	(1)	(1)	-
Group costs	(2)	(1)	1	(5)	(1)	4	(3)
Total other support costs	3	3	-	4	4	-	1
Total support costs	30	32	2	56	62	6	26
Traction electricity, industry costs and rates							
Traction electricity	36	42	6	72	73	1	36
Business rates	6	10	4	16	20	4	10
British transport police costs	5	5	-	11	9	(2)	6
RSSB costs	-	-	-	1	1	-	1
ORR licence fee and railway safety levy	2	1	(1)	3	2	(1)	1
Reporters fees	-	1	1	-	1	1	-
Other industry costs	-	-	-	-	-	-	-
Total traction electricity, industry costs and rates	49	59	10	103	106	3	54
Total network operations expenditure, support costs, traction electricity, industry costs and rates	129	121	(8)	252	230	(22)	123

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Sussex - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are significantly higher than the regulator’s target. The largest contributor to this is the cost base at the end of CP4 compared to ORR’s assumptions. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base notably higher than the regulatory assumption. From this starting position, achieving the determination target for 2015/16 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative included migration of signalling control to a new ROC (Regional Operating Centre) at Three Bridges that was designed to achieve staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run as well as some delays in implementation. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than last year and the PR13 target due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the ORR target and the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Support costs are lower than the determination (including benefit from one-off savings in Group) but higher than the previous year, (due to net increases across a number of functions).
- (5) Human resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are in line with the previous year. Further breakdown of HR costs can be found in Statement 7b.
- (6) Accommodation – expenses are in line with the previous year and lower than the determination which assumed a higher cost base for this route. Changes in the accommodation strategy at the start of the control period have not resulted in costs expected in the determination.
- (7) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to even more focus on safety including investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Sussex - continued

In £m 2015-16 prices unless stated

- (8) Other corporate functions - costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources and Finance are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (9) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The current year benefitted from reducing amounts payable to senior management under performance related pay arrangements. In addition, savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. The credit recognised this year is slightly lower than the previous year. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. The savings made from these non-recurring events were higher than the savings made from one-off items in the current year and so costs in the current year were higher than in 2104/15.
- (10) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year with the exception of traction electricity costs. This group of costs is lower than the determination mostly due to lower Traction electricity costs which are driven by market rates, and Business rates.
- (11) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6). Costs are broadly similar to the previous year.
- (12) Business rates - costs are lower than the determination assumed. The ORR assumed a different allocation of Business rates to the Sussex route than is the case. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions. Network Rail expects to return these savings in Sussex through the Opex memorandum account mechanism (refer to Statement 10).

Statement 7b: Analysis of network operations expenditure and support costs by activity, Sussex

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	19	29	27
MOMS	2	3	2
Control	3	3	5
Planning & Performance Staff Costs	2	1	3
Managed Stations Staff Costs	1	2	2
Operations Management Staff Costs	2	1	1
Other	9	4	10
Total operations & customer services costs	38	43	50
Total Network Operations	38	43	50
Support			
Human resources			
Functional support	2	1	1
Training (inc Westwood)	2	1	1
Graduates	-	-	-
Apprenticeships	-	-	-
Other	-	-	-
Total human resources	4	2	2
Information management			
Support	1	-	-
Projects	-	-	-
Licences	-	-	-
Business operations	3	3	3
Other	-	-	-
Total information management	4	3	3
Finance	1	1	1
Business Change	-	-	-
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	-	-
Planning & development	1	1	1
Safety & compliance	1	-	-
Other corporate services	3	1	1
Commercial property	8	8	8
Infrastructure Projects	(4)	(1)	(1)
Route Services	1	1	2
Asset management & Engineering/Asset heads	10	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	3	1
Network Rail Telecoms	-	3	3
Digital Railway	-	1	2
Safety Technical & Engineering	-	2	3
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	(1)	-
Legal and inquiry	-	-	-
Group/central			
Pensions	-	-	-
Insurance	3	3	4
Redundancy/reorganisation costs	4	1	-
Staff incentives/Bonus Reduction	-	(2)	-
Accommodation & Support Recharges	-	(1)	(2)
Commercial claims settlements	-	-	-
ORR financial penalty	5	(1)	-
Other	-	-	-
Total group/central costs	12	-	2
Total support	42	26	30
Total network operations and support costs	80	69	80

Statement 7b: Analysis of network operations expenditure and support costs by activity, Sussex (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	31	23	(8)	60	48	(12)	29
Signalling	9	8	(1)	19	17	(2)	10
Civils	6	5	(1)	10	11	1	4
Buildings	2	9	7	10	13	3	8
Electrical power and fixed plant	6	4	(2)	12	9	(3)	6
Telecoms	-	2	2	-	4	4	-
Other network operations	9	6	(3)	18	12	(6)	9
Asset management services	3	2	(1)	5	4	(1)	2
National Delivery Service	(1)	3	4	(1)	6	7	-
Property	-	1	1	1	1	-	1
Group	(1)	(1)	-	(2)	(2)	-	(1)
Total maintenance expenditure	64	62	(2)	132	123	(9)	68

Statement 8a: Summary analysis of network maintenance expenditure, Sussex - continued

In £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are lower than the previous year largely due to less Reactive maintenance works required this year and reductions in project expenditure from 2014/15 (vegetation management and tidy railway) which have been partly offset by additional structures inspections costs.
- (2) Track – costs are higher than the determination which includes a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a corresponding saving in the National Delivery Services category). In addition, extra costs were incurred in the Victoria and Croydon areas to improve asset resilience and minimise passenger service delays. These factors also contributed to the increase in costs compared to the previous year.
- (3) Civils – costs were slightly higher than the determination which was a combination of higher Reactive Maintenance activity and additional structures inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. This saving has been mitigated by extra inspections costs due to contractor disputes and increased activity.
- (4) Buildings – all 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. Expenditure in the current year in this area is less than the regulator assumed which partly offsets the additional activity in the first year of the control period. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the previous year.
- (5) Telecoms – expenditure in the year and the control period to date reported in this category is minimal compared to the regulator's assumption. Responsibility for telecoms maintenance activity (and the associated costs) falls under the Other network operations category, which contributes to the higher costs reported in that area.
- (6) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, lower expenditure on these initiatives yielded a year-on-year saving. Despite this costs are higher broadly in line with the previous year due to extra investment in performance improvement projects. Expenditure is higher than the determination which includes the impact of telecoms-related activity falling under the responsibility of this category. The saving shown in Telecoms in the above table is offset by extra costs in Other network operations.
- (7) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	39	30	(9)	67	62	(5)	28
Signalling	31	47	16	62	94	32	31
Civils	40	13	(27)	66	39	(27)	26
Buildings	25	21	(4)	48	37	(11)	23
Electrical power and fixed plant	19	16	(3)	32	50	18	13
Telecoms	2	11	9	6	14	8	4
Wheeled plant and machinery	5	7	2	9	18	9	4
Information Technology	7	5	(2)	17	11	(6)	10
Property	1	4	3	1	7	6	-
Other renewals	22	1	(21)	46	(12)	(58)	24
Total renewals expenditure	191	155	(36)	354	320	(34)	163

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is higher than the determination which is mostly due to higher like-for-like costs incurred this year. This has resulted in financial underperformance in the current year as reported in Statement 5. Renewals costs are higher than the previous year due to extra Track and Civils expenditure.
- (2) Track – Costs are higher the determination assumed mostly due to higher like-for-like costs for the workbank delivered. Nearly half of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan due to the high cost of track renewals at the end of control period 4 compared to the regulator's assumption meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. This year, the local route team also made the decision to invest in some extra initiatives to improve the management of the asset and improve train performance. Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs are higher than the previous year due to extra delivery of Plain Line (Conventional and Refurbishment) and Switches & Crossings (as set out in Statement 14).
- (3) Signalling – overall, expenditure was significantly lower than the determination expected. This is mostly due to a deferral of activity partly offset by higher like-for-like costs. Extra costs have been incurred to deliver a heritage project following pressure from ORR and local council whilst Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource. Also, targeted efficiencies included in the plan and regulatory targets relating to design to reduce the number of required SEUs on the major programmes have not materialised. Consequently, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferral of activity is largely due to resource and possession shortages, including jobs at West Sussex and New Haven. Expenditure was in line with the previous year and once more most of the investment was in the Victoria signalling programme.
- (4) Civils – expenditure in the year is higher than the regulatory assumptions which is mostly the result of higher like-for-like costs. These extra costs included emergency works necessary to maintain asset condition as well as extra costs incurred at Chelsea River bridge following access issues, as well as contractor claims, higher than modelled unit rates and an inability to achieve the efficiencies assumed in the determination. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year which was impacted by delays in agreeing and embedding contractor frameworks introduced for CP5. In addition, extra investment has been undertaken on Earthworks and Underbridges to deliver the appropriate volumes to conform to asset management strategies (including re-profiling some activity from 2014/15 into the current year).

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2015-16 prices unless stated

- (5) Buildings – expenditure in the year was higher than the determination mainly due to extra expenditure on Franchised stations. In addition, higher than expected cost (arising from commercial claims and an inability to achieve the efficiency assumption in the regulator's determination have resulted in the recognition of financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment during the year is generally in line with 2014/15.
- (6) Electrical power and fixed plant – investment is higher than the regulator assumed this year which includes a catch up of underspend experienced in the opening year of the control period. As noted in last year's Regulatory financial statements activity was re-profiled to later in the control period. Despite some catch up in investment, Fixed Plant expenditure continues to fall behind the regulatory assumption as Network Rail have postponed planned purchases of some items for commercial considerations and as resources are re-prioritised. Expenditure is higher than the previous year which includes some of the aforementioned catch up of underspends in 2014/15.
- (7) Telecoms – expenditure in the year was lower than the determination mostly due to reduced SISS (Station Information and Surveillance Systems) activity as limited activity was undertaken in the current year. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Expenditure was lower in the current year mainly due to lower costs allocated to the route from national projects. In the prior year there was considerable investment in FTNx programmes which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up with the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15.
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2015-16 prices unless stated

- b. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- c. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and SCADA. This year some financial outperformance has been recognised which includes reductions in the expected project costs for SCADA (which partly offsets the financial underperformance reported in the previous year) and some outperformance relating to the favourable settlement of contractor claims for CP4 projects (when the extra costs were reported as financial underperformance). For the purposes of calculating the RAB, only 25 per cent of this saving has been retained by Network Rail in accordance with the ORR's Regulatory Accounting Guidelines (May 2016) (refer to Statement 2).

Statement 9b: Detailed analysis of renewals expenditure, Sussex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	17	13	(4)	33	26	(7)
High output renewal	-	-	-	-	2	2
Plain line refurbishment	1	1	-	4	1	(3)
S&C renewal	14	9	(5)	20	19	(1)
S&C refurbishment	3	2	(1)	4	3	(1)
Track non-volume	1	1	-	2	3	1
Off track	3	4	1	4	8	4
Total track	39	30	(9)	67	62	(5)
Signalling						
Full conventional resignalling	16	19	3	36	47	11
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	6	6	-	11	11
Targeted component renewal	1	4	3	1	5	4
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	6	3	4	6	2
Level crossings	3	5	2	3	7	4
Minor works	8	5	(3)	18	14	(4)
Centrally managed costs	-	2	2	-	4	4
Other	-	-	-	-	-	-
Total signalling	31	47	16	62	94	32
Civils						
Underbridges	13	10	(3)	18	19	1
Overbridges	6	4	(2)	15	11	(4)
Bridgeguard 3	(1)	-	1	-	-	-
Major structures	5	-	(5)	10	1	(9)
Tunnels	1	-	(1)	2	2	-
Other assets	2	2	-	3	3	-
Structures other	1	(8)	(9)	2	(6)	(8)
Earthworks	13	5	(8)	16	9	(7)
Other	-	-	-	-	-	-
Total civils	40	13	(27)	66	39	(27)
Buildings						
Managed stations	3	6	3	5	10	5
Franchised stations	19	12	(7)	37	22	(15)
Light maint depots	2	2	-	3	3	-
Depot plant	-	-	-	-	-	-
Lineside buildings	1	-	(1)	2	1	(1)
MDU buildings	-	1	1	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	25	21	(4)	48	37	(11)

Statement 9b: Detailed analysis of renewals expenditure, Sussex - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	13	6	(7)	20	21	1
Conductor rail	3	2	(1)	7	6	(1)
SCADA	-	1	1	-	4	4
Energy efficiency	-	1	1	2	2	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	1	2	1
Fixed plant	2	5	3	2	15	13
Total electrical power and plant	19	16	(3)	32	50	18
Telecoms						
Operational communications	1	2	1	1	2	1
Network	-	1	1	-	1	1
SISS	-	7	7	-	8	8
Projects and other	-	-	-	-	1	1
Non-route capital expenditure	1	1	-	5	2	(3)
Total telecoms	2	11	9	6	14	8
Wheeled plant and machinery						
High output	3	1	(2)	4	6	2
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	3	2	1	5	4
Materials delivery	1	-	(1)	3	-	(3)
On track plant	-	2	2	-	2	2
Seasonal	-	-	-	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	1	1	1	1	-
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	5	7	2	9	18	9
Information Technology						
IM delivered renewals	6	5	(1)	15	10	(5)
Traffic management	1	-	(1)	2	1	(1)
Total information technology	7	5	(2)	17	11	(6)
Property						
MDUs/offices	-	3	3	-	5	5
Commercial estate	1	1	-	1	2	1
Corporate services	-	-	-	-	-	-
Total property	1	4	3	1	7	6
Other renewals						
Asset information strategy	4	3	(1)	5	7	2
Intelligent infrastructure	1	1	-	2	2	-
Faster isolations	1	2	1	8	5	(3)
LOWS	-	-	-	-	-	-
Small plant	-	1	1	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(6)	(6)	-	(28)	(28)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	16	-	(16)	31	-	(31)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	22	1	(21)	46	(12)	(58)
Total renewals	191	155	(36)	354	320	(34)

Statement 9b: Detailed analysis of renewals expenditure, Sussex (unaudited) - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Sussex

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	29	12	(17)	42	28	(14)	13
Access charge supplement Income	(11)	(11)	-	(22)	(22)	-	(11)
Net (income)/cost	18	1	(17)	20	6	(14)	2
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	25	-	(25)	45	-	(45)	20
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	25	-	(25)	45	-	(45)	20

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	2	3	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(4)	(4)	-
RSSB Costs	-	1	1
ORR licence fee and railway safety levy	1	1	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	1	2

Statement 10: Other information, Sussex - continued

In £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 Performance element costs are higher than the determination. Cost this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. In addition, the assumed efficiencies included in the regulator's baseline have proven elusive and a greater number of shortage possessions which yield fewer volumes have been undertaken to minimise passenger disruption. Costs are higher than the previous year due to increased activity.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for. This is partly due to lower than expected train performance in the previous control period. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. Costs are higher than the previous year reflecting challenges associated with additional traffic, infrastructure failures and network trespass.
- (3) The opex memorandum shows a slight negative balance for the year which is a combination of amounts earned under the Volume Incentive (see Statement 12) being more than offset by net savings in the Business rates attributed to Sussex compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions.

Statement 12: Volume incentives, Sussex

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	2	1	21	21	0.2%	1.47	pence per passenger train mile
Passenger farebox (millions)	4	1	795	749	2.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	0	0	1.4%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	110	108	1.7%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	6	2					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Sussex - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £2m as a result, compounding the outperformance recognised in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger train miles has increased by 0.8 per cent compared to the previous year, which resulted in further outperformance compared to the regulatory target.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.

Statement 14: Renewals volumes, unit costs and expenditure, Sussex

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	419	43	18	-	18	359	39	14	-	-	14	(60)	(4)	(4)	-	-	(4)
	Conventional		531	32	17	-	17	481	27	13	-	-	13	(50)	(5)	(4)	-	-	(4)
	High Output		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment		91	11	1	-	1	83	12	1	-	-	1	(8)	1	-	-	-	-
	S&C	point ends	215	79	17	-	17	190	58	11	-	-	11	(26)	(21)	(6)	-	-	(6)
	Track Drainage		1	1,591	1	-	1	-	-	1	-	-	1	(1)	(1,591)	-	-	-	-
	Renewal	lm	n/a	68	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(68)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,523	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1,523)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Fencing	km	53	19	1	-	1	50	20	1	-	-	1	(3)	1	-	-	-	-
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Off track		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	2	n/a	n/a	n/a	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				37	2	39			27	2	29				(10)	-	(10)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	17	n/a	n/a	n/a	-	-	29	n/a	n/a	n/a	-	-	12
	Full conventional resignalling	SEU	800	20	16	-	16	-	-	20	-	-	20	(800)	(20)	4	-	-	4
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	-	-	-	68	74	5	-	-	5	68	74	5	-	-	5
	Targeted component renewal	SEU	71	14	1	-	1	211	19	4	-	-	4	139	5	3	-	-	3
	Level crossings	No.	3,000	1	3	-	3	1,500	4	6	-	-	6	(1,500)	3	3	-	-	3
	Signalling other		-	-	-	11	11	-	-	-	13	13	-	-	-	-	2	-	2
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	6	6	6	n/a	n/a	n/a	3	-	3
	Minor works		n/a	n/a	n/a	8	8	n/a	n/a	n/a	5	5	5	n/a	n/a	n/a	(3)	-	(3)
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	2	n/a	n/a	n/a	2	-	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				20	11	31			35	13	48				15	2	17	
Civils	Key structures		n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	-	24	n/a	n/a	n/a	-	-	-
	Underbridges	m2	8	1,725	13	-	13	2	6,793	15	-	-	15	(5)	5,068	2	-	-	2
	Overbridges (incl BG3)	m2	3	1,548	5	-	5	0	17,775	8	-	-	8	(3)	16,227	3	-	-	3
	Tunnels	m2	1	1,490	1	-	1	-	-	1	-	-	1	(1)	(1,490)	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	5	5	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	(5)	-	(5)
	Other structures assets		n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	-	2	n/a	n/a	n/a	-	-	-
	Culverts	m2	5	197	1	-	1	-	-	1	-	-	1	(5)	(197)	-	-	-	-
	Footbridges	m2	20	51	1	-	1	3	392	1	-	-	1	(17)	341	-	-	-	-
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	-	700	-	-	-	-	-	-	-	-	-	-	(700)	-	-	-	-
	Earthworks	5-chain	47	169	8	-	8	37	134	5	-	-	5	(10)	(35)	(3)	-	-	(3)
	EW Drainage		1	4,012	5	-	5	2	496	1	-	-	1	1	(3,516)	(4)	-	-	(4)
	Renewal	lm	n/a	2,217	n/a	n/a	n/a	n/a	241	n/a	n/a	n/a	n/a	n/a	(1,976)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	50	n/a	n/a	n/a	n/a	206	n/a	n/a	n/a	n/a	n/a	156	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	1,745	n/a	n/a	n/a	n/a	49	n/a	n/a	n/a	n/a	n/a	(1,696)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	(4)	(4)	(4)	n/a	n/a	n/a	(5)	-	(5)
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(6)	(6)	(6)	n/a	n/a	n/a	(6)	-	(6)
	Total				34	6	40			32	(10)	22				(2)	(16)	(18)	

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Other non-volume costs					Other non-volume costs					Other non-volume costs				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Total Cost £m			
Buildings	Franchised Stations		n/a	n/a	n/a	-	19	n/a	n/a	n/a	-	16	n/a	n/a	n/a	n/a	(3)
	Footbridges	m2	1	2,224	2	-	2	n/a	2,738	n/a	n/a	-	n/a	514	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	8	746	6	-	6	n/a	5,620	n/a	n/a	-	n/a	4,874	n/a	n/a	-
	Platforms	m2	0	9,346	4	-	4	n/a	18,330	n/a	n/a	-	n/a	8,984	n/a	n/a	-
	Buildings	m2	1	736	1	-	1	n/a	-	n/a	n/a	-	n/a	(736)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	6	6	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	3	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	2,184	-	-	-	n/a	-	n/a	n/a	-	n/a	(2,184)	n/a	n/a	-
	Canopies	m2	2	527	1	-	1	n/a	1,049	n/a	n/a	-	n/a	522	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	143	7	1	-	1	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	8,195	2	-	2	1	3,700	n/a	-	3	n/a	(4,495)	n/a	n/a	1
	Buildings	m2	-	8,195	-	-	-	n/a	-	n/a	n/a	-	n/a	(8,195)	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	3,700	n/a	n/a	-	n/a	3,700	n/a	n/a	-
	Lineside Buildings	m2	1	1,168	1	-	1	1	2,009	n/a	n/a	2	n/a	841	n/a	n/a	1
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(5)	n/a	n/a	n/a	n/a	(5)
Total					18	7	25					21				(4)	

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	231	13	3	-	3	1,000	2	n/a	n/a	2	n/a	(11)	n/a	n/a	(1)		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	13	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	(7)		
	HV Switchgear Renewal	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	385	13	5	-	5	n/a	-	n/a	n/a	-	n/a	(13)	n/a	n/a	-		
	LV Switchgear Renewal	No.	105	38	4	-	4	n/a	19	n/a	n/a	-	n/a	(19)	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-		
	Transformer Rectifiers	No.	1,000	1	1	-	1	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	-		
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	1	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	4		
	Signalling Power Cable Renewal	km	-	-	-	-	-	n/a	4	n/a	n/a	-	n/a	4	n/a	n/a	-		
	Principle Supply Point Renewal	No.	38	26	1	-	1	n/a	6	n/a	n/a	-	n/a	(20)	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	34	29	1	-	1	n/a	18	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	1	1	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total					16	3	19					15					(4)		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	6		
	Customer Information Systems	No.	-	-	-	-	-	n/a	128	n/a	n/a	-	n/a	128	n/a	n/a	-		
	Public Address	No.	-	294	-	-	-	n/a	864	n/a	n/a	-	n/a	570	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	648	n/a	n/a	-	n/a	648	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	767	n/a	n/a	-	n/a	767	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	12	n/a	n/a	-	n/a	12	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Non route capex		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1		
Total					1	1	2					9							

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan																																																																																																																																																																																																																																																																																																																																																																																					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-	

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	552	67	37	-	37	430	86	37	-	-	37	(122)	19	-	-	-	-
	Conventional		702	47	33	-	33	571	56	32	-	-	32	(131)	9	(1)	-	-	(1)
	High Output		-	-	-	-	-	500	6	3	-	-	3	500	6	3	-	-	3
	Refurbishment		200	20	4	-	4	83	24	2	-	-	2	(117)	4	(2)	-	-	(2)
	S&C	point ends	182	132	24	-	24	211	114	24	-	-	24	29	(18)	-	-	-	-
	Track Drainage		1	1,591	1	-	1	-	-	2	-	-	2	(1)	(1,591)	1	-	-	1
	Renewal	lm	n/a	68	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(68)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,523	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1,523)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Fencing	km	83	24	2	-	2	50	40	2	-	-	2	(33)	16	-	-	-	-
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Off track		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	-	4	n/a	n/a	n/a	1	-	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total			64	3	67			65	4	69				1	1		2	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	37	n/a	n/a	n/a	-	-	64	n/a	n/a	n/a	-	-	27
	Full conventional resignalling	SEU	400	90	36	-	36	215	228	49	-	-	49	(185)	138	13	-	-	13
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	1	-	-	-	135	74	10	-	-	10	135	73	10	-	-	10
	Targeted component renewal	SEU	71	14	1	-	1	250	20	5	-	-	5	179	6	4	-	-	4
	Level crossings	No.	300	10	3	-	3	1,600	5	8	-	-	8	1,300	(5)	5	-	-	5
	Signalling other		-	-	-	22	22	-	-	-	20	-	20	-	-	-	(2)	-	(2)
	ERTMS train fitment	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex	n/a	n/a	n/a	n/a	4	4	n/a	n/a	n/a	6	-	6	n/a	n/a	n/a	2	-	2
	Minor works	n/a	n/a	n/a	n/a	18	18	n/a	n/a	n/a	10	-	10	n/a	n/a	n/a	(8)	-	(8)
	Centrally managed costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	-	4	n/a	n/a	n/a	4	-	4
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total			40	22	62			72	20	92				32	(2)		30	
Civils	Key structures		n/a	n/a	n/a	-	45	n/a	n/a	n/a	-	-	48	n/a	n/a	n/a	-	-	3
	Underbridges	m2	8	2,166	18	-	18	3	7,321	25	-	-	25	(5)	5,155	7	-	-	7
	Overbridges (incl BG3)	m2	6	2,548	15	-	15	1	19,849	21	-	-	21	(5)	17,301	6	-	-	6
	Tunnels	m2	1	1,490	2	-	2	8	260	2	-	-	2	6	(1,230)	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	10	10	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	(10)	-	(10)
	Other structures assets		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	-	3	n/a	n/a	n/a	-	-	-
	Culverts	m2	5	197	1	-	1	-	-	2	-	-	2	(5)	(197)	1	-	-	1
	Footbridges	m2	20	51	1	-	1	2	492	1	-	-	1	(18)	441	-	-	-	-
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	1	1,700	1	-	1	-	-	-	-	-	-	(1)	(1,700)	(1)	-	-	(1)
	Earthworks	5-chain	42	214	9	-	9	28	248	7	-	-	7	(14)	34	(2)	-	-	(2)
	EW Drainage		2	4,377	7	-	7	6	858	5	-	-	5	4	(3,519)	(2)	-	-	(2)
	Renewal	lm	n/a	2,387	n/a	n/a	n/a	n/a	304	n/a	n/a	n/a	n/a	n/a	(2,083)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	70	n/a	n/a	n/a	n/a	416	n/a	n/a	n/a	n/a	n/a	346	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	1,745	n/a	n/a	n/a	n/a	138	n/a	n/a	n/a	n/a	n/a	(1,607)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	175	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(175)	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	2	2	n/a	-	n/a	(3)	-	(3)	n/a	n/a	n/a	(5)	-	(5)
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(10)	-	(10)	n/a	n/a	n/a	(10)	-	(10)
	Total			54	12	66			63	(13)	50				9	(25)		(16)	

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m
					volume £m					volume £m					volume £m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	37	n/a	n/a	n/a	-	29	n/a	n/a	n/a	n/a	(8)
	Footbridges	m2	2	2,464	4	-	4	n/a	3,248	n/a	n/a	-	n/a	784	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	15	746	11	-	11	n/a	8,140	n/a	n/a	-	n/a	7,394	n/a	n/a	-
	Platforms	m2	0	22,763	10	-	10	n/a	21,881	n/a	n/a	-	n/a	(882)	n/a	n/a	-
	Buildings	m2	0	8,526	1	-	1	n/a	-	n/a	n/a	-	n/a	(8,526)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	11	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	5	n/a	-	n/a	-	6	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	2,184	-	-	-	n/a	-	n/a	n/a	-	n/a	(2,184)	n/a	n/a	-
	Canopies	m2	2	527	1	-	1	n/a	1,049	n/a	n/a	-	n/a	522	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	2,500	n/a	n/a	-	n/a	2,500	n/a	n/a	-
	Buildings	m2	0	6,189	2	-	2	n/a	730	n/a	n/a	-	n/a	(5,459)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	8,195	3	-	3	1	7,400	n/a	-	7	n/a	(795)	n/a	n/a	4
	Buildings	m2	-	8,195	-	-	-	n/a	-	n/a	n/a	-	n/a	(8,195)	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	7,400	n/a	n/a	-	n/a	7,400	n/a	n/a	-
	Lineside Buildings	m2	2	1,168	2	-	2	1	4,018	n/a	n/a	4	n/a	2,850	n/a	n/a	2
	MDU Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	2	n/a	-	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(8)	n/a	n/a	n/a	n/a	(8)
Total					35	13	48					40					(8)

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	233	30	7	-	7	556	9	n/a	n/a	5	n/a	(21)	n/a	n/a	(2)		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	20	n/a	-	n/a	n/a	21	n/a	n/a	n/a	n/a	1		
	HV Switchgear Renewal	No.	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	467	15	7	-	7	n/a	18	n/a	n/a	-	n/a	3	n/a	n/a	-		
	LV Switchgear Renewal	No.	74	95	7	-	7	n/a	52	n/a	n/a	-	n/a	(43)	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	6	n/a	n/a	-	n/a	6	n/a	n/a	-		
	Transformer Rectifiers	No.	500	4	2	-	2	n/a	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-		
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	1	n/a	-	n/a	n/a	15	n/a	n/a	n/a	n/a	14		
	Signalling Power Cable Renewal	km	-	-	-	-	-	n/a	44	n/a	n/a	-	n/a	44	n/a	n/a	-		
	Principle Supply Point Renewal	No.	38	26	1	-	1	n/a	10	n/a	n/a	-	n/a	(16)	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	34	29	1	-	1	n/a	36	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	4		
Energy efficiency		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	1	1	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total				26	6	32					47					15			
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	7	n/a	-	n/a	n/a	7		
	Customer Information Systems	No.	-	-	-	-	-	n/a	128	n/a	n/a	-	n/a	128	n/a	n/a	-		
	Public Address	No.	-	294	-	-	-	n/a	864	n/a	n/a	-	n/a	570	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	648	n/a	n/a	-	n/a	648	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	1	-	1	n/a	767	n/a	n/a	-	n/a	767	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	62	n/a	n/a	-	n/a	62	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	12	n/a	n/a	-	n/a	12	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Non route capex		n/a	n/a	n/a	5	5	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	1			
Total				1	5	6					14								

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
			£k/unit	unit	volume	volume costs		£m	£m	£m	£k/unit		unit	volume	volume costs	£m		£m	£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	6	6	n/a	n/a	n/a	2	2		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4		
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)		
	On track plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						9	9				16	16				7	7		
IT	IM delivered renewals		n/a	n/a	n/a	15	15	n/a	n/a	n/a	15	15	n/a	n/a	n/a	-	-		
	Traffic management		n/a	n/a	n/a	2	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						17	17				19	19				2	2		
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5		
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						1	1				7	7				6	6		
Other renewals	Asset information strategy		n/a	n/a	n/a	5	5	n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2		
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-		
	Faster isolations		n/a	n/a	n/a	8	8	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(4)	(4)		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	31	31	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(31)	(31)		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4			
Total						46	46				19	19				(27)	(27)		
Total Renewals							354								373				

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

In £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track - Switches & Crossings – volume delivery is higher than the plan. This included the completion of Switches & Crossings refurbishment sites initially scheduled for the first year of the control period following improved delivery capability. In addition, there was some acceleration of activity from future years to align to other workbank delivery.
- (5) Track – Drainage – the CP5 Business Plan assumed there would be no drainage works undertaken in the opening two years of the control period. However. To maintain asset condition, extra works have been introduced to the workbank.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling - Full Conventional Re-signalling – no volumes were included in the plan for this year. However, work has been undertaken in relation to bi-directional works which were added to the workbank. This partly offsets some of the under delivery experienced in the first year of the control period.
- (8) Signalling - Partial Conventional Re-signalling - Volumes are lower than plan due to signalling schemes being deferred following resource and possession shortages. These include both West Sussex and New Haven. Most of the units have been deferred into future control periods in line with Network Rail's latest plans, reflecting resource shortages due to cost pressures being felt in the signalling portfolio.
- (9) Signalling – Targeted Component Renewal – volumes are lower than the plan this year. These shortages are not expected to be recovered during the remainder of the control period as cost pressures experienced in the signalling portfolio has resulted in a re-prioritisation of the resources available to deliver those projects with the greatest performance and safety implications.

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

In £m 2015-16 prices unless stated

- (10) Signalling – Level Crossings – volumes are lower than the plan. This was mainly due to acceleration of the workbank witnessed in the first year of the control period.
- (11) Civils - Underbridges – volumes were lower than planned predominantly due to works being deferred as a result of ecological issues and challenges obtaining the necessary access. Delivery of the Old Lodge Lane Bridge, on the Brighton Main Line, was due to be replaced over Christmas but was cancelled due to high winds and risk of possession overruns causing disruption to the travelling public.
- (12) Civils - Overbridges – volumes were significantly lower than planned in the year. Ecclestone, Elizabeth and Ebury Bridges in the London Victoria area have all been delayed, which has significantly reduced volume reported this year. Much of the work has been deferred to CP6 following financial restrictions and a re-prioritisation of resources. Waterproofing and associated works at Ecclestone and Elizabeth Overbridges, however, are now scheduled to start in the first half of 2016/17 as the key condition-driven interventions.
- (13) Civils - Tunnels – volumes are higher than the plan due to work at Balcombe and Oxted tunnels which have been accelerated from future years of the control period.
- (14) Civils – Culverts – the CP5 Business Plan assumed there would be no volumes in this category this control period. However, asset condition concerns have necessitated some additional works.
- (15) Civils – Footbridges – volumes were lower than the CP5 Business Plan. This is mostly due to a reprofiling of activity within the control period with most of the volumes deferred from the first two years of the control period now anticipated to be delivered in 2016/17.
- (16) Civils – Retaining Wall – increase in volume compared to the plan is due to East Croydon Retaining Wall being delivered in the current year. This scheme was initially planned for completion in the previous control period at the time of the CP5 Delivery Plan.
- (17) Civils - Earthworks - volume delivery is higher than plan this year mainly due to a shortfall in last year's volumes and as a result a number of interventions were recovered this year.
- (18) Civils – Earthworks Drainage – volumes were higher than the plan, due to extra Renewal and Maintenance volumes completed compared to the plan. Extra volumes are expected throughout the control period due to the CP5 Delivery Plan underestimating the level of works that would be required in this category to manage the asset appropriately.
- (19) Buildings - Franchised Stations – Footbridges – volumes delivered were lower than the plan. This was largely due to asset management re-prioritisation with some work being deferred to future years and some into future control periods reflecting the resource constraints facing the organisation.
- (20) Buildings - Franchised Stations – Canopies - volumes delivered were lower than the plan. This was largely due to asset management re-prioritisation with some work being deferred to future years and some into future control periods reflecting the resource constraints facing the organisation.
- (21) Buildings - Franchised Stations – Platforms – volume delivery in the current year was lower than the plan. This was mainly due to re-profiling of activity within the first two years of the control period with extra volumes being delivered in 2014/15.
- (22) Buildings - Franchised Stations – Buildings – the CP5 Business Plan assumed that no volumes would be delivered during the control period which has proven to be an over simplistic assumption.
- (23) Building – Managed Stations – Train Sheds – there were no volumes in the CP5 Business Plan. The actual volumes reported this year relate to works at London Victoria originally planned for later in the control period.
- (24) Buildings - Managed Stations – Canopies – the shortfall in delivery compared to the plan is due to a re-phasing of works between years two and three of the control period, with the volumes not delivered this year anticipated to be achieved in 2016/17.

Statement 14: Renewals volumes, unit costs and expenditure, Sussex - continued

In £m 2015-16 prices unless stated

- (25)Buildings – Light Maintenance Depots – no volume was included in the plan for Buildings volume delivery across the control period. However works at Stewart's Lane has been undertaken this year.
- (26)Buildings – Lineside Buildings – volumes delivered are lower than the plan. The plan contained assumptions about the phasing of activity which were over simplistic. In addition, resource constraints facing the organisation has resulted in planned CP5 volumes being deferred into future control periods.
- (27)Electrification – Conductor Rail – volumes were higher than the CP5 Business Plan assumed. The plan made some high level assumptions about the volumes required for the control period which have proven to be incorrect in light of asset condition and performance experienced.
- (28)Electrification – HV cables – volumes were higher than the CP5 Business Plan assumed. This was mostly due to deferrals from the opening year of the control period being recovered in the current year.
- (29)Electrification – LV Switchgear – volumes were higher than the CP5 Business Plan assumed. The plan made some high level assumptions about the volumes required for the control period which have proven to be incorrect in light of asset condition and performance experienced.
- (30)Fixed plant – Signalling Power Cable – volumes were lower than the CP5 Business Plan assumed and this trend is expected to continue throughout the control period. A re-assessment of the control period workbank in light of cost pressures facing the organisation has resulted in a planned reduction of activity in this area this control period with alternative asset management strategies being implemented.
- (31)Fixed plant – Principle Supply Point - volumes were higher than the CP5 Business Plan assumed. This included the catch up of under delivery in the opening year of the control period.
- (32)Electrification – Rail Heating - volumes were higher than the CP5 Business Plan assumed. This included the catch up of under delivery in the opening year of the control period.
- (33)Telecoms – Customer Information Systems – no volumes were reported this year in this category. The current plan expects volumes to be delivered in the final years of the control period to improve the planning and design of the anticipated units.
- (34)Telecoms – Public Address – volumes were lower than the delivery plan as activity was reprofiled to later years of the control period. The extra planning time should help delivery efficiencies.
- (35)Telecoms – CCTV – no volumes were reported this year in this category. There has been a significant reduction in volumes across the control period compared to the original plan. In light of resources constraints facing the organisation, activities have had to be re-prioritised.
- (36)Telecoms – PABX Concentrator – no volumes were reported this year in this category. The units are now planned to occur in year four of the control period to optimise delivery efficiencies.

Statement 1: Summary regulatory financial performance, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	268	264	4	532	527	5	264
Fixed Income	18	18	-	42	41	1	24
Variable Income	24	23	1	55	53	2	31
Other Single Till Income	20	18	2	38	38	-	18
Opex memorandum account	(1)	-	(1)	1	-	1	2
Total Income	329	323	6	668	659	9	339
Operating expenditure							
Network operations	30	27	(3)	58	53	(5)	28
Support costs	18	20	2	38	47	9	20
Traction electricity, industry costs and rates	13	12	(1)	26	21	(5)	13
Network maintenance	72	63	(9)	139	128	(11)	67
Schedule 4	6	14	8	12	31	19	6
Schedule 8	1	-	(1)	(3)	-	3	(4)
Total operating expenditure	140	136	(4)	270	280	10	130
Capital expenditure							
Renewals	172	165	(7)	307	303	(4)	135
PR13 enhancement expenditure	82	31	(51)	122	131	9	40
Non PR13 enhancement expenditure	1	-	(1)	5	-	(5)	4
Total capital expenditure	255	196	(59)	434	434	-	179
Other expenditure							
Financing costs	70	92	22	146	182	36	76
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	70	92	22	146	182	36	76
Total expenditure	465	424	(41)	850	896	46	385

Statement 1: Summary regulatory financial performance, Wales – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was the same as the determination. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was higher than the determination due to additional capacity charge income. These variances are set out in more detail in Statement 6a. Income is lower than the previous year as was planned for in the regulator's determination.
- (5) Income – Other single till income in the year is higher than the determination due to additional property income. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are adverse to the determination largely due to higher British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are higher than the previous year as there was income in this category in 2014-15 due to good performance.

Statement 1: Summary regulatory financial performance, Wales – continued

in £m 2015-16 prices unless stated

- (13)Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year which is due to the cyclical nature of renewals activities across the control period.
- (14)Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15)Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. There was very little expenditure in this category in the year.
- (16)Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wales

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,621	2,621	-
Indexation to 2013-14 prices	123	123	-
Opening RAB for the year (2014-15 prices)	2,744	2,744	-
Indexation for the year	28	28	-
Opening RAB (2015-16 prices)	2,772	2,772	-
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	147	165	(18)
PR13 enhancements	79	120	(41)
Non-PR13 enhancements	2	-	2
Total enhancements	81	120	(39)
Amortisation	(128)	(128)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	2,872	2,929	(57)

RAB Regulatory financial position - cumulative, Wales

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	2,663	2,772	2,663
Adjustments for the actual capital expenditure outturn in CP4	76	-	76
Renewals	121	147	268
PR13 enhancements	39	79	118
Non-PR13 enhancements	2	2	4
Total enhancements	41	81	122
Amortisation	(128)	(128)	(256)
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB	2,772	2,872	2,872

Statement 2a: RAB - Regulatory financial position, Wales - continued

In £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory Accounting Guidelines (May 2016) the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to deferrals of activity into future years more than offset by efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (4) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was mainly due to a re-profiling of CP5 activity. The variances are discussed in more detail in Statement 3.
- (5) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (6) Amortisation – this represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the first two years of the control period the regulator has not yet made any indication that it will adjust the RAB for this in relation to the 31 March 2016 position.
- (8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
 - a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wales

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	137	165	302
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	5	-	5
Capitalised financing on CP4 deferrals	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	142	165	307
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(66)	(91)	(157)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(6)
Adjustments for efficient overspend	56	96	152
Capitalised financing on efficient overspend	1	5	6
25% retention of efficient overspend	(14)	(24)	(38)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	3	2	5
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	-	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	1	-	1
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	121	147	268
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	1	1
Adjustment for 25% retention of efficient overspend	15	24	39
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	(1)	-	(1)
Total actual renewals expenditure (see statement 9)	135	172	307

Statement 2b: RAB - reconciliation of expenditure, Wales - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	100	120	220
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	-	-	-
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	(89)	(89)
Capitalised financing on Baseline adjustments	-	(2)	(2)
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	100	29	129
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(60)	51	(9)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(2)
Adjustments for efficient overspend	-	-	-
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-
agreements - retention of efficient overspend	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	39	79	118
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	3
overspend	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	1	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	2	2	4
Total enhancements (added to the RAB - see statement 2a)	41	81	122
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	1	2	3
Adjustment for 25% retention of efficient overspend	-	-	-
Other Adjustments	2	-	2
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	55	52	107
Other adjustments	-	-	-
Total actual enhancement expenditure (see statement 3)	99	135	234

Statement 2b: RAB - reconciliation of expenditure, Wales - continued

In £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings .

Statement 2b: RAB - reconciliation of expenditure, Wales – continued

in £m 2015-16 prices unless stated

- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.
- (10) Enhancements - baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the agreed outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	(1)	(1)	-	1	1
Stations - Access for All (AfA)	3	2	(1)	7	8	1
Development	1	1	-	4	3	(1)
Level crossing safety	-	-	-	-	1	1
Passenger journey improvement	-	(4)	(4)	-	-	-
The strategic rail freight network	-	(1)	(1)	2	2	-
Total funds	4	(3)	(7)	13	15	2
Committed projects						
Bridgend to Swansea electrification	7	8	1	11	10	(1)
GW electrification	69	39	(30)	82	90	8
IEP Programme	-	-	-	-	-	-
Total committed projects	76	47	(29)	93	100	7
Third party funded						
Welsh Valley lines electrification	-	(8)	(8)	2	2	-
Total Third Party funded	-	(8)	(8)	2	2	-
CP4 Project Rollovers						
Barry - Cardiff Queen Street corridor	2	-	(2)	13	13	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	2	-	(2)	13	13	-
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	-	-	-	1	1
Income generating property schemes	-	(3)	(3)	1	-	(1)
Other income generating investment framework schemes	-	(2)	(2)	-	-	-
Total other projects	-	(5)	(5)	1	1	-
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	82	31	(51)	122	131	9
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	2	-	(2)
Total Government sponsored schemes	1	-	(1)	2	-	(2)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	1	-	(1)
Total Network Rail spend to save schemes	-	-	-	1	-	(1)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	2	-	(2)
Total non PR13 enhancement expenditure	1	-	(1)	5	-	(5)
Total Network Rail funded enhancements (see Statement 1)	83	31	(52)	127	131	4
Third Party PAYG	52	-	(52)	107	-	(107)
Total enhancements (see statement 2b)	135	31	(104)	234	131	(103)

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £83m (as shown in Statement 1). This comprises the total enhancement figure in the table above £135m less the PAYG schemes funded by third parties (£52m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
- (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is slightly higher than the baseline but is expected to match the baseline by the end of the control period.
- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2015-16 prices unless stated

- (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is slightly lower than the baseline.
- (7) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the early years of the control period is in line with baseline agreed following the Hendy review.
- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Barry - Cardiff Queen Street corridor – This project will deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Expenditure in line with baseline.
 - (b) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly higher than the target.
 - (c) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.

Statement 3: Analysis of enhancement capital expenditure, Wales – continued

in £m 2015-16 prices unless stated

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

(a) PAYGO – Large programmes in the year include the Ebbw Vale Capacity Scheme and the North South Journey Time Improvement Scheme.

Statement 4: Net debt and financial ratios, Wales

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	1,847	1,930	83			
Adjustment for opening control period debt	-	(32)	(32)			
Opening net debt	1,847	1,898	51	1,774	1,731	(43)
Income						
Grant income	(268)	(264)	4	(529)	(523)	6
Fixed charges	(18)	(18)	-	(41)	(41)	-
Variable charges	(24)	(23)	1	(55)	(53)	2
Other single till income	(20)	(18)	2	(38)	(36)	2
Total income	(330)	(323)	7	(663)	(653)	10
Expenditure						
Network operations	30	27	(3)	58	53	(5)
Support costs	18	20	2	38	43	5
Traction electricity, industry costs and rates	13	12	(1)	26	23	(3)
Network maintenance	72	63	(9)	139	127	(12)
Schedule 4	6	14	8	12	31	19
Schedule 8	1	-	(1)	(3)	-	3
Renewals	172	165	(7)	307	301	(6)
PR13 enhancement	82	120	38	122	219	97
Non-PR13 enhancement	1	-	(1)	5	-	(5)
Total expenditure	395	421	26	704	797	93
Financing						
Interest expenditure on nominal debt - FIM covered	17	29	12	43	58	15
Interest expenditure on index linked debt - FIM covered	12	13	1	25	27	2
Expenditure on the FIM	16	22	6	35	42	7
Interest expenditure on government borrowing	14	-	(14)	19	-	(19)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(2)	(1)
Total interest costs	59	63	4	121	125	4
Accretion on index linked debt - FIM covered	11	29	18	24	57	33
Total financing costs	70	92	22	145	182	37
Corporation tax	-	-	-	-	-	-
Other	(28)	-	28	(6)	31	37
Movement in net debt	107	190	83	180	357	177
Closing net debt	1,954	2,088	134	1,954	2,088	134

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	1.24	1.07	0.94
FFO/interest	3.27	3.26	2.93
Net debt/RAB (gearing)	67.3%	68.1%	71.2%
FFO/debt	11.0%	9.7%	9.0%
RCF/debt	7.6%	6.7%	5.9%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Wales has increased by £0.1bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.1bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Wales – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the income given to Wales would have been insufficient to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with the shortfall being absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The favourable variance to the regulator's determination is mainly due to savings in interest costs. These variances are addressed in more detail in other statements of these Regulatory financial statements.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is lower than the regulatory comparative due to a number of contributory factors including a higher RAB at the start of the control period than the regulator expected, which more than offset the higher than assumed debt at 31 March 2014. The favourable variance has also been caused by lower interest costs and a deferral of investment activity, (as investment should increase the value of the debt and RAB at the same rate, thus reducing the ratio). These benefits have been partly offset by the impact of efficient overspends on capital projects. Under the rules set out by ORR in the Regulatory Accounting Guidelines (May 2016), in circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. During the control period to date, efficient overspend has been recognised for both renewals and enhancements (refer to Statement 2) which has, ceteris paribus, resulted in a higher gearing ratio than the regulator expected. In addition, the impact of undertaking non-PR13 enhancements expenditure increases the Debt:RAB ratio compared to the regulatory target. Every time Network Rail undertakes this additional activity to develop the network and respond to the needs of the industry both the debt (the cost of the investment) and the RAB (the expenditure eligible for RAB addition) should rise by the same absolute value. However, as the total RAB value exceeds the total debt value, increasing both elements of the equation by the same amount will result in a higher ratio.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the positive variance to the regulator's assumption is due to lower than expected debt.

Statement 5a: Total financial performance, Wales

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	268	264	4	4	-	-	-	-
Fixed Income	18	18	-	-	-	-	-	-
Variable Income	24	23	1	-	-	-	1	1
Other Single Till Income	20	18	2	(1)	-	-	3	3
Opex memorandum account	(1)	-	(1)	-	-	-	(1)	(1)
Total Income	329	323	6	3	-	-	3	3
Expenditure								
Network operations	30	27	(3)	-	-	-	(3)	(3)
Support costs	18	20	2	-	-	-	2	2
Industry costs and rates	13	12	(1)	-	-	-	(1)	(1)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	72	63	(9)	-	(11)	-	2	2
Schedule 4 costs	6	14	8	-	3	-	5	5
Schedule 8 costs	1	-	(1)	-	-	-	(1)	(1)
Renewals	172	165	(7)	-	89	-	(96)	(24)
PR13 Enhancements	82	31	(51)	-	(51)	-	-	-
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	70	92	22	22	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	465	424	(41)	22	29	-	(92)	(20)
Total:			(35)	25	29	-	(89)	(17)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(17)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(1)
Under-delivery of train performance requirements (CaSL)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(1)
Total financial out / (under) performance to be recognised								(18)

Statement 5a: Total financial performance, Wales - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to: performance	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F	G = C - D - E - F	H = G or H = G*25%
Income								
Grant Income	532	527	5	5	-	-	-	-
Fixed Income	42	41	1	1	-	-	-	-
Variable Income	55	53	2	-	-	-	2	2
Other Single Till Income	38	38	-	(2)	-	-	2	2
Opex memorandum account	1	-	1	1	-	-	-	-
Total Income	668	659	9	5	-	-	4	4
Expenditure								
Network operations	58	53	(5)	-	-	-	(5)	(5)
Support costs	38	47	9	1	-	-	8	8
Industry costs and rates	26	21	(5)	(1)	-	-	(4)	(4)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	139	128	(11)	-	(9)	-	(2)	(2)
Schedule 4 costs	12	31	19	-	9	-	10	10
Schedule 8 costs	(3)	-	3	-	-	-	3	3
Renewals	307	303	(4)	-	148	-	(152)	(38)
PR13 Enhancements	122	131	9	-	9	-	-	-
Non PR13 Enhancements	5	-	(5)	-	(5)	-	-	-
Financing Costs	146	182	36	36	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	850	896	46	36	152	-	(142)	(28)
Total:			55	41	152	-	(138)	(24)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(24)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(2)
Under-delivery of train performance requirements (CaSL)								-
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(3)
Total financial out / (under) performance to be recognised								(27)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	-	-	-	-	-	-
Total variance not included in total	-	-	-	-	-	-
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	2	(2)
Total variance not included in total	-	1	(1)	-	2	(2)
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	1	-	1

Statement 5a: Total financial performance, Wales - continued

In £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to manifestly be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges reflecting additional passenger demand for rail services.
- (3) Other single till income – the regulator's determination assumed that Network Rail would receive income for the Welsh Valley financing charges. The assumption was that the DfT would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, there is still some uncertainty about how this programme will be funded. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income is made to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of marginal outperformance in property rental and freight income.
- (4) Opex memorandum account – underperformance recognised in the current year is due to shortfalls in passenger growth compared to the regulator's determination. Whilst passenger train miles increased this year compared to last, the ORR targets assumed an increase of nearly 6 per cent. This large increase was for expected increases in capacity to meet committed plans which the franchising authority did not follow through with. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Wales - continued

In £m 2015-16 prices unless stated

- (5) Network operations – costs remain higher than the regulator's expectation. This is partly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements with made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs also include investment in initiatives which had no corresponding allowances in the determination, such as the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand.
- (6) Support costs – costs are in marginally favourable to the PR13 assumption this year as a result of net efficiencies are delivered across a range of functions, including some savings in Group arising from non-recurring transactions. This included lower reorganisation costs and favourable settlement of some commercial claims.
- (7) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs in excess of the regulator's assumption when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.
- (8) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening two years of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved with ORR. Underlying Network maintenance costs are lower than the determination this year due to some efficiencies and some non-recurring benefits in the current year figures, helping mitigate some of the underperformance reported in 2014/15.
- (9) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Financial outperformance has been generated by efficient planning of possession activities to minimise the need for possessions taken at short notice which are more disruptive (and, therefore, expensive). Capital investments have been packaged to allow more different works to be delivered during the same possession.
- (10) Schedule 8 costs – whilst there is some marginal financial underperformance recognised this year, performance in Wales has been encouraging compared to the trend witnessed across the network as a whole.
- (11) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.

Statement 5a: Total financial performance, Wales - continued

In £m 2015-16 prices unless stated

- (12) PR13 enhancements – to calculate enhancements FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions so that no benefit is made from the re-profiling of activity in line with the rules agreed with the regulator. No financial under or out performance has occurred on any of the enhancements in the Wales route either this year or the control period to date.
- (13) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. No financial under or out performance has occurred on any of the Non PR13 enhancements in the Wales route either this year or the control period to date.
- (14) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wales were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Wales

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(24)	20	(44)	(11)		(10)	(1)	-
Signalling	15	55	(40)	(10)		(10)	-	-
Civils	2	18	(16)	(4)		(2)	(2)	-
Buildings	4	-	4	1		1	-	-
Electrical power and fixed plant	3	3	-	-		-	-	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	1	1	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(7)	(7)	-	-		-	-	-
Total	(7)	89	(96)	(24)		(21)	(3)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(12)	48	(60)	(15)		(14)	(1)	-
Signalling	12	72	(60)	(15)		(15)	-	-
Civils	7	39	(32)	(8)		(4)	(4)	-
Buildings	7	3	4	1		1	-	-
Electrical power and fixed plant	5	5	-	-		-	-	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	6	6	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(23)	(19)	(4)	(1)		-	(1)	-
Total	(4)	148	(152)	(38)		(32)	(6)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Wales - continued

In £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. About one-fifth of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. In addition, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Underlying costs in the current year are higher than with Network Rail's plan which included some bullish assumptions of the efficiencies that could be achieved this control period. Plain line unit rates have been higher than planned largely due to reductions in volumes compared to plan (as shown in Statement 14) as decreases in the level of volumes delivered do not equate to a comparable decrease in total costs. Financial performance has been adversely affected by delays and design changes on the Cardiff Area Resignalling project and extra costs on non-volume items and higher fencing unit rates (the baselines used centrally-derived modelled rates which were much higher than the actual rates experienced this year).
- (3) Signalling – as with the previous year, financial underperformance has been recognised in this renewals category. As with the previous year the main contributor has been programme cost increases on the Cardiff area re-signalling project. Later than planned stage commissioning earlier in the project has resulted in delay and extra costs. Revisions to the project timescales has coincided with a re-planning of the appropriate delivery solution which has added additional cost into the programme. The overall project has been delayed by two years (commissioning is due in 2016/17) and this prolongation has had an associated increase in costs and revised delivery methodologies.
- (4) Civils – once more, financial underperformance has been reported this year. This is partly due to over optimistic efficiency assumptions included in the baseline for the level of savings that could be generated. In addition, unforeseen commercial claims have added to expenses this year. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network. Finally, as noted in the previous year's Regulatory financial statement, additional underbridge costs on River Teme and Severn viaduct jobs contributed to the negative FPM.
- (5) Buildings – financial outperformance has been reported this year. This has primarily been achieved through a better understanding of route assets allowing the most appropriate intervention strategy to be implemented.

Statement 5c: Total financial performance - enhancement variance analysis, Wales

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	(30)	(30)	-	-	-
Other Enhancements	(22)	(22)	-	-	-
Total	(52)	(52)	-	-	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	8	8	-	-	-
Other Enhancements	(4)	(4)	-	-	-
Total	4	4	-	-	-

Statement 5c: Total financial performance - enhancement variance analysis, Wales - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comment:

- (1) No FPM has been recognised for enhancement schemes in 2015/16 or for the control period to date.

Statement 5d: REBS Reconciliation, Wales

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	18	17	1	-	-	-		1
Capacity charge	19	16	3	-	-	-		3
Electricity asset utilisation charge	-	-	-	-	-	-		-
Property income	3	2	1	-	-	-		1
Expenditure								
Network operations	58	51	(7)	-	-	-		(7)
Support costs	38	47	9	-	1	-		8
RSSB and BT Police	9	4	(5)	-	-	-		(5)
Network maintenance	139	125	(14)	(14)	-	-		-
Schedule 4 costs	12	29	17	7	-	-		10
Schedule 8 costs	(3)	-	3	-	-	-		3
Renewals	307	325	18	170	-	(114)		(38)
Total REBS performance			26	163	1	(114)		(24)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(2)
Under-delivery of train performance requirements (CaSL)								-
Total adjustment for under delivery of outputs and reduced sustainability								(2)
Cumulative performance to end of 2015-16								(26)
Less cumulative outperformance recognised up to the end of 2014-15								(6)
Net REBS performance for 2015-16								(20)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Wales – continued

In £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	268	264	4	532	527	5	264
Franchised track access income							
Fixed charges	18	18	-	42	41	1	24
Variable charges							
Variable usage charge	5	5	-	10	10	-	5
Traction electricity charges	-	-	-	-	-	-	-
Electrification asset usage charge	-	-	-	-	-	-	-
Capacity charge	9	8	1	18	16	2	9
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	10	10	-	27	27	-	17
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	24	23	1	55	53	2	31
Total franchised track access income	42	41	1	97	94	3	55
Total franchised track access and grant income	310	305	5	629	621	8	319
Other single till income							
Property income	2	-	2	3	-	3	1
Freight income	5	4	1	10	7	3	5
Open access income	-	-	-	-	-	-	-
Stations income	10	10	-	20	20	-	10
Facility and financing charges	1	1	-	1	3	(2)	-
Depots Income	2	2	-	4	5	(1)	2
Other income	-	1	(1)	-	3	(3)	-
Total other single till income	20	18	2	38	38	-	18
Total income	330	323	7	667	659	8	337

Statement 6a: Analysis of income, Wales - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ receivable from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was in line with the determination. The decrease in income compared to the prior year is in line with the regulatory assumption which planned for lower fixed charges but higher Grant income.
- (4) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year as explained above). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is lower than 2014/15 in line with the regulator's expectation.
- (5) Property income – income in the year and the control period to date is marginally higher than the regulator's assumptions due to additional rental income earned from commercial offerings

Statement 6a: Analysis of income, Wales - continued

In £m 2015-16 prices unless stated

- (6) Facility and financing charges – this is level with the determination. This is due to an increase in facility charge offset by the Welsh Valleys finance charge income mechanism. The ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainty over the financing (see Statement 3) have meant that this work has not taken place in the manner expected. There has been a corresponding decrease in finance costs as borrowings have been lower than planned. As a result, this variance is not included in the scope of financial performance assessment (refer to Statement 5).

Statement 6b: Analysis of other single till income, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	2	1	1	3	2	1	1
Property sales	-	-	-	-	-	-	-
Adjustment for commercial opex	-	(1)	1	-	(2)	2	-
Total property income	2	-	2	3	-	3	1
Freight income							
Freight variable usage charge	4	4	-	8	7	1	4
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	-	1	1	-	1	-
Freight only line charge	-	-	-	-	-	-	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	1	-	1	1
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	5	4	1	10	7	3	5
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	-	-	-	-	-	-	-
Stations income							
Managed stations income							
Long term charge	-	-	-	-	-	-	-
Qualifying expenditure	-	-	-	-	-	-	-
Total managed stations income	-	-	-	-	-	-	-
Franchised stations income							
Long term charge	9	9	-	18	18	-	9
Stations lease income	1	1	-	2	2	-	1
Total franchised stations income	10	10	-	20	20	-	10
Total stations income	10	10	-	20	20	-	10
Facility and financing charges							
Facility charges	1	-	1	1	1	-	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	1	(1)	-	2	(2)	-
Total facility and financing charges	1	1	-	1	3	(2)	-
Depots income	2	2	-	4	5	(1)	2
Other	-	1	(1)	-	3	(3)	-
Total other single till income	20	18	2	38	38	-	18

Statement 6b: Analysis of other single till income, Wales (unaudited) - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	18	14	(4)	36	28	(8)	18
Signalling shift managers	1	1	-	1	2	1	-
Local operations managers	1	1	-	2	2	-	1
Controllers	2	2	-	4	4	-	2
Electrical control room operators	-	1	1	-	1	1	-
Total signaller expenditure	22	19	(3)	43	37	(6)	21
Non-signaller expenditure							
Mobile operations managers	1	2	1	2	4	2	1
Managed stations	-	2	2	-	5	5	-
Performance	-	1	1	-	2	2	-
Customer relationship executives	-	-	-	1	1	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	2	1	(1)	2	2	-	-
Other	-	1	1	-	2	2	-
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	1	-	(1)	2	-	(2)	1
HQ - Performance and planning	-	-	-	1	-	(1)	1
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	5	2	(3)	9	3	(6)	4
Other operating income	(1)	(1)	-	(2)	(3)	(1)	(1)
Total non-signaller expenditure	8	8	-	15	16	1	7
Total network operations expenditure	30	27	(3)	58	53	(5)	28
Support costs							
Core support costs							
Human resources	2	3	1	4	7	3	2
Information management	3	3	-	7	7	-	4
Government and corporate affairs	1	1	-	2	2	-	1
Group strategy	1	1	-	2	2	-	1
Finance	1	2	1	2	3	1	1
Business services	1	1	-	2	2	-	1
Accommodation	1	-	(1)	3	1	(2)	2
Utilities	3	1	(2)	5	1	(4)	2
Insurance	-	-	-	1	1	-	1
Legal and inquiry	-	-	-	-	1	1	-
Safety and sustainable development	1	-	(1)	2	1	(1)	1
Strategic sourcing	-	1	1	-	1	1	-
Business change	-	-	-	-	-	-	-
Other corporate functions	3	1	(2)	7	1	(6)	4
Core support costs	17	14	(3)	37	30	(7)	20
Other support costs							
Asset management services	2	3	1	4	11	7	2
Network Rail telecoms	2	2	-	4	5	1	2
National delivery service	-	1	1	-	1	1	-
Infrastructure Projects	(1)	-	1	(2)	-	2	(1)
Commercial property	-	-	-	-	-	-	-
Group costs	(2)	-	2	(5)	-	5	(3)
Total other support costs	1	6	5	1	17	16	-
Total support costs	18	20	2	38	47	9	20
Traction electricity, industry costs and rates							
Traction electricity	-	-	-	-	-	-	-
Business rates	7	7	-	13	13	-	6
British transport police costs	4	3	(1)	8	5	(3)	4
RSSB costs	-	1	1	1	1	-	1
ORR licence fee and railway safety levy	1	1	-	3	2	(1)	2
Reporters fees	-	-	-	-	-	-	-
Other industry costs	1	-	(1)	1	-	(1)	-
Total traction electricity, industry costs and rates	13	12	(1)	26	21	(5)	13
Total network operations expenditure, support costs, traction electricity, industry costs and rates	61	59	(2)	122	121	(1)	61

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wales - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator’s assumptions, which is consistent with the overspend witnessed across the network as a whole. This is partly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. Also, whereas the determination assumed that costs would decrease with passing year of the control period, the actual costs have increased this control period (compared to a 5 per cent reduction assumed by the regulator for this stage in the control period). There are a number of reasons for this difference, with the largest contributor being the Network Operating Strategy (NOS) programme. This initiative was designed to consolidate signalling activities in a smaller number of centralised Route Operating Centres (ROCs) to deliver staff savings and operational improvements. However, it has transpired that some of the assumptions of the savings that could be made were too optimistic, with more highly-qualified (and so expensive) staff required to operate the sophisticated machinery utilised in ROCs, extra administration costs incurred and dual running of sites all adding to the cost base in the short run. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements made with the trade unions in summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than last year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the previous year due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (4) 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 rest of the business areas. Support costs are slightly lower than the determination and the previous year (which also included the benefit of one-off savings in Group).
- (5) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. As responsibility for these services had largely transferred in at the end of CP4 year-on-year costs are broadly consistent. Further breakdown of HR costs can be found in Statement 7b.
- (6) Utilities – costs are higher than the regulatory expectation for both the year and the control period to date largely due to higher electricity costs than planned to power water pumping machinery at the Sudbury Pumping Station for the Severn Tunnel.
- (7) Insurance – whilst costs are slightly higher the determination this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events across the total network such as the landslide at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 10) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wales - continued

In £m 2015-16 prices unless stated

- (8) Other corporate functions – costs are higher than the determination assumed mostly due to higher Route Services and Route Asset Management costs. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources and Asset Management should be viewed alongside the overspends in Other corporate functions to gain a full understanding of movements in costs. Further breakdown of Support costs is disclosed in Statement 7b.
- (9) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area for both the year and the control period to date.
- (10) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The credit balance is in line with the previous year.
- (11) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination due to a number of one-off transactions. The determination assumed that Group would have a marginal credit resulting from Support costs recharges to capital projects (representing, for example, those areas' share of centrally managed costs such as IT, HR and finance) largely offset by reorganisation costs. Amounts charged to capital projects were in line with the determination. Savings were made in reorganisation costs where the costs were around half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In addition, there were a number of one-off benefits to Group costs this year including: reduction in amounts payable to senior management under performance related pay arrangements and the favourable settlement of commercial claims. The net credit position in Group is lower than the credit recognised in the prior year, which benefitted from a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network and from the reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. These savings were partly offset by higher reorganisation costs in 2014/15 compared to the current year following the major programme undertaken at the end of CP4.
- (12) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its' entire cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher British Transport Police costs. Unlike most routes, Wales has few traction electricity costs as most of the railway network in this area does not use this method of power.
- (13) British transport police costs - expenses in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wales

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	13	18	18
MOMS	1	1	1
Control	2	2	2
Planning & Performance Staff Costs	2	-	2
Managed Stations Staff Costs	1	-	-
Operations Management Staff Costs	1	1	2
Other	7	6	5
Total operations & customer services costs	27	28	30
Total Network Operations	27	28	30
Support			
Human resources			
Functional support	1	1	1
Training (inc Westwood)	1	1	-
Graduates	1	-	-
Apprenticeships	-	-	-
Other	-	-	1
Total human resources	3	2	2
Information management			
Support	-	1	-
Projects	-	-	-
Licences	-	-	-
Business operations	3	3	3
Other	-	-	-
Total information management	3	4	3
Finance	1	1	1
Business Change	-	-	-
Contracts & Procurement	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-
Planning & development	1	1	1
Safety & compliance	1	-	-
Other corporate services	3	1	1
Commercial property	6	2	1
Infrastructure Projects	(3)	(1)	(1)
Route Services	1	1	1
Asset management & Engineering/Asset heads	6	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	2	3
Network Rail Telecoms	-	2	2
Digital Railway	-	1	1
Safety Technical & Engineering	-	2	2
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	2	1
Legal and inquiry	-	-	-
Group/central			
Pensions	-	-	-
Insurance	2	1	-
Redundancy/reorganisation costs	4	1	1
Staff incentives/Bonus Reduction	-	(1)	-
Accommodation & Support Recharges	-	(2)	(2)
Commercial claims settlements	-	-	-
ORR financial penalty	4	(1)	-
Other	1	-	(1)
Total group/central costs	11	(2)	(2)
Total support	33	20	18
Total network operations and support costs	60	48	48

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wales (unaudited) - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	31	24	(7)	60	47	(13)	29
Signalling	10	9	(1)	21	19	(2)	11
Civils	17	11	(6)	28	23	(5)	11
Buildings	4	3	(1)	9	7	(2)	5
Electrical power and fixed plant	3	7	4	6	13	7	3
Telecoms	2	1	(1)	2	2	-	-
Other network operations	4	5	1	12	10	(2)	8
Asset management services	2	2	-	3	4	1	1
National Delivery Service	-	2	2	-	5	5	-
Property	-	-	-	-	-	-	-
Group	(1)	(1)	-	(2)	(2)	-	(1)
Total maintenance expenditure	72	63	(9)	139	128	(11)	67

Statement 8a: Summary analysis of network maintenance expenditure, Wales - continued

In £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the determination. About two-thirds of this is due to higher reactive maintenance activity (which is treated as neutral when assessing financial performance (refer to Statement 5)). There has also been extra expenditure on building inspections, higher than RPI pay awards as well difficulties achieving the regulator's efficiency targets (which is consistent with the trend across the network). Costs are higher than the previous year as a result of higher reactive maintenance works, more buildings inspections, increased volumes of activity on the network partly offset by the absence of non-recurring costs in 2014/15 relating to tidy railway and vegetation management projects.
- (2) Track – as noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even before considering the reclassification of National Delivery Services expenses. The net level of overspend compared to the determination is in line with the previous year. Costs have increased slightly compared to the previous year reflecting extra network traffic (and so wear and tear on the assets).
- (3) Civils – costs were higher than the determination mainly as a result of additional Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. The extra activity this year more than offsets the underspend in this area in the previous year meaning that costs in the control period to date are higher than the regulator's estimate. Removing the impact of reactive maintenance, civils maintenance costs are slightly higher than the PR13 assumed largely due to additional buildings inspections undertaken to validate asset condition. Costs are higher than the previous year mainly resulting from the supplementary Reactive Maintenance works.
- (4) Buildings – costs are higher than the determination in both the current year and the control period as more Reactive Maintenance jobs were required. 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. The variance due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, the expenditure on these initiatives was considerably less which yielded a large year-on-year saving.
- (6) National Delivery Services – as noted above, and in previous year's Regulatory financial statements the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an 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.

Statement 9a: Summary analysis of renewals expenditure, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	57	33	(24)	88	76	(12)	31
Signalling	55	70	15	101	113	12	46
Civils	35	37	2	64	71	7	29
Buildings	4	8	4	10	17	7	6
Electrical power and fixed plant	2	5	3	3	8	5	1
Telecoms	1	3	2	5	5	-	4
Wheeled plant and machinery	5	6	1	9	15	6	4
Information Technology	7	4	(3)	15	9	(6)	8
Property	-	-	-	-	-	-	-
Other renewals	6	(1)	(7)	12	(11)	(23)	6
Total renewals expenditure	172	165	(7)	307	303	(4)	135

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is marginally higher than determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. Renewals costs are higher than the prior year mainly due to additional Track investment.
- (2) Track – track costs are higher than the regulator assumed this year, which includes a catch up of expenditure from the previous year. Costs are higher than the determination due to a combination of additional like-for-like costs and extra activity. The higher costs are a consequence of the exit rate at the end of CP4, which was substantially higher than the regulator assumed. In addition, the cost trend in the opening year of the control period added to the cost pressures. In addition, delays and design changes on the Cardiff Area Resignalling project have added extra costs as have higher fencing unit rates (the baselines used centrally-derived modelled rates which were much higher than the actual rates experienced this year). Consequently, Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment was higher than the previous year due to extra volumes delivered this year, notably refurbishment units and Switches & Crossings (as shown in Statement 14).
- (3) Signalling – costs are slightly lower than the determination assumed which is represents a deferral of activity largely offset by higher like-for-like costs. As noted in last year's Regulatory financial statements, the costs of the Cardiff area re-signalling programme are significantly higher than planned. Consequently, to remain within the funding constraints in place for the control period, certain activity is being deferred until future control periods. As a consequence of these extra costs, Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferral of activity is mostly on the Cardiff re-signalling project but also on the Level crossing projects where a reprioritisation of resources is affecting delivery. Expenditure is broadly in line with the previous year.
- (4) Civils – costs are slightly lower than the determination assumed which is represents a deferral of activity largely offset by higher like-for-like costs. The extra like-for-like costs experienced this year, continuing the trend of the previous year, is partly due to over optimistic efficiency assumptions included in the baseline for the level of savings that could be generated. In addition, unforeseen commercial claims have added to expenses this year. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network. Finally, as noted in the previous year's Regulatory financial statement, additional underbridge costs on River Teme and Severn viaduct jobs contributed to the negative FPM. As a result Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs have been mostly offset by deferral of activity, across a number of categories. Costs are higher than the previous year largely due to higher Earthworks and Overbridges investment.
- (5) Buildings – expenditure in the year is lower than the determination which is mainly due to efficiencies achieved. This has primarily been achieved through a better understanding of route assets allowing the most appropriate intervention strategy to be implemented. Consequently, Buildings financial outperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, only 25 per cent of this saving has been retained by Network Rail in accordance with the ORR's Regulatory Accounting Guidelines (May 2016) (refer to Statement 2). Expenditure is slightly lower than previous year reflecting different work banks and the relative costs of the projects undertaken.
- (6) Electrical power and fixed plant – expenditure in the year was lower than the determination, which included a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Expenditure was broadly in line with the previous year. Given the nature of the network in Wales the negligible investment in Electrification assets is in line with expectations.

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2015-16 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination largely due to a deferral of activity into future years. Expenditure was lower than the previous year due to lower investment in central programmes, an element of which is apportioned to each of the operational routes. In the previous year there was considerable investment in FTNx projects which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15).
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
 - c. Small plant – expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2015-16 prices unless stated

- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN and ORBIS (as noted above). In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Wales

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	20	1	(19)	26	11	(15)
High output renewal	13	3	(10)	13	3	(10)
Plain line refurbishment	5	5	-	12	10	(2)
S&C renewal	10	14	4	23	34	11
S&C refurbishment	1	5	4	2	9	7
Track non-volume	4	3	(1)	6	5	(1)
Off track	4	2	(2)	6	4	(2)
Total track	57	33	(24)	88	76	(12)
Signalling						
Full conventional resignalling	46	22	(24)	79	30	(49)
Modular resignalling	3	28	25	7	46	39
ERTMS resignalling	-	1	1	-	1	1
Partial conventional resignalling	-	-	-	-	-	-
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	2	4	2	2	5	3
Level crossings	1	9	8	7	17	10
Minor works	2	5	3	4	12	8
Centrally managed costs	1	1	-	2	2	-
Other	-	-	-	-	-	-
Total signalling	55	70	15	101	113	12
Civils						
Underbridges	14	10	(4)	31	22	(9)
Overbridges	5	2	(3)	7	5	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	2	2	-	3	3
Tunnels	-	3	3	-	5	5
Other assets	4	5	1	9	10	1
Structures other	1	7	6	2	10	8
Earthworks	10	8	(2)	15	16	1
Other	1	-	(1)	-	-	-
Total civils	35	37	2	64	71	7
Buildings						
Managed stations	-	-	-	-	-	-
Franchised stations	2	7	5	6	12	6
Light maint depots	1	1	-	1	2	1
Depot plant	1	-	(1)	1	2	1
Lineside buildings	-	-	-	1	1	-
MDU buildings	-	-	-	1	-	(1)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	4	8	4	10	17	7

Statement 9b: Detailed analysis of renewals expenditure, Wales - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	1	1	-	2	2
Fixed plant	2	4	2	3	6	3
Total electrical power and plant	2	5	3	3	8	5
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	1	1	-	2	2
SISS	-	-	-	-	-	-
Projects and other	-	1	1	1	1	-
Non-route capital expenditure	1	1	-	4	2	(2)
Total telecoms	1	3	2	5	5	-
Wheeled plant and machinery						
High output	2	1	(1)	3	5	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	-	-	-
Intervention	1	3	2	1	4	3
Materials delivery	1	-	(1)	2	-	(2)
On track plant	1	1	-	2	1	(1)
Seasonal	-	-	-	1	2	1
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	1	1	-	1	1
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	5	6	1	9	15	6
Information Technology						
IM delivered renewals	7	4	(3)	14	8	(6)
Traffic management	-	-	-	1	1	-
Total information technology	7	4	(3)	15	9	(6)
Property						
MDUs/offices	-	-	-	-	-	-
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	-	-	-	-	-	-
Other renewals						
Asset information strategy	4	3	(1)	4	6	2
Intelligent infrastructure	-	1	1	1	1	-
Faster isolations	-	2	2	-	4	4
LOWS	1	-	(1)	1	-	(1)
Small plant	-	1	1	-	1	1
Research and development	-	-	-	-	-	-
Phasing overlay	-	(8)	(8)	-	(23)	(23)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	6	-	(6)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	6	(1)	(7)	12	(11)	(23)
Total renewals	172	165	(7)	307	303	(4)

Statement 9b: Detailed analysis of renewals expenditure, Wales (unaudited) - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wales

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	6	14	8	12	31	19	6
Access charge supplement Income	(10)	(10)	-	(27)	(27)	-	(17)
Net (income)/cost	(4)	4	8	(15)	4	19	(11)
Schedule 8							
Performance element income	(1)	-	1	(6)	-	6	(5)
Performance element costs	2	-	(2)	3	-	(3)	1
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	1	-	(1)	(3)	-	3	(4)

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	(1)	-	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	-	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	1	1
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	1	2

Statement 10: Other information, Wales - continued

In £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions and also from deferrals of renewals activity to later in the control period (notably civils and track Switches & Crossings volumes). Minimising the number of late (and so more expensive) possessions and combining workbanks for renewals and enhancement activity has helped manage costs. Expenses in the year were in line with the previous year.
- (2) Net amounts payable under the Schedule 8 mechanism are broadly in line with the regulatory assumption. Schedule 8 performance regime resulted in income last year as opposed to some costs this year. The favourable variance in the control period to date is due to better than expected train performance, especially on the long-distance elements in Wales which has not continued into the current year.
- (3) The opex memorandum currently shows a slight negative balance for the year. The movement in the current year relates to losses made by Wales under the Volume incentive mechanism which negates the benefits recognised through this mechanism in the opening year of the control period (refer to Statement 12).

Statement 12: Volume incentives, Wales

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(4)	(1)	15	15	5.9%	1.47	pence per passenger train mile
Passenger farebox (millions)	1	0	229	214	3.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	1	1	1.1%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	(2)	0	1,295	1,421	1.1%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	(6)	(1)					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wales - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent or a reflection of the amounts earned under the measure in the first year of the control period. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Wales route has not met all of the regulator's targets and, consequently, faces a penalty under this mechanism, which negates the outperformance reported in the opening year of the control period. The underperformance for the year is included in the assessment of financial outperformance (refer to Statement 5).
- (2) Passenger train miles – this metric showed an increase compared to the previous year of over 2 per cent as the number of journeys increased. However, the rate of increase was lower than the regulatory targets, which expected growth of nearly 6 per cent owing to electrification works that were expected to be complete sufficiently early in 2015/16 to drive such a large increase in capacity. Postponement of some of these planned works means that Wales will struggle to achieve the growth the regulator expects for future years of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, Wales

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	365	104	38	-	38	236	89	21	-	-	21	(129)	(15)	(17)	-	-	(17)
	Conventional		556	36	20	-	20	143	7	1	-	-	1	(413)	(29)	(19)	-	-	(19)
	High Output		591	22	13	-	13	292	24	7	-	-	7	(299)	2	(6)	-	-	(6)
	Refurbishment		109	46	5	-	5	224	58	13	-	-	13	115	12	8	-	-	8
	S&C	point ends	143	77	11	-	11	210	105	22	-	-	22	67	28	11	-	-	11
	Track Drainage		0	5,666	1	-	1	0	6,312	2	-	-	2	0	646	1	-	-	1
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	5,666	n/a	n/a	n/a	n/a	6,312	n/a	n/a	n/a	n/a	n/a	646	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Fencing	km	59	68	4	-	4	14	148	2	-	-	2	(45)	80	(2)	-	-	(2)
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Off track		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	-	1	n/a	n/a	n/a	(2)	-	(2)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				54	3	57			47	1	48				(7)	(2)	(9)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	49	n/a	n/a	n/a	-	-	72	n/a	n/a	n/a	-	-	23
	Full conventional resignalling	SEU	465	99	46	-	46	479	48	23	-	-	23	15	(51)	(23)	-	-	(23)
	Modular resignalling	SEU	-	-	3	-	3	364	132	48	-	-	48	364	132	45	-	-	45
	ERTMS resignalling	SEU	-	-	-	-	-	500	2	1	-	-	1	500	2	1	-	-	1
	Partial conventional resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Targeted component renewal	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Level crossings	No.	-	-	1	-	1	1,667	6	10	-	-	10	1,667	6	9	-	-	9
	Signalling other		-	-	-	5	5	-	-	-	10	-	10	-	-	-	5	-	5
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	n/a	n/a	n/a	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	2	2	n/a	n/a	n/a	4	-	4	n/a	n/a	n/a	2	-	2
	Minor works		n/a	n/a	n/a	2	2	n/a	n/a	n/a	5	-	5	n/a	n/a	n/a	3	-	3
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	-	1	n/a	n/a	n/a	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				50	5	55			82	10	92				32	5	37	
Civils	Key structures		n/a	n/a	n/a	-	19	n/a	n/a	n/a	-	-	20	n/a	n/a	n/a	-	-	1
	Underbridges	m2	1	10,882	14	-	14	2	7,870	13	-	-	13	0	(3,012)	(1)	-	-	(1)
	Overbridges (incl BG3)	m2	11	456	5	-	5	3	710	2	-	-	2	(8)	254	(3)	-	-	(3)
	Tunnels	m2	-	-	-	-	-	2	2,100	4	-	-	4	2	2,100	4	-	-	4
	Major structures	m2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	-	1	n/a	n/a	n/a	1	-	1
	Other structures assets		n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	-	6	n/a	n/a	n/a	-	-	2
	Culverts	m2	-	137	-	-	-	7	284	2	-	-	2	7	147	2	-	-	2
	Footbridges	m2	3	666	2	-	2	5	190	1	-	-	1	2	(476)	(1)	-	-	(1)
	Coastal & Estuary Defences	m	2	560	1	-	1	5	200	1	-	-	1	3	(360)	-	-	-	-
	Retaining Walls	m2	1	1,217	1	-	1	4	530	2	-	-	2	3	(687)	1	-	-	1
	Earthworks	5-chain	14	574	8	-	8	25	282	7	-	-	7	11	(292)	(1)	-	-	(1)
	EW Drainage		1	3,124	2	-	2	1	3,095	2	-	-	2	0	(29)	-	-	-	-
	Renewal	lm	n/a	530	n/a	n/a	n/a	n/a	513	n/a	n/a	n/a	n/a	n/a	(17)	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	276	n/a	n/a	n/a	n/a	216	n/a	n/a	n/a	n/a	n/a	(60)	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	2,081	n/a	n/a	n/a	n/a	2,366	n/a	n/a	n/a	n/a	n/a	285	n/a	n/a	n/a	n/a
	New Build	lm	n/a	237	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(237)	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	3	-	3	n/a	n/a	n/a	2	-	2
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(5)	-	(5)	n/a	n/a	n/a	(6)	-	(6)
	Total				33	2	35			34	(1)	33				1	(3)	(2)	

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

2015-16		Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost
				£m	unit				£m	unit				£m	£m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	10	n/a	n/a	n/a	n/a	8
	Footbridges	m2	-	-	-	-	-	n/a	151	n/a	n/a	-	n/a	151	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	5,080	n/a	n/a	-	n/a	5,080	n/a	n/a	-
	Canopies	m2	-	925	-	-	-	n/a	1,504	n/a	n/a	-	n/a	579	n/a	n/a	-
	Platforms	m2	-	80	-	-	-	n/a	2,347	n/a	n/a	-	n/a	2,267	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	n/a	605	n/a	n/a	-	n/a	605	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	-	n/a	-	-	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	1	-	1	3	750	n/a	-	2	n/a	750	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	750	n/a	n/a	-	n/a	750	n/a	n/a	-
	Lineside Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	2	n/a	-	n/a	n/a	2
	MDU Buildings	m2	-	1,255	-	-	-	-	-	n/a	n/a	1	n/a	(1,255)	n/a	n/a	1
	Depot Plant		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	(1)
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(3)	n/a	n/a	n/a	n/a	(3)
Total				2	2	4	4					12					8

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	2	n/a	-	n/a	n/a	4	n/a	n/a	n/a	n/a	2		
	Signalling Power Cable Renewal	km	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	4	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1			
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total					1	1	2					5					3		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Customer Information Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1		
	Projects and other		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Non route capex		n/a	n/a	n/a			n/a	-	n/a	n/a		n/a	n/a	n/a	n/a			
Total					-	1	1					3							

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	
			£k/unit	Volume unit			£m	£m			£k/unit	Volume unit			£m	£m			£k/unit
Wheeled plant and machinery	High output		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	(1)	(1)	
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	2	2	
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(1)	(1)	
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	-	-	
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Road vehicles		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1	
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-		
Total						5	5				6	6					1	1	
IT	IM delivered renewals		n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5	n/a	n/a	n/a	n/a	(2)	(2)	
	Traffic management		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	2	2	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
Total						7	7				7	7					-	-	
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
Total						-	-				-	-					-	-	
Other renewals	Asset information strategy		n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	(2)	(2)	
	Intelligent infrastructure		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1	
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	2	2	
	LOWS		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(1)	(1)	
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1	
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(1)	(1)	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	1	
Total						6	6				7	7					1	1	
Total Renewals							172	213							41				

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	309	165	51	-	51	286	154	44	-	44	(23)	(11)	(7)	-	-	-	(7)
	Conventional		578	45	26	-	26	636	22	14	-	14	59	(23)	(12)	-	-	-	(12)
	High Output		591	22	13	-	13	292	24	7	-	7	(299)	2	(6)	-	-	-	(6)
	Refurbishment		122	98	12	-	12	213	108	23	-	23	91	10	11	-	-	-	11
	S&C	point ends	225	111	25	-	25	214	224	48	-	48	(11)	113	23	-	-	-	23
	Track Drainage		0	14,115	2	-	2	0	12,624	4	-	4	0	(1,491)	2	-	-	-	2
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	14,115	n/a	n/a	n/a	n/a	12,624	n/a	n/a	n/a	n/a	n/a	(1,491)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Fencing	km	44	136	6	-	6	14	280	4	-	4	(30)	144	(2)	-	-	-	(2)
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Off track		n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	(2)	(2)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				84	4	88			100	2	102				16	(2)		14
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	86	n/a	n/a	n/a	-	103	n/a	n/a	n/a	-	-	-	17
	Full conventional resignalling	SEU	371	213	79	-	79	75	412	31	-	31	(296)	199	(48)	-	-	-	(48)
	Modular resignalling	SEU	-	-	7	-	7	538	132	71	-	71	538	132	64	-	-	-	64
	ERTMS resignalling	SEU	-	-	-	-	-	500	2	1	-	1	500	2	1	-	-	-	1
	Partial conventional resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Targeted component renewal	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Level crossings	No.	3,500	2	7	-	7	1,667	12	20	-	20	(1,833)	10	13	-	-	-	13
	Signalling other		-	-	-	8	8	-	-	-	17	17	-	-	-	-	-	9	9
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Operating strategy other capex		n/a	n/a	n/a	2	2	n/a	n/a	n/a	6	6	n/a	n/a	n/a	-	-	4	4
	Minor works		n/a	n/a	n/a	4	4	n/a	n/a	n/a	9	9	n/a	n/a	n/a	-	-	5	5
	Centrally managed costs		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				93	8	101			123	17	140				30	9		39
Civils	Key structures		n/a	n/a	n/a	-	38	n/a	n/a	n/a	-	42	n/a	n/a	n/a	-	-	-	4
	Underbridges	m2	2	17,125	31	-	31	2	14,410	26	-	26	(0)	(2,715)	(5)	-	-	-	(5)
	Overbridges (incl BG3)	m2	15	456	7	-	7	3	2,810	9	-	9	(12)	2,354	2	-	-	-	2
	Tunnels	m2	-	-	-	-	-	2	2,700	6	-	6	2	2,700	6	-	-	-	6
	Major structures	m2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	-	-	1
	Other structures assets		n/a	n/a	n/a	-	9	n/a	n/a	n/a	-	11	n/a	n/a	n/a	-	-	-	2
	Culverts	m2	-	137	-	-	-	7	568	4	-	4	7	431	4	-	-	-	4
	Footbridges	m2	3	666	2	-	2	5	220	1	-	1	2	(446)	(1)	-	-	-	(1)
	Coastal & Estuary Defences	m	1	7,171	6	-	6	8	250	2	-	2	7	(6,921)	(4)	-	-	-	(4)
	Retaining Walls	m2	1	1,217	1	-	1	4	1,060	4	-	4	3	(157)	3	-	-	-	3
	Earthworks	5-chain	20	592	12	-	12	26	567	15	-	15	6	(25)	3	-	-	-	3
	EW Drainage		1	3,391	3	-	3	1	6,054	4	-	4	(0)	2,663	1	-	-	-	1
	Renewal	lm	n/a	530	n/a	n/a	n/a	n/a	1,013	n/a	n/a	n/a	n/a	n/a	483	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	361	n/a	n/a	n/a	n/a	447	n/a	n/a	n/a	n/a	n/a	86	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	2,081	n/a	n/a	n/a	n/a	4,594	n/a	n/a	n/a	n/a	n/a	2,513	n/a	n/a	n/a	n/a
	New Build	lm	n/a	419	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(419)	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	2	2	n/a	-	n/a	4	4	n/a	n/a	n/a	-	-	2	2
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(10)	(10)	n/a	n/a	n/a	-	-	(10)	(10)
	Total				62	2	64			71	(5)	66				9	(7)		2

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x	Other non- volume costs £m	Total Cost £m
					volume £m					volume £m					volume £m		
Buildings	Franchised Stations		n/a	n/a	n/a	-	6	n/a	n/a	n/a	-	18	n/a	n/a	n/a	n/a	12
	Footbridges	m2	-	-	-	-	-	n/a	777	n/a	n/a	-	n/a	777	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	5,080	n/a	n/a	-	n/a	5,080	n/a	n/a	-
	Canopies	m2	-	1,081	-	-	-	n/a	4,701	n/a	n/a	-	n/a	3,620	n/a	n/a	-
	Platforms	m2	3	372	1	-	1	n/a	3,165	n/a	n/a	-	n/a	2,793	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	n/a	1,043	n/a	n/a	-	n/a	1,043	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	4	4	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	-	n/a	-	-	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	1	-	1	0	60,750	n/a	-	3	n/a	60,750	n/a	n/a	2
	Buildings	m2	-	-	-	-	-	n/a	60,000	n/a	n/a	-	n/a	60,000	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	750	n/a	n/a	-	n/a	750	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	4	1,000	n/a	n/a	4	n/a	1,000	n/a	n/a	3
	MDU Buildings	m2	1	1,458	1	-	1	-	-	n/a	n/a	2	n/a	(1,458)	n/a	n/a	1
	Depot Plant		-	-	-	1	1	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	1
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(7)	n/a	n/a	n/a	n/a	(7)
Total					5	5	10					22					12

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume			volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m	£m	
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	3	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	n/a	3	
	Signalling Power Cable Renewal	km	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	n/a	-	
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	4	-	-	-	n/a	10	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	2		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total					1	2	3					8					5		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Customer Information Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Public Address	No.	-	14	-	-	-	n/a	-	n/a	n/a	-	n/a	(14)	n/a	n/a	n/a	-	
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	2	
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)	
	Non route capex		n/a	n/a	n/a	4	4	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	n/a	1	
Total					-	5	5					7							

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
			£k/unit	unit	volume	volume costs		£m	£m	£k/unit	unit		volume	volume costs	£m	£m		£m	£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	3	3	n/a	n/a	n/a	5	5	n/a	n/a	n/a	2	2		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4		
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)		
	On track plant		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)		
	Seasonal		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Road vehicles		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						9	9				14	14				5	5		
IT	IM delivered renewals		n/a	n/a	n/a	14	14	n/a	n/a	n/a	12	12	n/a	n/a	n/a	(2)	(2)		
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						15	15				15	15				-	-		
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						-	-				-	-				-	-		
Other renewals	Asset information strategy		n/a	n/a	n/a	4	4	n/a	n/a	n/a	5	5	n/a	n/a	n/a	1	1		
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4		
	LOWS		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
CP4 Rollover		n/a	n/a	n/a	6	6	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(6)	(6)			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3			
Total						12	12				16	16				4	4		
Total Renewals							307								390	83			

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

In £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered were higher than the CP5 Business Plan mostly due to a higher level of Conventional works partly offset by reduced refurbishment volumes.
 - a. Conventional – volumes delivered are above target which is due to a mixture of work deferred from 2014/15 being completed this year as well as a deliberate movement of jobs to Conventional solutions rather than Refurbishment. When the plan was created before the control period started it was assumed that a higher proportion of Refurbishment works would have been completed instead of Conventional. This is demonstrated in the reduction in Refurbishment volumes delivered this year compared to the plan.
 - b. Refurbishment – volumes are lower than the plan which is largely due to the aforementioned replacement of Heavy Refurbishment volumes with Conventional solutions.
- (5) Track - Switches & Crossings – volume delivery is behind target due to shortfalls in Refurbishment volumes where works have been deferred as a result of resource and plant availability issues. These volumes are expected to be delivered later in the current control period.
- (6) Track – drainage – volumes are lower than the plan which offsets some of the higher delivery experienced in the first year of the control period.
- (7) Track – fencing – volumes are lower than the plan. The number of volumes delivered during the control period is now expected to be lower than the CP5 Business Plan due to a re-prioritisation of resources available in the current control period.
- (8) Signalling – volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

In £m 2015-16 prices unless stated

- (9) Signalling – Resignalling - Full Conventional Re-signalling – volumes delivered are higher than the plan which includes a catch up of activity from the opening year of the control period. Also, whereas the plan assumed a high proportion of Modular re-signalling, more of the renewals solutions have come from Full Conventional Re-signalling.
- (10) Signalling – Resignalling - Modular Re-signalling – units reported this year are significantly lower than the plan. This includes the impact of deferral of Newport-Shrewsbury and North Wales Coast schemes. Increases in portfolio costs and resource constraints have meant that some projects are having to be deferred into future control periods.
- (11) Signalling – Level crossings – the number of volumes delivered were lower than the plan this year. These volumes are not expected to be recovered over the remainder of the control period as a re-prioritisation of resources this control period means that there are insufficient funds available to carry out the planned workbank this control period.
- (12) Civils - Underbridges – Volumes are above plan due to a number of schemes being accelerated from future years of the Control Period, as indicatively planned at the start of CP5, and the catch up of some works deferred from the opening year of the control period.
- (13) Civils - Overbridges – The workbank is behind Network Rail's published CP5 Business Plan due to the rationalisation of the workbank following a review of the resources available this control period. Increases in expected costs of the portfolio have led to a reassessment of the works to be completed focussed on safety and capabilities.
- (14) Civils – Tunnels – no volumes were reported this year. These volumes are not expected to be recovered later in the control period. Resources have been re-prioritised this control period due to increases in portfolio costs and costs across the organisation, meaning that some of the planned Tunnels work will be deferred until later control periods.
- (15) Civils – Culverts – volumes were lower than the plan. These volumes are not expected to be recovered later in the control period. Resources have been re-prioritised this control period due to increases in portfolio costs and costs across the organisation, meaning that some of the planned Culverts work will be deferred until later control periods.
- (16) Civils – Footbridges – volumes delivered were in excess of the plan, which more than offsets the lower delivery in the first year of the control period. This was due to a combination of acceleration of works from future years and higher than expected volumes required to retain asset condition.
- (17) Civils – Coastal & Estuary Defences – volumes delivered in the year were higher than planned, continuing the trend of the previous year. The CP5 Business Plan underestimated the level of volumes that would be delivered in this category for the control period.
- (18) Civils - Retaining Walls – There has been an increase in Retaining Wall volume as a result of activity planned for 2014/15 being delivered this year, notably at Radyr, Gaerwen and Fishguard.
- (19) Civils - Earthworks – Volume delivery is ahead of plan in the current year due to a shortfall in last year's volumes and as a result a number of interventions were recovered this year; largely in the categories of maintain and refurbishment interventions following the development of a new delivery mechanism.
- (20) Buildings – Franchised Stations – Footbridges – no volumes have been reported this year. Most of the volumes have been deferred into future years of the control period. The CP5 Business Plan made some high level assumptions about how activity would be phased over the control period which have proved to be over simplistic.
- (21) Buildings – Franchised Stations – Train Sheds – no volumes have been reported this year. The planned volumes refer to Holyhead station works which have now been rephased until year four of the control period in order to optimise delivery.
- (22) Buildings – Franchised Stations – Canopies – volumes delivered this year are lower than planned as there has been a re-profiling of activity within the control period. The volumes planned for the control period are expected to be broadly in line with the original CP5 Business Plan.
- (23) Buildings – Franchised Stations – Platforms – volumes delivered were lower than the plan. Many of these volumes have been delayed in 2016/17 following design and tender delays.
- (24) Buildings – Franchised Stations – Buildings – no volumes have been reported this year, as activity has been pushed back into later years of the control period to optimise planning and delivery.

Statement 14: Renewals volumes, unit costs and expenditure, Wales - continued

In £m 2015-16 prices unless stated

- (25)Buildings – Light Maintenance Depots – no volumes have been reported this year. No volumes are expected to be delivered in this category this control period as resources have been re-prioritised to achieve the best overall outcome for the portfolio.
- (26)Buildings – MDU Buildings – volumes delivered in the current year are higher the plan. The CP5 Business Plan made some high level assumptions about how activity would be phased over the control period which have proved to be over simplistic. Overall, volumes are now expected to be higher than the plan for the control period reflecting the activity required to maintain the required asset condition.
- (27)Electrification – Point Heaters - Volumes have been deferred to 2016/17 to align with the Newport to Shrewsbury signalling scheme deferral and, therefore, increase efficiencies on the delivery of these projects.

Statement 1: Summary regulatory financial performance, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	305	300	5	607	599	8	302
Fixed Income	22	20	2	48	47	1	26
Variable Income	99	108	(9)	199	205	(6)	100
Other Single Till Income	97	93	4	190	182	8	93
Opex memorandum account	(1)	-	(1)	(2)	-	(2)	(1)
Total Income	522	521	1	1,042	1,033	9	520
Operating expenditure							
Network operations	32	30	(2)	64	59	(5)	32
Support costs	33	39	6	64	78	14	31
Traction electricity, industry costs and rates	66	73	7	133	134	1	67
Network maintenance	99	90	(9)	194	183	(11)	95
Schedule 4	23	16	(7)	44	29	(15)	21
Schedule 8	17	-	(17)	36	-	(36)	19
Total operating expenditure	270	248	(22)	535	483	(52)	265
Capital expenditure							
Renewals	282	218	(64)	587	428	(159)	305
PR13 enhancement expenditure	86	83	(3)	144	145	1	58
Non PR13 enhancement expenditure	-	-	-	7	-	(7)	7
Total capital expenditure	368	301	(67)	738	573	(165)	370
Other expenditure							
Financing costs	107	132	25	220	260	40	113
Corporation tax (received)/paid	-	-	-	(1)	1	2	(1)
Total other expenditure	107	132	25	219	261	42	112
Total expenditure	745	681	(64)	1,492	1,317	(175)	747

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was lower than the determination as a result of additional income from services being more than offset by lower electricity costs that Network Rail could pass onto operators. This is offset by lower Operating expenditure. These variances are set out in more detail in Statement 6a
- (5) Income – Other single till income in the year is higher than the determination increased station income. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs which (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination which includes the impact of weather event. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year reflecting additional activities.

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2015-16 prices unless stated

- (14) Capital expenditure – There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. There was no expenditure in this category during the year.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, Wessex

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,922	3,745	177
Indexation to 2013-14 prices	184	175	9
Opening RAB for the year (2014-15 prices)	4,106	3,920	186
Indexation for the year	43	41	2
Opening RAB (2015-16 prices)	4,149	3,961	188
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	275	218	57
PR13 enhancements	87	61	26
Non-PR13 enhancements	-	-	-
Total enhancements	87	61	26
Amortisation	(190)	(190)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	4,321	4,050	271

RAB Regulatory financial position - cumulative, Wessex

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	3,888	4,149	3,888
Adjustments for the actual capital expenditure outturn in CP4	110	-	110
Renewals	279	275	554
PR13 enhancements	57	87	144
Non-PR13 enhancements	6	-	6
Total enhancements	63	87	150
Amortisation	(190)	(190)	(380)
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB	4,149	4,321	4,321

Statement 2a: RAB - Regulatory financial position, Wessex – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. This is mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. In addition, the amounts added to the RAB in 2014/15 relating to renewals and enhancement expenditure were higher than the regulator assumed, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by a re-profiling of activity within the control period. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (7) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its' determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position.

Statement 2a: RAB - Regulatory financial position, Wessex – continued

in £m 2015-16 prices unless stated

- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Wessex

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	212	218	430
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	19	-	19
Capitalised financing on CP4 deferrals	-	1	1
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	231	219	450
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(40)	13	(27)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(2)
Adjustments for efficient overspend	112	48	160
Capitalised financing on efficient overspend	2	6	8
25% retention of efficient overspend	(28)	(12)	(40)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	5	3	8
Capitalised financing on efficient overspend through spend to save framework	1	-	1
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	(2)	-	(2)
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	279	275	554
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	(1)	(5)	(6)
Adjustment for 25% retention of efficient overspend	28	12	40
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	(1)	-	(1)
Total actual renewals expenditure (see statement 9)	305	282	587

Statement 2b: RAB - reconciliation of expenditure, Wessex - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	52	61	113
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	21	(21)	-
Capitalised financing on CP4 deferrals	-	1	1
Baseline adjustments	-	32	32
Capitalised financing on Baseline adjustments	-	1	1
Adjustments to DfT funding	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (enhancements)	73	74	147
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(20)	15	(5)
Capitalised financing on acceleration / (deferrals) of expenditure	-	(1)	(1)
Adjustments for efficient overspend	4	-	4
Capitalised financing on efficient overspend	-	-	-
25% retention of efficient overspend	(1)	-	(1)
Capitalised financing of 25% efficient overspend	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-
agreements - retention of efficient overspend	-	-	-
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	-
Adjustments for efficient overspend through spend to save framework	1	(1)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	-	-	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	57	87	144
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	-	6
overspend	(1)	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	1	-	1
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	-	6
Total enhancements (added to the RAB - see statement 2a)	63	87	150
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	-	(1)	(1)
Adjustment for 25% retention of efficient overspend	2	-	2
Other Adjustments	1	-	1
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	7	5	12
Other adjustments	(1)	-	(1)
Total actual enhancement expenditure (see statement 3)	72	91	163

Statement 2b: RAB - reconciliation of expenditure, Wessex – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in Wessex. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Wessex

in £m 2015-16 prices unless stated

	2015-16			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	6	4	(2)	8	8	-
Stations - Access for All (AfA)	5	4	(1)	7	8	1
Development	2	6	4	9	9	-
Level crossing safety	1	2	1	2	4	2
Passenger journey improvement	-	(6)	(6)	-	-	-
The strategic rail freight network	-	(7)	(7)	2	3	1
Total funds	14	3	(11)	28	32	4
Committed projects						
IEP Programme	-	-	-	-	-	-
Total committed projects	-	-	-	-	-	-
Named schemes						
The Electric Spine:						
DfT SOFA amount	-	(1)	(1)	-	-	-
Total Electric Spine projects	-	(1)	(1)	-	-	-
South East						
Waterloo	40	36	(4)	48	37	(11)
Total South East	40	36	(4)	48	37	(11)
HLOS capacity metric schemes						
South London HV traction power upgrade	1	(3)	(4)	2	1	(1)
Reading, Ascot to London Waterloo train lengthening	3	2	(1)	4	3	(1)
Wessex traction power supply upgrade	9	17	8	14	21	7
Total HLOS capacity metric schemes	13	16	3	20	25	5
CP4 Project Rollovers						
DC Regeneration	-	-	-	1	1	-
Package 7,10 Car Park West Suburban Railway	-	4	4	15	15	-
Wessex Automatic Selective Door Opening	1	2	1	2	2	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	6	6	-	6	6	-
Total CP4 rollovers	7	12	5	24	24	-
Other projects						
Seven day railway projects	3	4	1	4	4	-
ERTMS Cab fitment	-	1	1	-	1	1
Depots and stabling	4	9	5	9	9	-
R&D allowance	-	-	-	1	1	-
Income generating property schemes	5	6	1	10	12	2
Other income generating investment framework schemes	-	(3)	(3)	-	-	-
Total other projects	12	17	5	24	27	3
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	86	83	(3)	144	145	1
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	-	-	-
Total Government sponsored schemes	-	-	-	-	-	-
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	-	-	-	3	-	(3)
Total Schemes promoted by third parties	-	-	-	3	-	(3)
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	-	-	-	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	86	83	(3)	151	145	(6)
Third Party PAYG	5	-	(5)	12	-	(12)
Total enhancements (see statement 2b)	91	83	(8)	163	145	(18)

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £86m (as shown in Statement 1). This comprises the total enhancement figure in the table above £91m less the PAYG schemes funded by third parties (£5m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
 - (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure matches the baseline.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure matches the baseline.
 - (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is slightly below the baseline.
- (6) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
 - (a) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. There has been an update to the anticipated project costs since the baselines were re-set as part of the aforementioned Hendy review which has been partially offset by deferral of activity into later years. Consequently, financial underperformance has been acknowledged this year (refer to Statement 5a), meaning that not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
 - (a) South London HV traction power upgrade - The key aim of this project is 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, Sussex and Kent Routes. In line with Network Rail's internal plan there was limited activity on this project in the first two years of the control period. Following the Hendy review completion of the first stage of the project will now happen in control period 6.
 - (b) Reading, Ascot to London Waterloo train lengthening - This project will provide the infrastructure to enable the operation of 10 car services on the Reading to London Waterloo route. Expenditure was broadly consistent with the baseline included in the Hendy Review for the control period to date.
 - (c) Wessex traction power supply upgrade – The aim of this project is to improve electrical assets to aid with the delivery of the London Waterloo capacity improvements. Expenditure is lower than the baseline due to delays in project delivery that have arisen since the baseline was agreed following the Hendy review.

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) DC generation - To complete the scheme that enables DC regenerative braking to be introduced on all DC electrified routes in Wessex. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (b) Package 7,10 Car Park West Suburban Railway – The project will relieve over-crowding and supports the achievement of the capacity metric in the Government's 2012 HLOS by undertaking the remaining works needed to allow 10 car operation on suburban services on the Wessex route. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (c) Wessex Automatic Selective Door Opening – This project aims to provide the necessary infrastructure to facilitate the operational plan assumed with train operators to deliver CP4 HLOS capacity metrics. The project will facilitate operation of 10 car suburban trains on the Wessex Windsor Line network. Expenditure is in line with the Hendy baseline and this programme is substantially complete.
 - (d) Other CP4 Rollover – this mostly consists of Wessex power supply upgrade projects to provide the necessary infrastructure to facilitate 10 car train operation on both the Wessex Main Suburban and Windsor Lines to deliver the CP4 HLOS capacity metrics. Expenditure is in line with the baseline agreed following the Hendy review.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Expenditure matches the baseline
 - (c) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. Expenditure matches the baseline
 - (d) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (e) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.

Statement 3: Analysis of enhancement capital expenditure, Wessex – continued

in £m 2015-16 prices unless stated

(10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

(a) PAYGO – The main programme in the year was Cranbrook New Station.

Statement 4: Net debt and financial ratios, Wessex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	2,848	2,740	(108)			
Adjustment for opening control period debt	-	(48)	(48)			
Opening net debt	2,848	2,692	(156)	2,591	2,527	(64)
Income						
Grant income	(305)	(300)	5	(603)	(596)	7
Fixed charges	(22)	(20)	2	(48)	(47)	1
Variable charges	(99)	(108)	(9)	(199)	(204)	(5)
Other single till income	(97)	(93)	4	(189)	(181)	8
Total income	(523)	(521)	2	(1,039)	(1,028)	11
Expenditure						
Network operations	32	30	(2)	63	60	(3)
Support costs	33	39	6	64	78	14
Traction electricity, industry costs and rates	66	73	7	132	134	2
Network maintenance	99	90	(9)	193	183	(10)
Schedule 4	23	16	(7)	44	30	(14)
Schedule 8	17	-	(17)	36	1	(35)
Renewals	282	218	(64)	584	427	(157)
PR13 enhancement	86	61	(25)	144	112	(32)
Non-PR13 enhancement	-	-	-	7	-	(7)
Total expenditure	638	527	(111)	1,267	1,025	(242)
Financing						
Interest expenditure on nominal debt - FIM covered	26	42	16	65	82	17
Interest expenditure on index linked debt - FIM covered	18	19	1	37	39	2
Expenditure on the FIM	25	31	6	54	60	6
Interest expenditure on government borrowing	21	-	(21)	28	-	(28)
Interest on cash balances held by Network Rail	(1)	(1)	-	(1)	(2)	(1)
Total interest costs	89	91	2	183	179	(4)
Accretion on index linked debt - FIM covered	18	41	23	36	81	45
Total financing costs	107	132	25	219	260	41
Corporation tax	-	-	-	(1)	1	2
Other	(43)	-	43	(10)	45	55
Movement in net debt	179	138	(41)	436	303	(133)
Closing net debt	3,027	2,830	(197)	3,027	2,830	(197)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	0.71	0.72	0.93
FFO/interest	2.72	2.83	3.01
Net debt/RAB (gearing)	69.4%	70.0%	69.8%
FFO/debt	8.9%	8.4%	9.7%
RCF/debt	5.7%	5.4%	6.5%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	3.0%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Wessex has increased by £0.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.2bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Wessex – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.
- (16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2015/16 shows, the income given to Wessex would have been insufficient to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with the shortfall being absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous years). The actual value for the year was lower than the regulator assumed mainly due to higher performance regime costs (Schedule 4 and Schedule 8) than the regulatory target.
- (17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is broadly in line with the regulator's expectation.
- (18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, Wessex

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	305	300	5	5	-	-	-	-
Fixed Income	22	20	2	1	-	-	1	1
Variable Income	59	61	(2)	-	-	-	(2)	(2)
Other Single Till Income	97	93	4	-	-	-	4	4
Opex memorandum account	(1)	-	(1)	(2)	-	-	1	1
Total Income	482	474	8	4	-	-	4	4
Expenditure								
Network operations	32	30	(2)	-	-	-	(2)	(2)
Support costs	33	39	6	-	-	-	6	6
Industry costs and rates	23	23	-	2	-	-	(2)	(2)
Traction electricity	3	3	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	99	90	(9)	-	14	-	(23)	(23)
Schedule 4 costs	23	16	(7)	-	(1)	-	(6)	(6)
Schedule 8 costs	17	-	(17)	-	-	-	(17)	(17)
Renewals	282	218	(64)	-	(16)	-	(48)	(12)
PR13 Enhancements	86	83	(3)	-	(3)	-	-	-
Non PR13 Enhancements	-	-	-	-	-	-	-	-
Financing Costs	107	132	25	25	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	705	634	(71)	27	(6)	-	(92)	(56)
Total:			(63)	31	(6)	-	(88)	(52)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(52)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(11)
Under-delivery of train performance requirements (CaSL)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(15)
Total financial out / (under) performance to be recognised								(67)

Statement 5a: Total financial performance, Wessex - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)	D	E	F	G = C - D - E - F	H = G or H = G*25%
Income								
Grant Income	607	599	8	8	-	-	-	-
Fixed Income	48	47	1	1	-	-	-	-
Variable Income	119	122	(3)	-	-	-	(3)	(3)
Other Single Till Income	190	182	8	-	-	-	8	8
Opex memorandum account	(2)	-	(2)	(4)	-	-	2	2
Total Income	962	950	12	5	-	-	7	7
Expenditure								
Network operations	64	59	(5)	-	-	-	(5)	(5)
Support costs	64	78	14	2	-	-	12	12
Industry costs and rates	48	46	(2)	1	-	-	(3)	(3)
Traction electricity	5	5	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	194	183	(11)	-	17	-	(28)	(28)
Schedule 4 costs	44	29	(15)	-	(4)	-	(11)	(11)
Schedule 8 costs	36	-	(36)	-	-	-	(36)	(36)
Renewals	587	428	(159)	-	1	-	(160)	(40)
PR13 Enhancements	144	145	1	-	5	-	(4)	(1)
Non PR13 Enhancements	7	-	(7)	-	(7)	-	-	-
Financing Costs	220	260	40	40	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	1	2	-	2	-	-	-
Total Expenditure	1,412	1,234	(178)	43	14	-	(235)	(112)
Total:			(166)	48	14	-	(228)	(105)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(105)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(21)
Under-delivery of train performance requirements (CaSL)								(7)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(29)
Total financial out / (under) performance to be recognised								(134)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(40)	(47)	7	(80)	(83)	3
Total variance not included in total	(40)	(47)	7	(80)	(83)	3
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	-	-	-	2	-	2
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	40	47	(7)	80	83	(3)
Total variance not included in total	40	47	(7)	80	83	(3)

Statement 5a: Total financial performance, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variance to the determination is due to amounts receivable under alliancing agreements. These have been entered into with Network Rail's alliancing partner in Wessex to incentivise collaborative working to deliver mutual benefits. Any alliancing receipts (or payments) fall within the scope of FPM and so the impact of this is included in the FPM calculation.
- (3) Variable income – There is a small financial underperformance in the year. This is due to lower than planned variable usage charge. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – turnover is favourable to the regulatory assumption, continuing the trend from the previous year, where extra long-term charge income was generated through the franchised stations estate.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates attributed to Wessex have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Wessex – continued

in £m 2015-16 prices unless stated

- (6) Network operations – costs are slightly higher than the determination. This is mostly due to the regulator's expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base slightly higher than the regulatory assumption, making achieving the determination target for 2015/16 a challenge. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Despite these extra cost pressures, overall costs in Wessex have remained broadly in line with the previous year as efficiency initiatives have delivered some underlying cost savings.
- (7) Support costs – costs are lower than the PR13 assumption largely as a net result of non-recurring transactions, including lower re-organisation costs, reduction in incentive payments to senior staff, favourable settlement of commercial claims as well as from some efficiencies achieved throughout the various functions that comprise Support costs.
- (8) Industry costs and rates – the negative FPM in the year (and for the control period to date) is caused by higher British Transport Police costs compared to the assumption in the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. The regulator then assumed that these costs would reduce each year. In reality, it is difficult for Network Rail to negotiate a lower cost as both Network Rail and British Transport Police report into DfT for the purposes of government accounting and so deciding and negotiating the movement of costs from one organisation to another is not the most efficient use of government resources. In addition, British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc) and Network Rail's share has increased relative to the regulator's expectation. Given this situation it is likely that Network Rail will overspend against the determination throughout the control period. The amounts included in the Variances not included in total financial performance column refer to net underspends that are expected to be surrendered through the Opex memorandum (refer to Statement 10).
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (10) Network maintenance – maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. There were additional costs following a conscious decision by Wessex route to invest in an extensive performance improvement programme this year. Costs are lower than the determination due to a lower quantity of Reactive Maintenance required. This variance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator.
- (11) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Costs this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. The Schedule 4 baselines include allowances for possessions based on modelled rates. This year, Wessex undertook more activity in areas closer to London which have higher possession costs compared to the modelled rates.

Statement 5a: Total financial performance, Wessex – continued

in £m 2015-16 prices unless stated

- (12) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. The level of network trespass and fatalities were also higher than expected leading to delay to a number of services. These type of incidents and tragedies can cause disruption on a crowded network that affects services for the rest of the day.
- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Wessex

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(26)	(22)	(4)	(1)		(2)	1	-
Signalling	(1)	7	(8)	(2)		(3)	1	-
Civils	(14)	2	(16)	(4)		(4)	-	-
Buildings	(17)	(13)	(4)	(1)		(1)	-	-
Electrical power and fixed plant	2	6	(4)	(1)		(1)	-	-
Telecoms	6	6	-	-		-	-	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	(1)	(1)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(18)	(6)	(12)	(3)		(2)	(1)	-
Total	(64)	(16)	(48)	(12)		(13)	1	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(39)	13	(52)	(13)		(12)	(1)	-
Signalling	(1)	15	(16)	(4)		(5)	1	-
Civils	(32)	-	(32)	(8)		(6)	(2)	-
Buildings	(18)	(14)	(4)	(1)		(1)	-	-
Electrical power and fixed plant	10	26	(16)	(4)		(1)	(3)	-
Telecoms	6	6	-	-		-	-	-
Wheeled plant and machinery	11	11	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	6	6	-	-		-	-	-
Other renewals	(94)	(54)	(40)	(10)		(3)	(7)	-
Total	(159)	1	(160)	(40)		(28)	(12)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Wessex - continued

in £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been some marginal financial underperformance in the current year. The financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be challenging. Whilst underperformance has been reported this year it is lower than the CP5 Business Plan. This is partly due to extra volumes delivered in the year for both Plain Line and Switches & Crossings (refer to Statement 14) which has helped reduce the unit rates (as extra volumes do not manifest themselves in a proportionate increase in total costs). In addition, successful delivery and collaborative working with contractors have helped keep programme costs in line with internal plans.
- (3) Signalling – as with the previous year, financial underperformance has been recognised in this asset category. This is mostly due to not achieving the efficiency targets in the determination. The regulator assumed that savings would be made each year in the delivery of signalling projects but the volume of work currently going on in the wider industry has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability. Delays in certain projects, such as Feltham resignalling, have also resulted in extra cost, although better targeting of work and design improvements have generated some scope savings which have partly offset this.
- (4) Civils – in line with the trend experienced in the first year of the control period, financial underperformance has been recognised this year. Financial underperformance was impacted by works at River Avon and Stour where costs were higher than predicted and works not completed during the Christmas possession blockade to ensure the network was available for train passengers to minimise disruption. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events (including an unprecedented level number of embankment and cuttings failures) as extra work was required to maintain the operational capabilities of the network or where weather prevented works being completed as planned (such as at Wandsworth Town bridge). Efficiencies assumed by the regulator proved to be optimistic across the portfolio and commercial claims added to the cost base.
- (5) Electrical power and fixed plant – financial underperformance was reported again this year. This included the impact of emergency works to meet ORR timetables and worse than expected asset condition requiring more in-depth repairs (and so costs) than planned. Efficiencies assumed in the regulator's determination have also proved elusive.
- (6) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator, notably for electrification projects. These extra costs were included in the financial model which underpinned Network Rail's published CP5 Business Plan.

Statement 5c: Total financial performance - enhancement variance analysis, Wessex

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Package 7,10 Car Park West Suburban Railway	4	-	-	4	1
Waterloo	(4)	-	-	(4)	(1)
Other Enhancements	(3)	(3)	-	-	-
Total	(3)	(3)	-	-	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Package 7,10 Car Park West Suburban Railway	-	-	-	-	-
Waterloo	(11)	(7)	-	(4)	(1)
Other Enhancements	5	5	-	-	-
Total	(6)	(2)	-	(4)	(1)

Statement 5c: Total financial performance - enhancement variance analysis, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) Package 7, 10 Car Park West Suburban Railway – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (2) Waterloo – programme costs are expected to be higher than the expectation set out in the Hendy report. This is mostly due to additional costs across significant parts of the programme such as Waterloo International conversion, Platform 1-4 upgrade and Rail Systems. The project is still relatively near the start of its lifecycle so there is still much uncertainty about the expected final costs with many risks and opportunities present at this time.

Statement 5d: REBS Reconciliation, Wessex

in £m 2015-16 prices unless stated

	A	B	C	Cumulative to 2015-16		E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments	
Income								
Variable usage charge	31	33	(2)	-	-	-	(2)	
Capacity charge	60	60	-	-	-	-	-	
Electricity asset utilisation charge	2	2	-	-	-	-	-	
Property income	80	74	6	-	-	-	6	
Expenditure	-	-	-	-	-	-	-	
Network operations	64	56	(8)	-	-	-	(8)	
Support costs	64	75	11	-	2	-	9	
RSSB and BT Police	16	15	(1)	-	-	-	(1)	
Network maintenance	194	187	(7)	18	-	-	(25)	
Schedule 4 costs	44	33	(11)	-	-	-	(11)	
Schedule 8 costs	36	-	(36)	-	-	-	(36)	
Renewals	587	390	(197)	(37)	-	(120)	(40)	
Total REBS performance			(245)	(19)	2	(120)	(108)	
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)							(21)	
Under-delivery of train performance requirements (CaSL)							(7)	
Total adjustment for under delivery of outputs and reduced sustainability							(29)	
Cumulative performance to end of 2015-16								(137)
Less cumulative outperformance recognised up to the end of 2014-15								(72)
Net REBS performance for 2015-16								(65)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75 \%$$

And:

$$G = (C - D - E - F)$$

Statement 5d: Total financial performance – REBS performance, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.
- (5) Network Rail and South West Trains have entered into an alliancing agreement in Wessex. This is designed to encourage collaborative working behaviours to drive improvements in passenger service and cost. The terms of this alliancing agreement have been agreed between Network Rail and South West Trains and are separate to the machinations of the REBS framework. Additional information on the alliancing arrangements is disclosed in Statement 10.

Statement 6a: Analysis of income, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	305	300	5	607	599	8	302
Franchised track access income							
Fixed charges	22	20	2	48	47	1	26
Variable charges							
Variable usage charge	13	15	(2)	27	30	(3)	14
Traction electricity charges	40	47	(7)	80	83	(3)	40
Electrification asset usage charge	1	2	(1)	2	2	-	1
Capacity charge	30	30	-	60	60	-	30
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	15	14	1	30	30	-	15
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	99	108	(9)	199	205	(6)	100
Total franchised track access income	121	128	(7)	247	252	(5)	126
Total franchised track access and grant income	426	428	(2)	854	851	3	428
Other single till income							
Property income	42	43	(1)	80	81	(1)	38
Freight income	2	2	-	4	5	(1)	2
Open access income	1	1	-	2	2	-	1
Stations income	34	30	4	67	62	5	33
Facility and financing charges	11	11	-	23	21	2	12
Depots Income	7	6	1	14	11	3	7
Other income	-	-	-	-	-	-	-
Total other single till income	97	93	4	190	182	8	93
Total income	523	521	2	1,044	1,033	11	521

Statement 6a: Analysis of income, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – fixed charge income was favourable to the determination which was the combination of inflation differences (as noted above) and net income recognised from alliancing arrangements (as set out in Statement 10). The decrease in income compared to the prior year is largely in line with the regulatory assumption which planned for lower fixed charges mostly offset by higher Grant income.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is lower than the determination due to lower market electricity prices decreasing the amounts Network Rail can pass on to train operators. However this is broadly balanced by an underspend on electricity costs (as shown in Statement 7a). In addition, there were some settlements of historic commercial claims this year which contributed some additional net traction electricity costs. Traction electricity charges are in line with the previous year. As the regulator assumed a high increase in prices the current year the extra income reported last year has now more than mitigated meaning the control period to date position is slightly lower than the regulator's assumptions. An offsetting scenario has occurred for traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Wessex – continued

in £m 2015-16 prices unless stated

- (5) Property income – property income is in line with the regulators assumption and higher than the previous year. Network Rail has been able to offer additional commercial facilities at Waterloo stations following completion of investment projects which has led to extra rental income. Income generated from property sales is consistent with the PR13 target and marginally higher than the previous year. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (6) Stations income – turnover is favourable to the regulatory assumption, continuing the trend from the previous year, where extra long-term charge income was generated through the franchised stations estate.

Statement 6b: Analysis of other single till income, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	37	42	(5)	71	80	(9)	34
Property sales	5	5	-	9	9	-	4
Adjustment for commercial opex	-	(4)	4	-	(8)	8	-
Total property income	42	43	(1)	80	81	(1)	38
Freight income							
Freight variable usage charge	2	1	1	4	3	1	2
Freight traction electricity charges	-	1	(1)	-	1	(1)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	-	-	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	-	-	-
Total freight income	2	2	-	4	5	(1)	2
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	1	1	-	2	2	-	1
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	1	1	-	2	2	-	1
Stations income							
Managed stations income							
Long term charge	3	3	-	6	6	-	3
Qualifying expenditure	4	3	1	8	7	1	4
Total managed stations income	7	6	1	14	13	1	7
Franchised stations income							
Long term charge	18	16	2	36	32	4	18
Stations lease income	9	8	1	17	17	-	8
Total franchised stations income	27	24	3	53	49	4	26
Total stations income	34	30	4	67	62	5	33
Facility and financing charges							
Facility charges	11	11	-	23	21	2	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	11	11	-	23	21	2	12
Depots income	7	6	1	14	11	3	7
Other	-	-	-	-	-	-	-
Total other single till income	97	93	4	190	182	8	93

Statement 6b: Analysis of other single till income, Wessex (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	12	16	4	22	32	10	10
Signalling shift managers	4	1	(3)	6	2	(4)	2
Local operations managers	2	1	(1)	8	2	(6)	6
Controllers	2	2	-	4	4	-	2
Electrical control room operators	2	1	(1)	4	1	(3)	2
Total signaller expenditure	22	21	(1)	44	41	(3)	22
Non-signaller expenditure							
Mobile operations managers	2	2	-	4	4	-	2
Managed stations	4	3	(1)	8	5	(3)	4
Performance	5	1	(4)	6	2	(4)	1
Customer relationship executives	-	-	-	-	1	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	4	3	(1)	4
Other	2	1	(1)	5	2	(3)	3
Operations delivery	(3)	-	3	(6)	-	6	(3)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	2	2	-	4	4	-	2
Other operating income	(2)	(1)	1	(5)	(3)	2	(3)
Total non-signaller expenditure	10	9	(1)	20	18	(2)	10
Total network operations expenditure	32	30	(2)	64	59	(5)	32
Support costs							
Core support costs							
Human resources	2	4	2	4	8	4	2
Information management	4	4	-	9	8	(1)	5
Government and corporate affairs	1	1	-	2	3	1	1
Group strategy	-	1	1	1	3	2	1
Finance	1	2	1	2	4	2	1
Business services	1	1	-	2	1	(1)	1
Accommodation	8	10	2	14	19	5	6
Utilities	2	4	2	6	8	2	4
Insurance	6	5	(1)	10	9	(1)	4
Legal and inquiry	1	-	(1)	1	1	-	-
Safety and sustainable development	2	1	(1)	4	1	(3)	2
Strategic sourcing	1	-	(1)	2	1	(1)	1
Business change	-	-	-	-	-	-	-
Other corporate functions	3	-	(3)	6	-	(6)	3
Core support costs	32	33	1	63	66	3	31
Other support costs							
Asset management services	3	3	-	6	5	(1)	3
Network Rail telecoms	4	4	-	8	9	1	4
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(4)	-	4	(2)
Commercial property	(1)	-	1	(1)	(1)	-	-
Group costs	(3)	(1)	2	(8)	(1)	7	(5)
Total other support costs	1	6	5	1	12	11	-
Total support costs	33	39	6	64	78	14	31
Traction electricity, industry costs and rates							
Traction electricity	43	50	7	85	88	3	42
Business rates	12	14	2	27	28	1	15
British transport police costs	7	6	(1)	14	13	(1)	7
RSSB costs	1	1	-	2	1	(1)	1
ORR licence fee and railway safety levy	2	2	-	4	4	-	2
Reporters fees	-	-	-	-	-	-	-
Other industry costs	1	-	(1)	1	-	(1)	-
Total traction electricity, industry costs and rates	66	73	7	133	134	1	67
Total network operations expenditure, support costs, traction electricity, industry costs and rates	131	142	11	261	271	10	130

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wessex – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the determination. This is mostly due to the regulator’s expectation of the cost base that Network Rail would have at the end of CP4. Efficiencies anticipated to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base slightly higher than the regulatory assumption, making achieving the determination target for 2015/16 a challenge. In addition, pay awards higher than inflation for the last few years have contributed to higher signaller costs and agreements that were made with the trade unions in Summer 2015 to avert industrial action (and thus disrupt journeys for the millions of people who rely on the trains each day) prevented any compulsory redundancies being made this year. Costs are also higher than the determination due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Despite these extra cost pressures, overall costs in Wessex have remained broadly in line with the previous year as efficiency initiatives have delivered some underlying cost savings.
- (4) 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 rest of the business areas. Support costs are lower than the determination (including the impact of one-off savings in Group) but higher than the previous year (mostly due to one-off movements in Group costs).
- (5) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are in line with the previous year. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance - costs were lower than the determination. As noted in last year’s Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail’s operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in at the end of CP4 year-on-year costs are broadly consistent.
- (7) Accommodation - these property expenses were lower than the determination in the year and the control period to date due to Network Rail utilising a cheaper property portfolio than the regulator assumed.
- (8) Utilities - costs are lower than the determination and the prior year because of lower prices paid for water, gas and electricity mainly due to favourable market conditions.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Wessex – continued

in £m 2015-16 prices unless stated

- (9) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events.
- (10) Other corporate functions – costs are marginally higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources and Finance are funding the increased expenditure in Other corporate functions as well as generating some efficiencies. Further breakdown of Support costs is disclosed in Statement 7b.
- (11) Property - net costs are lower in the current year compared to the regulatory assumption largely due to identification of further opportunities to extract extra value from the commercial estate. The improvement since last year largely arises from additional car park income generated at multiple sites, including new facilities (such as Haywards Heath) as well as overall price increases (reflecting market demand).
- (12) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off transactions. The current year benefitted from reducing amounts payable to senior management under performance related pay arrangements. In addition, savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. The savings made from these non-recurring events were higher than the savings made from one-off items in the current year and so costs in the current year were higher than in 2014/15.
- (13) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges.
- (14) Traction electricity – these costs are largely determined by market prices for electricity and so Network Rail have limited ability to influence these. Costs this year are significantly lower than the regulator's expectation reflecting the difference between actual market prices and the regulatory assumption. These savings are largely offset by lower traction electricity income received from operators (as shown in Statement 6). Costs are broadly similar to the previous year.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wessex

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	15	18	18
MOMS	2	1	2
Control	3	2	2
Planning & Performance Staff Costs	2	4	4
Managed Stations Staff Costs	1	1	1
Operations Management Staff Costs	1	3	3
Other	8	3	2
Total operations & customer services costs	32	32	32
Total Network Operations	32	32	32
Support			
Human resources			
Functional support	3	-	1
Training (inc Westwood)	2	1	1
Graduates	-	-	-
Apprenticeships	1	1	1
Other	-	-	(1)
Total human resources	6	2	2
Information management			
Support	1	1	-
Projects	-	-	-
Licences	-	-	-
Business operations	4	4	4
Other	-	-	-
Total information management	5	5	4
Finance	2	1	1
Business Change	-	-	-
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	1
Planning & development	1	1	-
Safety & compliance	1	-	-
Other corporate services	5	1	1
Commercial property	10	6	7
Infrastructure Projects	(5)	(2)	(2)
Route Services	1	2	3
Asset management & Engineering/Asset heads	12	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	4	2
Network Rail Telecoms	-	4	4
Digital Railway	-	1	2
Safety Technical & Engineering	-	3	3
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	1	(1)
Legal and inquiry	-	-	1
Group/central			
Pensions	-	-	-
Insurance	3	4	6
Redundancy/reorganisation costs	7	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)
Accommodation & Support Recharges	-	(2)	(2)
Commercial claims settlements	-	-	(1)
ORR financial penalty	8	(2)	-
Other	-	-	-
Total group/central costs	18	(1)	3
Total support	57	31	33
Total network operations and support costs	89	63	65

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wessex (unaudited) – continued

in £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	41	37	(4)	81	75	(6)	40
Signalling	13	12	(1)	29	25	(4)	16
Civils	9	10	1	17	20	3	8
Buildings	-	6	6	-	11	11	-
Electrical power and fixed plant	6	5	(1)	12	10	(2)	6
Telecoms	2	1	(1)	4	3	(1)	2
Other network operations	25	13	(12)	46	27	(19)	21
Asset management services	4	3	(1)	7	6	(1)	3
National Delivery Service	(1)	4	5	(1)	8	9	-
Property	1	1	-	1	1	-	-
Group	(1)	(2)	(1)	(2)	(3)	(1)	(1)
Total maintenance expenditure	99	90	(9)	194	183	(11)	95

Statement 8a: Summary analysis of network maintenance expenditure, Wessex – continued

in £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, continuing the underlying trend from the previous year when efficiency targets set by the regulator had not been achieved. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. In addition, a lower volume of Reactive maintenance works required was more than offset by investment in performance improvement initiatives. Costs are higher than the prior year largely due to additional investment in performance improvement initiatives offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies achieved.
- (2) Track – costs are higher than the determination which includes a change in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a corresponding saving in the National Delivery Services category). In addition, certain activities regarding plain line and switches & crossings grinding are the responsibility of the local asset management team and, consequently, the associated expenses are reported under the Asset management services category. Costs are slightly higher than the previous year, reflecting increased network traffic (as demonstrated in Statement 12) and the impact of pay awards in excess of inflation.
- (3) Civils - costs were slightly lower than the determination but higher than the previous year. The movements were due to changes in the levels of Reactive Maintenance activity required partly offset by additional structures inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. This saving has been mitigated by extra inspections costs due to contractor disputes and increased activity.
- (4) Buildings – all 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. Expenditure in the current year and the control period to date in this area is less than the regulator assumed. These savings are treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, lower expenditure on these initiatives yielded a year-on-year saving. Despite this, costs are higher than the previous year. This was mostly due to a conscious decision by Wessex route to invest in an extensive performance improvement programme. This accounts for the majority of the variance in costs compared to the regulatory target this year.
- (6) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	93	67	(26)	177	138	(39)	84
Signalling	37	36	(1)	83	82	(1)	46
Civils	50	36	(14)	102	70	(32)	52
Buildings	38	21	(17)	58	40	(18)	20
Electrical power and fixed plant	26	28	2	42	52	10	16
Telecoms	2	8	6	8	14	6	6
Wheeled plant and machinery	8	10	2	14	25	11	6
Information Technology	9	8	(1)	23	15	(8)	14
Property	1	4	3	1	7	6	-
Other renewals	18	-	(18)	79	(15)	(94)	61
Total renewals expenditure	282	218	(64)	587	428	(159)	305

Statement 9a: Summary analysis of renewals expenditure, Wessex – continued

in £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of extra costs on track (including additional delivery of volumes) civils (largely due to higher costs) and Buildings (mainly due to delivery of extra activity). Overall, financial underperformance has been recognised in the current year as reported in Statement 5. Renewals costs are lower than the prior year which included expenditure on a number of projects rolled over from the previous control period.
- (2) Track – track costs were higher than the regulator assumed which is mostly due to acceleration of activity from future years. High Output investment remained higher than the regulator's assumptions due to extra planned activity in this area to deliver less disruptive asset management solutions. Expenditure was higher than the previous year mainly a result of additional volumes and activity delivered in the current year as well as cost efficiency improvements meaning that more outputs could be delivered.
- (3) Signalling – overall, expenditure was in line with the determination's expectation, with extra Full Conventional Resignalling activity offsetting lower investment in Partial Conventional Resignalling as appropriate asset management strategies are determined and implemented. Also, the investment this year is also higher than the regulatory assumption on a like for like basis, mainly due to difficulties achieving the efficiency assumptions included in the regulator's determination. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is lower than the previous year which included the completion of certain CP4 projects for which the regulator provided no funding.
- (4) Civils – investment in the year is higher than the regulatory assumed. This is mostly due to additional costs incurred on a like-for-like basis. Extra costs included works at River Avon and Stour where costs were higher than predicted and works not completed during the Christmas possession blockade to ensure the network was available for train passengers to minimise disruption. Additional costs were incurred as a result of storm damage and other weather events (including an unprecedented level number of embankment and cuttings failures) as extra work was required to maintain the operational capabilities of the network or where weather prevented works being completed as planned (such as at Wandsworth Town bridge). Efficiencies assumed by the regulator proved to be optimistic across the portfolio and commercial claims added to the cost base. Consequently, Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Costs were in line with the previous year although extra underbridge investment incurred this year (including projects at Avon & Stour and Wandsworth Town) with offsetting reductions across most of the other categories.
- (5) Buildings – investment in the year is higher than the determination assumed which is a combination of additional outputs being delivered and higher like-for-like costs. Higher costs are mainly due to not being able to achieve the challenging efficiency targets included in the determination. Consequently, Buildings financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Extra work was delivered this year, notably on Franchised Stations and Light Maintenance Depots. Costs are higher than the previous year mainly due to a ramp up of activity in those categories.
- (6) Electrical power and fixed plant – expenditure in the year was broadly in line with the determination. This included some additional expenditure on a like-for-like basis as efficiencies assumed in the regulator's determination proved too challenging and extra cost impact of emergency works to meet ORR timetables and worse than expected asset condition requiring more in-depth repairs (and so costs) than planned. Electrical power and fixed plant financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is higher than the previous year including a catch up of Fixed plant purchases deferred from the opening year of the control period and extra investment in Conductor rail as activity in this area ramps up.

Statement 9a: Summary analysis of renewals expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (7) Telecoms – expenditure in the year was lower than the determination, mostly due to reduced SISS (Station Information and Surveillance Systems) activity as limited activity was undertaken in the current year. In light of the resource constraints facing the organisation, funds have to be re-prioritised to those areas which can use them most effectively. Expenditure was lower in the current year mainly due to lower costs allocated to the route from national projects. In the prior year there was considerable investment in FTNx programmes which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15.
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail’s IT hardware estate.
- (10) Other renewals
- Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator’s determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
 - Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year’s Regulatory financial statements.
 - CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN and ORBIS (as noted above). In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Wessex

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	28	29	1	57	58	1
High output renewal	29	10	(19)	41	14	(27)
Plain line refurbishment	7	1	(6)	15	1	(14)
S&C renewal	15	9	(6)	41	32	(9)
S&C refurbishment	6	6	-	8	8	-
Track non-volume	1	5	4	2	11	9
Off track	7	7	-	13	14	1
Total track	93	67	(26)	177	138	(39)
Signalling						
Full conventional resignalling	18	10	(8)	41	14	(27)
Modular resignalling	-	1	1	-	2	2
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	9	9	1	10	9
Targeted component renewal	-	1	1	-	2	2
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	4	1	11	20	9
Level crossings	4	2	(2)	12	11	(1)
Minor works	12	7	(5)	17	20	3
Centrally managed costs	-	2	2	1	3	2
Other	-	-	-	-	-	-
Total signalling	37	36	(1)	83	82	(1)
Civils						
Underbridges	28	15	(13)	45	30	(15)
Overbridges	2	1	(1)	4	2	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	1	-	(1)
Tunnels	2	2	-	7	3	(4)
Other assets	5	4	(1)	11	8	(3)
Structures other	3	7	4	9	14	5
Earthworks	10	7	(3)	25	13	(12)
Other	-	-	-	-	-	-
Total civils	50	36	(14)	102	70	(32)
Buildings						
Managed stations	1	8	7	1	12	11
Franchised stations	25	13	(12)	40	25	(15)
Light maint depots	10	-	(10)	11	-	(11)
Depot plant	-	-	-	-	-	-
Lineside buildings	3	-	(3)	5	1	(4)
MDU buildings	-	-	-	-	1	1
NDS depots	(1)	-	1	1	1	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	38	21	(17)	58	40	(18)

Statement 9b: Detailed analysis of renewals expenditure, Wessex - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	12	13	1	23	20	(3)
Conductor rail	5	4	(1)	6	7	1
SCADA	-	2	2	-	6	6
Energy efficiency	-	-	-	-	-	-
System capability / capacity	3	4	1	3	7	4
Other electrical power	1	1	-	4	2	(2)
Fixed plant	5	4	(1)	6	10	4
Total electrical power and plant	26	28	2	42	52	10
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	1	1	-	2	2
SISS	-	5	5	-	7	7
Projects and other	1	1	-	1	1	-
Non-route capital expenditure	1	1	-	7	4	(3)
Total telecoms	2	8	6	8	14	6
Wheeled plant and machinery						
High output	4	1	(3)	6	9	3
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	1	5	4	2	8	6
Materials delivery	1	-	(1)	3	-	(3)
On track plant	1	2	1	1	2	1
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	1	1	-	2	1	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	8	10	2	14	25	11
Information Technology						
IM delivered renewals	9	7	(2)	22	14	(8)
Traffic management	-	1	1	1	1	-
Total information technology	9	8	(1)	23	15	(8)
Property						
MDUs/offices	-	3	3	-	5	5
Commercial estate	1	1	-	1	2	1
Corporate services	-	-	-	-	-	-
Total property	1	4	3	1	7	6
Other renewals						
Asset information strategy	7	4	(3)	8	10	2
Intelligent infrastructure	1	2	1	2	3	1
Faster isolations	2	3	1	3	7	4
LOWS	-	-	-	-	-	-
Small plant	-	-	-	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(9)	(9)	-	(37)	(37)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	7	-	(7)	65	-	(65)
Other	1	-	(1)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	18	-	(18)	79	(15)	(94)
Total renewals	282	218	(64)	587	428	(159)

Statement 9b: Detailed analysis of renewals expenditure, Wessex (unaudited) – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wessex

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	23	16	(7)	44	29	(15)	21
Access charge supplement Income	(15)	(14)	1	(30)	(29)	1	(15)
Net (income)/cost	8	2	(6)	14	-	(14)	6

Schedule 8

Performance element income	-	-	-	-	-	-	-
Performance element costs	17	-	(17)	36	-	(36)	19
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	17	-	(17)	36	-	(36)	19

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	1	2	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(2)	(2)	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(2)	(2)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	(2)	(1)

D) Net income / (costs) from alliances:

	2015-16	Cumulative	2014-15
Payment from South West Trains	1	2	1
Adjustment of 2013-14 payments and receipts	-	-	-
Total alliance income	1	2	1
	-	-	-
Payment to South West Trains	-	(2)	(2)
Total alliance costs	-	(2)	(2)
Net alliance income / (cost)	1	-	(1)

Statement 10: Other information, Wessex – continued

in £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) Amounts set out in section c) Net income/ (costs) from alliances refer to the amounts recognised in Network Rail's income rather than the physical transfer of cash or cash equivalents

Comments:

- (1) Schedule 4 Performance element costs are higher than the regulator assumed. Costs this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. Also, the regulator's allowance assumes an even distribution of activity throughout the route but this year, Wessex undertook more activity in areas closer to London which have higher possession costs compared to the modelled rates.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for this year. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. The level of network trespass and fatalities were also higher than expected leading to delay to a number of services. These type of incidents and tragedies can cause disruption on a crowded network that affects services for the rest of the day. Costs are lower than last year suggesting improvements in this area.
- (3) The opex memorandum currently shows a minor net loss for this year which is primarily due to amounts earned through the Volume Incentive (see Statement 12) being more than offset by differences between the Business rates attributed to Wessex compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions.

Statement 12: Volume incentives, Wessex

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	0	28	27	0.2%	1.47	pence per passenger train mile
Passenger farebox (millions)	4	1	1,097	1,031	2.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	1	1	2.6%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	1	0	781	693	3.5%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	6	1					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wessex – continued

in £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail.
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result, compounding the outperformance reported in 2014/15. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.

Statement 14: Renewals volumes, unit costs and expenditure, Wessex

in £m 2015-16 prices unless stated

2015-16		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	520	123	64	-	64	561	98	55	-	55	41	(25)	(9)	-	-	-	(9)
	Conventional		459	61	28	-	28	795	39	31	-	31	336	(22)	3	-	-	-	3
	High Output		604	48	29	-	29	477	44	21	-	21	(127)	(4)	(8)	-	-	-	(8)
	Refurbishment		500	14	7	-	7	200	15	3	-	3	(300)	1	(4)	-	-	-	(4)
	S&C	point ends	179	117	21	-	21	189	90	17	-	17	9	(27)	(4)	-	-	-	(4)
	Track Drainage		0	32,286	4	-	4	0	27,101	5	-	5	0	(5,185)	1	-	-	-	1
	Renewal	lm	n/a	1,281	n/a	n/a	n/a	n/a	1,000	n/a	n/a	n/a	n/a	(281)	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	31,005	n/a	n/a	n/a	n/a	26,000	n/a	n/a	n/a	n/a	(5,005)	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	101	n/a	n/a	n/a	n/a	101	n/a	n/a	n/a	n/a	n/a
	Fencing	km	38	26	1	-	1	43	47	2	-	2	4	21	1	-	-	-	1
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Off track		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-	1	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				90	3	93			79	4	83			(11)	1		(10)	
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	18	n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	-	-	2
	Full conventional resignalling	SEU	3,600	5	18	-	18	-	-	10	-	10	(3,600)	(5)	(8)	-	-	-	(8)
	Modular resignalling	SEU	-	-	-	-	-	-	-	2	-	2	-	-	2	-	-	-	2
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	-	-	-	1,400	5	7	-	7	1,400	5	7	-	-	-	7
	Targeted component renewal	SEU	-	-	-	-	-	333	3	1	-	1	333	3	1	-	-	-	1
	Level crossings	No.	2,000	2	4	-	4	1,500	2	3	-	3	(500)	-	(1)	-	-	-	(1)
	Signalling other		-	-	-	15	15	-	-	-	14	14	-	-	-	(1)	-	-	(1)
	ERTMS train fitment	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS train fitment, risk provision	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	ERTMS other costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Operating strategy other capex	n/a	n/a	n/a	n/a	3	3	n/a	n/a	n/a	5	5	n/a	n/a	n/a	-	-	2	2
	Minor works	n/a	n/a	n/a	n/a	12	12	n/a	n/a	n/a	8	8	n/a	n/a	n/a	(4)	-	-	(4)
	Centrally managed costs	n/a	n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	-	-	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				22	15	37			23	14	37			1	(1)		-	
Civils	Key structures		n/a	n/a	n/a	-	32	n/a	n/a	n/a	-	22	n/a	n/a	n/a	-	-	-	(10)
	Underbridges	m2	3	9,722	28	-	28	2	7,833	19	-	19	(0)	(1,889)	(9)	-	-	-	(9)
	Overbridges (incl BG3)	m2	6	360	2	-	2	2	454	1	-	1	(3)	94	(1)	-	-	-	(1)
	Tunnels	m2	1	1,400	2	-	2	1	1,672	2	-	2	(0)	272	-	-	-	-	-
	Major structures	m2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	-
	Other structures assets		n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	-	-	-
	Culverts	m2	2	603	1	-	1	2	493	1	-	1	0	(110)	-	-	-	-	-
	Footbridges	m2	-	-	1	-	1	6	181	1	-	1	6	181	-	-	-	-	-
	Coastal & Estuary Defences	m	1	1,244	1	-	1	1	1,700	2	-	2	0	456	1	-	-	-	1
	Retaining Walls	m2	26	77	2	-	2	2	463	1	-	1	(24)	386	(1)	-	-	-	(1)
	Earthworks	5-chain	55	164	9	-	9	41	169	7	-	7	(13)	5	(2)	-	-	-	(2)
	EW Drainage		-	-	1	-	1	0	8,366	1	-	1	0	8,366	-	-	-	-	-
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	480	n/a	n/a	n/a	n/a	480	n/a	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	70	n/a	n/a	n/a	n/a	70	n/a	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	2,608	n/a	n/a	n/a	n/a	2,608	n/a	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	5,208	n/a	n/a	n/a	n/a	5,208	n/a	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	3	3	n/a	-	n/a	3	3	n/a	n/a	n/a	-	-	-	-
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(6)	(6)	n/a	n/a	n/a	(6)	-	-	(6)
	Total				47	3	50			35	(3)	32			(12)	(6)		(18)	

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Other non-volume costs				Total Cost	Other non-volume costs				Total Cost	Other non-volume costs				
			Unit cost	Volume	Unit cost x volume	Unit cost		Volume	Unit cost x volume	Unit cost	Volume		Unit cost x volume	Unit cost	Volume	Unit cost x volume	
			£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m	£k/unit	unit	£m	£m	£m
Buildings	Franchised Stations		n/a	n/a	n/a	-	25	n/a	n/a	n/a	-	16	n/a	n/a	n/a	n/a	(9)
	Footbridges	m2	-	310	-	-	-	n/a	-	n/a	n/a	-	n/a	(310)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	1	3,721	4	-	4	n/a	5,647	n/a	n/a	-	n/a	1,926	n/a	n/a	-
	Platforms	m2	0	10,700	4	-	4	n/a	12,783	n/a	n/a	-	n/a	2,083	n/a	n/a	-
	Buildings	m2	22	232	5	-	5	n/a	-	n/a	n/a	-	n/a	(232)	n/a	n/a	-
	Lifts & Escalators	No.	143	7	1	-	1	n/a	3	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Other		-	-	-	11	11	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	-	n/a	-	4	n/a	n/a	n/a	n/a	3
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	350	-	-	-	n/a	-	n/a	n/a	-	n/a	(350)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	10	-	10	1	1,527	n/a	-	1	n/a	1,527	n/a	n/a	(9)
	Buildings	m2	-	-	-	-	-	n/a	1,527	n/a	n/a	-	n/a	1,527	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	3	1,145	3	-	3	17	180	n/a	n/a	3	n/a	(965)	n/a	n/a	-
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	NDS Depots		-	-	-	(1)	(1)	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	2
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(4)	n/a	n/a	n/a	n/a	(4)
Total					27	11	38					22					(16)

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	
			£k/unit	unit			£m	£m			£k/unit	unit			£m	£m			£k/unit
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Conductor rail	km	357	14	5	-	5	250	12	n/a	n/a	3	n/a	(2)	n/a	n/a	n/a	(2)	
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	DC distribution		-	-	-	-	12	n/a	-	n/a	n/a	13	n/a	n/a	n/a	n/a	n/a	1	
	HV Switchgear Renewal	No.	-	-	2	-	2	n/a	29	n/a	n/a	-	n/a	29	n/a	n/a	n/a	-	
	HV Cables	km	2,000	1	2	-	2	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	n/a	-	
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	9	n/a	n/a	-	n/a	9	n/a	n/a	n/a	-	
	LV Cables	km	240	25	6	-	6	n/a	5	n/a	n/a	-	n/a	(20)	n/a	n/a	n/a	-	
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	n/a	-	
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Fixed plant		-	-	-	-	4	n/a	-	n/a	n/a	5	n/a	n/a	n/a	n/a	n/a	1	
	Signalling Power Cable Renewal	km	105	19	2	-	2	n/a	6	n/a	n/a	-	n/a	(13)	n/a	n/a	n/a	-	
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	250	4	1	-	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)	
SCADA		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	n/a	2		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	3	3	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	-		
Other electrical power		-	-	-	1	1	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	-		
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
Total				18	8	26					27						1		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	5	n/a	-	n/a	n/a	n/a	5	
	Customer Information Systems	No.	-	-	-	-	-	n/a	364	n/a	n/a	-	n/a	364	n/a	n/a	n/a	-	
	Public Address	No.	-	-	-	-	-	n/a	844	n/a	n/a	-	n/a	844	n/a	n/a	n/a	-	
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-	
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	1	n/a	n/a	n/a	n/a	n/a	1	
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	(1)	
	Non route capex		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	2	
Total				-	2	2					9								

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan							
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m		
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m									
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(3)	(3)			
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4			
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)			
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1			
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1			
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-			
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-				
Total						8	8							10	10			2	2	
IT	IM delivered renewals		n/a	n/a	n/a	9	9	n/a	n/a	n/a	9	9	n/a	n/a	n/a	-	-			
	Traffic management		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3			
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						9	9							12	12			3	3	
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3			
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-			
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						1	1							4	4			3	3	
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(3)	(3)			
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-			
	Faster isolations		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1			
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1			
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
	CP4 Rollover		n/a	n/a	n/a	7	7	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(7)	(7)			
	Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1			
Total						18	18							11	11			(7)	(7)	
Total Renewals							282								247					(35)

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
				£m	£m					£m	£m					£m	£m		
Track	Track plain line	km	504	224	113	-	113	547	190	104	-	104	43	(34)	(9)	-	-	(9)	
	Conventional		475	120	57	-	57	696	102	71	-	71	221	(18)	14	-	-	14	
	High Output		532	77	41	-	41	426	68	29	-	29	(106)	(9)	(12)	-	-	(12)	
	Refurbishment		556	27	15	-	15	200	20	4	-	4	(356)	(7)	(11)	-	-	(11)	
	S&C	point ends	292	168	49	-	49	253	182	46	-	46	(39)	14	(3)	-	-	(3)	
	Track Drainage		0	32,956	6	-	6	0	54,201	10	-	10	0	21,245	4	-	-	4	
	Renewal	lm	n/a	1,281	n/a	n/a	n/a	n/a	2,000	n/a	n/a	n/a	n/a	719	n/a	n/a	n/a	n/a	
	Refurbishment	lm	n/a	31,675	n/a	n/a	n/a	n/a	52,000	n/a	n/a	n/a	n/a	20,325	n/a	n/a	n/a	n/a	
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	201	n/a	n/a	n/a	n/a	201	n/a	n/a	n/a	n/a	
	Fencing	km	39	51	2	-	2	48	84	4	-	4	8	33	2	-	-	2	
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	
	Off track		n/a	n/a	n/a	7	7	n/a	n/a	n/a	8	8	n/a	n/a	n/a	-	-	1	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Total				170	7	177			164	8	172			(6)	1	(5)		
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	42	n/a	n/a	n/a	-	25	n/a	n/a	n/a	-	-	(17)	
	Full conventional resignalling	SEU	366	112	41	-	41	151	93	14	-	14	(216)	(19)	(27)	-	-	(27)	
	Modular resignalling	SEU	-	-	-	-	-	-	-	2	-	2	-	-	2	-	-	2	
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Partial conventional resignalling	SEU	-	-	1	-	1	1,600	5	8	-	8	1,600	5	7	-	-	7	
	Targeted component renewal	SEU	-	-	-	-	-	250	4	1	-	1	250	4	1	-	-	1	
	Level crossings	No.	1,714	7	12	-	12	1,083	12	13	-	13	(631)	5	1	-	-	1	
	Signalling other		-	-	-	29	29	-	-	-	40	40	-	-	-	-	11	11	
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	-	
	Operating strategy other capex		n/a	n/a	n/a	11	11	n/a	n/a	n/a	21	21	n/a	n/a	n/a	-	-	10	
	Minor works		n/a	n/a	n/a	17	17	n/a	n/a	n/a	16	16	n/a	n/a	n/a	(1)	-	(1)	
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	-	2	
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Total				54	29	83			38	40	78			(16)	11	(5)		
Civils	Key structures		n/a	n/a	n/a	-	57	n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	-	(11)	
	Underbridges	m2	3	17,233	45	-	45	2	15,305	38	-	38	(0)	(1,928)	(7)	-	-	(7)	
	Overbridges (incl BG3)	m2	7	543	4	-	4	8	531	4	-	4	0	(12)	-	-	-	-	
	Tunnels	m2	3	2,527	7	-	7	1	3,440	4	-	4	(2)	913	(3)	-	-	(3)	
	Major structures	m2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	-	(1)	
	Other structures assets		n/a	n/a	n/a	-	11	n/a	n/a	n/a	-	10	n/a	n/a	n/a	-	-	(1)	
	Culverts	m2	2	644	1	-	1	1	916	1	-	1	(0)	272	-	-	-	-	
	Footbridges	m2	18	113	2	-	2	5	380	2	-	2	(12)	267	-	-	-	-	
	Coastal & Estuary Defences	m	2	1,244	2	-	2	1	1,700	2	-	2	(0)	456	-	-	-	-	
	Retaining Walls	m2	18	325	6	-	6	7	765	5	-	5	(12)	440	(1)	-	-	(1)	
	Earthworks	5-chain	93	237	22	-	22	39	331	13	-	13	(54)	94	(9)	-	-	(9)	
	EW Drainage		2	1,625	3	-	3	0	16,638	2	-	2	(2)	15,013	(1)	-	-	(1)	
	Renewal	lm	n/a	225	n/a	n/a	n/a	n/a	788	n/a	n/a	n/a	n/a	563	n/a	n/a	n/a	n/a	
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	130	n/a	n/a	n/a	n/a	130	n/a	n/a	n/a	n/a	
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	5,229	n/a	n/a	n/a	n/a	5,229	n/a	n/a	n/a	n/a	
	New Build	lm	n/a	1,400	n/a	n/a	n/a	n/a	10,491	n/a	n/a	n/a	n/a	9,091	n/a	n/a	n/a	n/a	
	Structures other		n/a	n/a	n/a	9	9	n/a	-	n/a	6	6	n/a	n/a	n/a	(3)	-	(3)	
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(11)	(11)	n/a	n/a	n/a	(11)	-	(11)	
	Total				92	10	102			71	(5)	66			(21)	(15)	(36)		

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost
					volume	volume				volume	volume				volume	volume	
					£m	£m	£m			£m	£m	£m			£m	£m	£m
Buildings	Franchised Stations		n/a	n/a	n/a	-	40	n/a	n/a	n/a	-	34	n/a	n/a	n/a	n/a	(6)
	Footbridges	m2	-	310	-	-	-	n/a	120	n/a	n/a	-	n/a	(190)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	1	4,323	5	-	5	n/a	7,170	n/a	n/a	-	n/a	2,847	n/a	n/a	-
	Platforms	m2	1	20,013	11	-	11	n/a	46,391	n/a	n/a	-	n/a	26,378	n/a	n/a	-
	Buildings	m2	26	232	6	-	6	n/a	-	n/a	n/a	-	n/a	(232)	n/a	n/a	-
	Lifts & Escalators	No.	286	7	2	-	2	n/a	6	n/a	n/a	-	n/a	(1)	n/a	n/a	-
	Other		-	-	-	16	16	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	-	n/a	-	8	n/a	n/a	n/a	n/a	7
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	265	-	-	-	n/a	4,330	n/a	n/a	-	n/a	4,065	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	350	-	-	-	n/a	3,729	n/a	n/a	-	n/a	3,379	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	11	-	11	1	1,527	n/a	-	1	n/a	1,527	n/a	n/a	(10)
	Buildings	m2	-	-	-	-	-	n/a	1,527	n/a	n/a	-	n/a	1,527	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	4	1,145	5	-	5	0	15,360	n/a	n/a	5	n/a	14,215	n/a	n/a	-
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	2	n/a	-	n/a	n/a	2
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	NDS Depots		-	-	-	1	1	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	5
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(8)	n/a	n/a	n/a	n/a	(8)
Total					40	18	58					48					(10)

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost
					volume	volume				volume	volume				volume	volume	
					£m	£m	£m			£m	£m	£m			£m	£m	£m
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	261	23	6	-	6	250	24	n/a	n/a	6	n/a	1	n/a	n/a	-
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	DC distribution		-	-	-	-	23	n/a	-	n/a	n/a	19	n/a	n/a	n/a	n/a	(4)
	HV Switchgear Renewal	No.	-	-	2	-	2	n/a	29	n/a	n/a	-	n/a	29	n/a	n/a	-
	HV Cables	km	3,000	1	3	-	3	n/a	2	n/a	n/a	-	n/a	1	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	18	n/a	n/a	-	n/a	18	n/a	n/a	-
	LV Cables	km	211	38	8	-	8	n/a	11	n/a	n/a	-	n/a	(27)	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	10	10	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Fixed plant		-	-	-	-	5	n/a	-	n/a	n/a	11	n/a	n/a	n/a	n/a	6
	Signalling Power Cable Renewal	km	69	29	2	-	2	n/a	12	n/a	n/a	-	n/a	(17)	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	29	35	1	-	1	n/a	120	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	6
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
System capability / capacity		-	-	-	3	3	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	4	
Other electrical power		-	-	-	4	4	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	(2)	
Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
Total					22	20	42					51					9
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	6	n/a	-	n/a	n/a	6
	Customer Information Systems	No.	-	-	-	-	-	n/a	364	n/a	n/a	-	n/a	364	n/a	n/a	-
	Public Address	No.	-	-	-	-	-	n/a	844	n/a	n/a	-	n/a	844	n/a	n/a	-
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	Projects and other		n/a	n/a	n/a	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Non route capex		n/a	n/a	n/a	7	7	n/a	-	n/a	n/a	7	n/a	n/a	n/a	n/a	-
Total						8	8					15					

Statement 14: Renewals volumes, unit costs and expenditure, Wessex - continued

in £m 2015-16 prices unless stated

Cumulative		Actual				Network Rail Business Plan						Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	6	6	n/a	n/a	n/a	8	8	n/a	n/a	n/a	2	2
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total					14	14				25	25				11	11
IT	IM delivered renewals		n/a	n/a	n/a	22	22	n/a	n/a	n/a	21	21	n/a	n/a	n/a	(1)	(1)
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total					23	23				26	26				3	3
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5
	Commercial estate		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total					1	1				7	7				6	6
Other renewals	Asset information strategy		n/a	n/a	n/a	8	8	n/a	n/a	n/a	9	9	n/a	n/a	n/a	1	1
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	Faster isolations		n/a	n/a	n/a	3	3	n/a	n/a	n/a	6	6	n/a	n/a	n/a	3	3
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	65	65	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(65)	(65)
	Other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Total					79	79				24	24				(55)	(55)
Total Renewals							587										(75)

Statement 14: Renewals volumes, unit costs and expenditure, Wessex – continued

in £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – volumes delivered are higher than the CP5 Business Plan mostly due to additional Conventional works.
 - a. Conventional – the volumes delivered in the current year are higher than the plan which is largely due to targeted re-railing to drive improvements in train performance and reduce passenger delays. This is part of a wider programme undertaken in the route to improve performance.
- (5) Switches & Crossings - volumes delivered in the current year are higher than planned which included the impact of activity deferred from 2014/15, notably in refurbishment jobs.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling – Resignalling - Full Conventional Re-signalling - no Conventional volumes were included in the Network Rail published plan for this year, however 5 SEUs were delivered in conjunction with Level Crossing Renewals.
- (8) Signalling – Resignalling - Partial Conventional Re-signalling – no volumes were delivered in the current year. Following a review in strategy the plan has been updated and now none of this type of asset category are expected to be delivered, with alternative solutions to be enacted. In addition, some activity has been deferred into future control periods due to a re-prioritisation of resources available in the current control period.
- (9) Signalling – Resignalling – Targeted component – no volumes were delivered in the current year. Following a review in strategy the plan has been updated and now none of this type of asset category are expected to be delivered, with alternative solutions to be enacted. In addition, some activity has been deferred into future control periods due to a re-prioritisation of resources available in the current control period.

Statement 14: Renewals volumes, unit costs and expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (10) Structures - Underbridges – Volume completed in the year was higher than the plan which is due to the opportunity to deliver additional, efficient volumes at Portsmouth Harbour. These volumes were originally included in the asset management plans for delivery in CP5.
- (11) Civils - Overbridges – The volumes delivered are below plan due to Kit Hill now being deferred to the next control period as a result of resource prioritisations identified as part of updates to Network Rail's plans. The reduction in volumes this year compared to the plan partly offset the supplementary volumes reported in the opening year of the control period.
- (12) Civils - Tunnels – volumes delivered in the year were lower than the plan assumed. This included deferrals at Popham, Foxhill, Mickleham and Litchfield to future control periods as a being deferred to CP6 as a result of resource prioritisations identified as part of updates to Network Rail's plans.
- (13) Civils - Culverts – volumes delivered in the current year were higher the plan assumed. These extra volumes partly offset some of the work deferred in the first year of the control period.
- (14) Civils – Coastal & Estuary Defences – volumes delivered in the in the year were lower than the plan assumed. These volumes have been deferred until later in the control period in order to optimise delivery.
- (15) Civils – Retaining Walls volumes delivered in the year were lower than the plan assumed. This is mostly due to a deferral of activity to CP6 as a result of resource prioritisations identified as part of updates to Network Rail's plans.
- (16) Civils – Earthworks Drainage – no volumes were reported against this category this year, continuing the trend of the previous year. The nature of this type of renewal means that the reporting of volumes can be uneven over a control period. In addition, a level of activity has been deferred to future control periods so that Network Rail has focus resources on key areas in light of the constraints that it currently faces.
- (17) Buildings - Franchised Stations – footbridges – no volumes were assumed in the CP5 Business Plan for 2015/16. The volumes undertaken in the current year relate to some remedial works completed in order to maintain asset condition.
- (18) Buildings - Franchised Stations – canopies – volumes delivered in the year were lower than the CP5 Business Plan assumed. This trend is expected to continue for the remainder of the control period as Network Rail plans to focus resources on key areas in light of the constraints that it currently faces. In addition, some volumes are expected to be saved through lighter interventions.
- (19) Buildings - Franchised Stations – platforms – volumes delivered in the year were lower than the CP5 Business Plan assumed. This trend is expected to continue for the remainder of the control period as Network Rail plans to focus resources on key areas in light of the constraints that it currently faces. In addition, some volumes are expected to be saved through lighter interventions.
- (20) Buildings - Franchised Stations – buildings – no volumes were expected during the control period in Wessex for this asset. Additional works have been required in light of asset condition.
- (21) Buildings - Franchised Stations – lifts & escalators – volumes delivered in the current year were higher than the plan predicted. These extra volumes compensate for the shortfall in volumes reported in the previous year.
- (22) Buildings - Managed Stations – Buildings - no volume were included for 2015/16 in the plan however activity was carried out in relation to unplanned repairs to the concourse roof at Waterloo station. This accounts for all of the volumes delivered this year.
- (23) Buildings – Light Maintenance Depots – no volumes were delivered in the year. This trend is expected to continue for the remainder of the control period as Network Rail plans to focus resources on key areas in light of the constraints that it currently faces. In addition, some volumes are expected to be saved through alternative intervention strategies.
- (24) Buildings – Lineside Buildings – volumes are higher than the CP5 Business Plan assumed. This was partly a catch up of the lower activity experienced in the opening year of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, Wessex – continued

in £m 2015-16 prices unless stated

- (25) Electrification – HV Switchgear Renewal DC - Volumes are below plan due to a fundamental replanning of activity in Wessex as a result of safety concerns. Network Rail takes the safety of staff, passengers and contractors very seriously which increases the need to complete such works carefully.
- (26) Electrification – LV Switchgear Renewal – volumes are lower than planned. This is expected to continue throughout the remainder of the control period as alternative solutions to asset management in this area are implemented.
- (27) Electrification – LV Cables - Volumes are above plan in the current year due to additional reactive work completed based on asset condition and performance.
- (28) Electrification – Signalling Power Cables - Volumes are above plan due to additional work carried out through improved asset condition information via Electronic Logging Devices connected to Intelligent Infrastructure.
- (29) Electrification – Points Heaters – volumes in the current year are higher than the CP5 Business Plan assumed. This partly offsets some of the under delivery of activity experienced in the opening year of the control period.
- (30) Telecoms – Customer Information Systems - Volumes are lower than plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.
- (31) Telecoms – Public Address - Volumes are below plan due to activity being reprofiled into future control periods as Network Rail funding constraints mean that scarce resource utilisation has been replanned to achieve optimal results.

Statement 1: Summary regulatory financial performance, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Income							
Grant Income	413	407	6	815	806	9	402
Fixed Income	28	28	-	66	64	2	38
Variable Income	96	93	3	186	186	-	90
Other Single Till Income	100	138	(38)	190	254	(64)	90
Opex memorandum account	4	-	4	4	-	4	-
Total Income	641	666	(25)	1,261	1,310	(49)	620
Operating expenditure							
Network operations	41	33	(8)	80	66	(14)	39
Support costs	28	43	15	69	89	20	41
Traction electricity, industry costs and rates	31	29	(2)	55	59	4	24
Network maintenance	122	114	(8)	239	229	(10)	117
Schedule 4	29	20	(9)	55	40	(15)	26
Schedule 8	8	1	(7)	26	1	(25)	18
Total operating expenditure	259	240	(19)	524	484	(40)	265
Capital expenditure							
Renewals	277	295	18	615	655	40	338
PR13 enhancement expenditure	1,035	1,103	68	1,646	1,720	74	611
Non PR13 enhancement expenditure	6	-	(6)	48	-	(48)	42
Total capital expenditure	1,318	1,398	80	2,309	2,375	66	991
Other expenditure							
Financing costs	159	199	40	300	365	65	141
Corporation tax (received)/paid	-	-	-	(1)	-	1	(1)
Total other expenditure	159	199	40	299	365	66	140
Total expenditure	1,736	1,837	101	3,132	3,224	92	1,396

Statement 1: Summary regulatory financial performance, Western – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. For the avoidance of doubt, note that comments explaining variances in these Regulatory financial statements refer to the current year compared to the ORR's determination rather than the cumulative position for the control period unless otherwise stated. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a. Income is higher than the previous year in line with the regulator's expectation.
- (3) Income – Fixed income in the year was in line with the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a. Income is lower than the previous year in line with the regulator's expectation.
- (4) Income – Variable income in the year was higher than the determination as a result of additional income from services. These variances are set out in more detail in Statement 6a. Income is higher than the previous year as a result of higher schedule 4 access charge supplements in line with the regulator's determination.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding these items, income is higher than the determination as a result of extra property income generated which more than offsets lower freight income. This is set out in more detail in Statement 6a. Income is higher than the previous year as extra property income (notably property sales) more than offsets declines in the freight industry.
- (6) Income – Opex memorandum account – this includes amounts earned via the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (May 2016). This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as difficulties achieving efficiency targets. These variances are set out in more detail in Statement 7a. Costs are higher than the previous year following additional investment in extra services and improvement projects.
- (8) Operating expenditure - Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group. During the year, Network Rail has enacted policies to restrict average staff pay for new recruits and placed additional internal challenges on the creation of new organisational posts. These variances are set out in more detail in Statement 7a. Costs are lower than the previous year reflecting efficiencies delivered across a range of functions during the year.
- (9) Operating expenditure - Traction electricity, industry costs and rates are adverse to the determination and the previous year due to increased business rates. These variances are set out in more detail in Statement 7a
- (10) Operating expenditure - Network Maintenance costs are higher than the determination continuing the underlying trend from the previous year when efficiency targets set by the regulator have not been achieved. These variances are set out in more detail in Statement 8a. Extra Reactive maintenance works this year, additional structures inspections costs, increases in network traffic (this was assumed in the regulator's pre-efficient determination which includes year-on-year increases) and extra investment in projects to improve train performance and asset reliability resulted in higher expenditure compared to the previous year which have been partially offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway) and some underlying efficiencies which have been achieved.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination and the prior year. These variances are set out in more detail in Statement 10.
- (12) Operating expenditure – as expected, Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets (which get harder every year) continuing the trend of the past few years. These variances are set out in more detail in Statement 10. Costs are lower than the previous year reflecting underlying improvements in performance.

Statement 1: Summary regulatory financial performance, Western – continued

in £m 2015-16 prices unless stated

- (13) Capital expenditure - Renewals expenditure is lower than the determination which is a combination of efficient overspends and re-phasing of activity. These variances are set out in more detail in Statement 9a. Costs are higher than the previous year due to cyclic nature of renewals activities.
- (14) Capital expenditure – PR13 Enhancements - There was a review of Enhancement baselines in the year led by Sir Peter Hendy. The control period to date baseline was re-set so that the yearly baseline is in fact a derived figure and is therefore not useful for variance analysis. Statement 3 has more details and will discuss control period to date variances.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3. Expenditure is higher than last year with a major contribution from elements of the East West rail programme funded through the investment framework.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. Costs are lower than the regulator assumed mainly due to lower RPI rates than the determination assumed. This is set out in more detail in Statement 4

Statement 2a: RAB - regulatory financial position, Western

in £m 2015-16 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2016

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	5,114	5,149	(35)
Indexation to 2013-14 prices	239	241	(2)
Opening RAB for the year (2014-15 prices)	5,353	5,390	(37)
Indexation for the year	56	57	(1)
Opening RAB (2015-16 prices)	5,409	5,447	(38)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	243	295	(52)
PR13 enhancements	1,015	819	196
Non-PR13 enhancements	19	-	19
Total enhancements	1,034	819	215
Amortisation	(221)	(221)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2016	6,465	6,340	125

RAB Regulatory financial position - cumulative, Western

B) Calculation of the cumulative RAB at 31 March 2016

	2014-15	2015-16	CP5 Total
Opening RAB (2015-16 prices)	4,550	5,409	4,550
Adjustments for the actual capital expenditure outturn in CP4	129	-	129
Renewals	317	243	560
PR13 enhancements	603	1,015	1,618
Non-PR13 enhancements	31	19	50
Total enhancements	635	1,034	1,669
Amortisation	(221)	(221)	(442)
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB	5,409	6,465	6,465

Statement 2a: RAB - Regulatory financial position, Western – continued

in £m 2015-16 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 the efficiency of renewals and efficiency expenditure once the control period is complete.

Comments:

- (1) This schedule shows the Regulatory Asset Base (RAB) of Network Rail and how it has moved from the position at the start of the year, and in part B) of the statement, since the start of the control period.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2015/16, the November 2015 RPI), which was 1.05 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) and November 2014 RPI (1.98 per cent) to derive the Opening RAB for the year in 2014/15 prices.
- (3) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to a re-profiling of activity within the control period partially offset by efficient overspends (the value of which cannot all be logged up to the RAB) partly offset by. The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (4) PR13 enhancements – the amount added to the RAB this year was higher than the regulator assumed. This was largely due to a different profile of expenditure planned by Network Rail compared to the regulators assumption. The amount included within the PR13 valuations reflect the assumed level of programme costs at the time the regulator's determination was prepared and do not reflect updates to regulatory allowances following the Hendy review, ECAM price adjustments (where applicable) and any other agreed change control. Therefore, the PR13 figure does not represent a like-for-like comparison with the actuals. These variances are discussed in more detail in Statement 3.
- (5) Non-PR13 enhancements – the regulator sets out the enhancement programme that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which emerge after this, which are logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination. Therefore, it is expected that Network Rail will always have a favourable variance in this category in each year of the control period.
- (6) Amortisation represents remuneration of past investment that has been previously added to the RAB. The figure included by the Regulator in its determination is based on the long-run efficient annual average capital expenditure required to maintain the network in a steady state (ie average long-run steady state renewals) subject to any financial sustainability considerations. The actual value should always mirror the value in the PR13 assumption and so there is no variance between these amounts.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM and CaSL) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2016 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones with a number of projects contributing to the value this year including: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2a: RAB - Regulatory financial position, Western – continued

in £m 2015-16 prices unless stated

- (8) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (May 2016) The Opening balance for the control period represents the value in the PR13 rather than the figure included in the 2013/14 Regulatory financial statements. The Adjustment for the actual capital expenditure outturn in CP4 reflects the difference between the actual opening RAB and the regulator's assumed RAB and consists of:
- a. Additional project expenditure – during the final year of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available at that time. The index was updated in 2014/15 and so the CP5 opening RAB has been adjusted accordingly.

Statement 2b: RAB - reconciliation of expenditure, Western

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Renewals			
Renewals per the PR13 determination	361	295	656
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	21	-	21
Capitalised financing on CP4 deferrals	1	1	2
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Adjusted PR13 determination (renewals)	383	296	679
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(116)	(142)	(258)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(8)	(11)
Adjustments for efficient overspend	64	120	184
Capitalised financing on efficient overspend	1	5	6
25% retention of efficient overspend	(16)	(30)	(46)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(2)
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing on efficient underspend 25% retention	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments for efficient overspend through spend to save framework	6	4	10
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	(1)	(2)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	317	243	560
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	2	3	5
Adjustment for 25% retention of efficient overspend	17	31	48
Adjustment for 25% retention of efficient underspend	-	-	-
Other adjustments	2	-	2
Total actual renewals expenditure (see statement 9)	338	277	615

Statement 2b: RAB - reconciliation of expenditure, Western - continued

in £m 2015-16 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	CP5 Total
Enhancements			
Enhancements per the PR13 determination	758	819	1,577
Adjustments to the PR13 determination			
Renewals / enhancement reallocation	-	-	-
Capitalised financing on reallocations	-	-	-
CP4 deferrals to CP5	1	(1)	-
Capitalised financing on CP4 deferrals	-	-	-
Baseline adjustments	-	250	250
Capitalised financing on Baseline adjustments	-	6	6
Adjustments to DfT funding	(157)	-	(157)
Capitalised financing on adjustments to DfT funding	(3)	(7)	(10)
Other adjustments	25	25	50
Capitalised financing on other adjustments	1	2	3
Adjusted PR13 determination (enhancements)	625	1,094	1,719
Adjustments in accordance with the PR13 RAB roll forward policy			
Adjustments for acceleration / (deferral) of expenditure within CP5	(34)	(109)	(143)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(5)
Adjustments for efficient overspend / (underspend)	16	(24)	(8)
Capitalised financing on efficient overspend / (underspend)	1	-	1
25% retention of efficient overspend / (underspend)	(4)	6	2
Capitalised financing of 25% efficient overspend / (underspend)	-	-	-
Adjustments for efficient underspend	-	-	-
Capitalised financing on efficient underspend	-	-	-
25% retention of efficient underspend	-	-	-
Capitalised financing of 25% efficient underspend	-	-	-
Adjustments for underspend that is not deemed efficient	-	-	-
Capitalised financing relating to underspend that is not deemed efficient	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	76	76
agreements - retention of efficient overspend	-	(25)	(25)
Capitalised financing relating to projects with tailored protocols or fixed price	-	1	1
Adjustments for efficient overspend through spend to save framework	1	(1)	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-
20% retention of efficient overspend through spend to save framework	(1)	1	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-	-	-
Other Adjustments	-	-	-
Capitalised financing on other adjustments	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	603	1,015	1,618
Non PR13 Enhancements			
Non-PR13 enhancements expenditure qualifying for capitalised financing	41	6	47
overspend	(11)	11	-
Capitalised financing on non-PR13 enhancements expenditure	1	2	3
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-
efficient overspend	-	-	-
Other adjustments	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	31	19	50
Total enhancements (added to the RAB - see statement 2a)	634	1,034	1,668
Adjustment for manifestly inefficient overspend	-	-	-
Adjustment for capitalised financing	1	-	1
Adjustment for 25% retention of efficient overspend	16	7	23
Other Adjustments	1	-	1
Adjustment for 25% retention of efficient underspend	-	-	-
Non-PR13 enhancement expenditure			
Third party funded schemes	216	26	242
Other adjustments	1	-	1
Total actual enhancement expenditure (see statement 3)	869	1,067	1,936

Statement 2b: RAB - reconciliation of expenditure, Western – continued

in £m 2015-16 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines (May 2016), adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects and the ORR has given specific funding adjustments when assessing expenditure eligible for RAB addition. The amount of funding given for these programmes was substantially less than Network Rail anticipated it would cost to deliver. This has resulted in the recognition of financial underperformance (refer to Statement 5) which is reflected in the Adjustment for efficient overspend heading in the above table.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail is intending to deliver activity in a different profile. In addition, following the Office for National Statistics decision to reclassify Network Rail as a government body, Network Rail is now only able to borrow from DfT whereas previously it had access to financial markets. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity is planned to be lower than the regulator assumed on a like-for-like basis. This has resulted in deferral of activity until later in the control period and beyond in the current year, which, when combined with the re-profiling witnessed in 2014/15, means that the PR13 allowances for renewals additions to the RAB has been substantially reduced.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure. The efficient overspend represents financial underperformance. This is set out in more detail in Statement 5.
- (6) Renewals – 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. As this amount is not eligible for logging up to the RAB, it is shown as a reduction to the efficient overspend value which is eligible for RAB addition.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 85 per cent of the expenditure in 2015/16 is eligible for logging up to the RAB (with the assumption that Network Rail will realise operating costs savings at least equal to the value of the 15 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 15% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 15 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. Note that in 2014/15, the value retained by Network Rail was 20 per cent. The Regulatory Accounting Guidelines (May 2016) show that the amount Network Rail retains decreases each year of the control period to reflect the shorter period that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance was adjusted in the previous year. As part of the Hendy review and the subsequent agreement of new baselines for assessing the enhancement expenditure that is eligible for RAB addition, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line.

Statement 2b: RAB - reconciliation of expenditure, Western – continued

in £m 2015-16 prices unless stated

- (10) Enhancements – baseline adjustments – many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in Western. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring the amount of enhancement expenditure eligible for RAB addition and hence the PR13 assumption for enhancement expenditure has been adjusted accordingly. Note that the Hendy report did not cover all of Network Rail's enhancement programme, with notable exceptions being programmes with their own protocol (such as Crossrail).
- (11) Enhancements – Adjustments to DfT funding – in 2014/15, the DfT decided to change the funding of parts of the Great Western Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, thus reducing the amount of investment eligible for logging up to the RAB.
- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted to reflect the level of work actually undertaken in the current year rather than the assumed level of activity.
- (13) Enhancements – Adjustments for efficient overspend/ (underspend) – under the terms of the Regulatory Accounting Guidelines (May 2016), Network Rail generally retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines May 2016) Network Rail can add 75 per cent of the overspend to the RAB. Efficient overspend represents financial underperformance which is set out in more detail in Statement 5. Under the terms of the Regulatory Accounting Guidelines (May 2016) Network Rail can add 25 per cent of the underspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure/ saving.
- (14) Enhancements - 25% retention of efficient overspend/ (underspend) – following on from the above comment, this heading represents the 25 per cent of the overspend/ underspend that Network Rail retains. The overspend is not eligible for logging up to the RAB (this is retained by Network Rail) whilst the underspend is logged up to the RAB to reflect the benefit retained by Network Rail of efficient underspends.
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Crossrail programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Crossrail programme which are not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains, meaning that the percentage retained can be different to the 25 per cent retention rules in place for the majority of Network Rail's enhancement expenditure variances as noted above.
- (17) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines (May 2016) provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. The amount included in this category in 2014/15 was based on the total planned CP5 overspend compared to the regulatory allowances. However, following the Office for National Statistics decision to classify Network Rail as a government body the funding available is now constrained by a fixed loan from DfT for the control period. This has meant that the planned level of investment in these property schemes for the control period has decreased to be in line with the original regulatory funding. Therefore, the efficient overspend recognised in 2014/15 has now been reserved in 2015/16 so that there is no impact on the RAB for the control period to date. Clearly reducing the level of investment in these types of income-generating schemes will make achieving the already challenging property income targets for this control period even more arduous.
- (18) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the element of the overspend that Network Rail retained in 2014/15 which has been reversed in the current year to reflect the latest control period plans for this category of investment.

Statement 2b: RAB - reconciliation of expenditure, Western – continued

in £m 2015-16 prices unless stated

(19) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	1	(1)	3	4	1
Stations - Access for All (AfA)	4	1	(3)	7	9	2
Development	5	11	6	7	14	7
Level crossing safety	3	3	-	4	5	1
Passenger journey improvement	-	(7)	(7)	-	-	-
The strategic rail freight network	1	8	7	20	19	(1)
Total funds	15	17	2	41	51	10
Committed projects						
Crossrail	404	442	38	724	807	83
GW Electrification (Paddington to Severn JT)	521	570	49	807	770	(37)
Adjustment for DfT funding - GW electrification	-	-	-	(74)	(74)	-
East West Rail (committed scheme)	13	5	(8)	13	11	(2)
IEP Programme	10	24	14	21	31	10
Bridgend to Swansea electrification	1	4	3	2	4	2
Reading station area redevelopment	23	19	(4)	132	137	5
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(83)	(83)	-
Total committed projects	972	1,064	92	1,542	1,603	61
Named schemes						
The Electric Spine:						
DfT SoFA amount	-	(1)	(1)	-	-	-
Total Electric Spine projects	-	(1)	(1)	-	-	-
Thames Valley:						
Acton to Willesden electrification (WCML)	1	(5)	(6)	1	2	1
Thames Valley branches	1	-	(1)	1	2	1
Oxford Station area capacity and station enlargement	8	9	1	12	10	(2)
Total Thames Valley projects	10	4	(6)	14	14	-
Airports & Ports:						
Western access to London Heathrow Airport	5	2	(3)	7	8	1
Total airports & Ports	5	2	(3)	7	8	1
West						
Dr Days to Filton Abbey Wood capacity improvements	12	6	(6)	16	12	(4)
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	1	(3)	(4)	1	-	(1)
Total West	13	3	(10)	17	12	(5)
HLOS capacity metric schemes						
West of England DMU capability works	1	(4)	(5)	1	1	-
Route gauge Clearance for different EMUs	2	(1)	(3)	4	2	(2)
Total HLOS capacity metric schemes	3	(5)	(8)	5	3	(2)
CP4 Project Rollovers						
Westerleigh Junction - Barnt Green linespeed increase	-	-	-	-	-	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	-	-	-

Statement 3: Analysis of enhancement capital expenditure, Western - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 Baseline	Difference	Actual	Cumulative Baseline	Difference
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	5	9	4	5	9	4
R&D allowance	1	1	-	1	2	1
Depots and stabling	1	2	1	1	2	1
Income generating property schemes	10	11	1	13	16	3
Other income generating investment framework schemes	-	(4)	(4)	-	-	-
Total other projects	17	19	2	20	29	9
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	1,035	1,103	68	1,646	1,720	74
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	24	-	(24)
DNOs clearance work	-	-	-	9	-	(9)
Other government sponsored schemes	6	-	(6)	11	-	(11)
Total Government sponsored schemes	6	-	(6)	44	-	(44)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	2	-	(2)
Total Network Rail spend to save schemes	-	-	-	2	-	(2)
Total Schemes promoted by third parties	-	-	-	1	-	(1)
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	6	-	(6)	48	-	(48)
Total Network Rail funded enhancements (see Statement 1)	1,041	1,103	62	1,694	1,721	27
Third Party PAYG	26	-	(26)	242	-	(242)
Total enhancements (see statement 2b)	1,067	1,103	36	1,936	1,721	(215)

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2015-16 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (May 2016), the PR13 baselines have been restated to reflect the outcome of the Hendy review. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance (refer to Statement 5) and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programmes, with notable exceptions being those relating to programmes with their own protocol (such as Crossrail). The Hendy baseline has been re-stated so that it is correct at a control period to date level. Therefore the yearly baseline in the table above is a derived number representing the difference between the Hendy number for the control period to date and the baseline included in last year's Regulatory financial statements. Therefore, this is of limited use for annual variance analysis and so for the schemes subject to changes through Hendy the commentary below will focus on the control period to date variance.

Comments:

- (1) This schedule shows the level of expenditure on enhancements compared to that assumed by the ORR. Part A) of this Statement displays expenditure against all the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £1,041m (as shown in Statement 1). This comprises the total enhancement figure in the table above £1,067m less the PAYG schemes funded by third parties (£26m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory (and Hendy) allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances are set out below:
- (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. Expenditure matches the baseline.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Expenditure to date is less than the baseline but is expected to match the baseline by the end of the control period.
- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure to date is much less than the baseline but is expected to match the baseline by the end of the control period.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2015-16 prices unless stated

- (e) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure over the control period is below the baseline to date but is expected to increase as the control period progresses.
 - (f) Passenger Journey Improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. Expenditure is on target against the baseline.
 - (g) The Strategic Rail Freight Network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure is on target against the baseline.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and the baseline are set out below:
- (a) 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. Expenditure is less than the regulator's determination in the year and control period to date due to re-profiling of work to future years. However this was offset by negative financial performance in the year (reported in Statement 5a) as the total programme is now expected to cost more than the baseline. This project is being delivered under a contractual arrangement which sets out how much of this forecast overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is slightly higher than the baseline due to acceleration of activity into the current year. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
 - (c) Adjustment for DfT funding – GW electrification – in 2014/15 DfT made the decision to fund some of the GW electrification programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.
 - (d) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably lower than the baseline in the year due to a reclassification of spend to 'Non PR-13'. This is partially off-set by financial underperformance on this programme (refer to Statement 5a) due to increases in the expected final costs of the programme which have arisen after the baseline was revised as part of the aforementioned Hendy review.
 - (e) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Expenditure is slightly lower than the baseline as activity has been re-profiling into future years. As a result of resetting the baselines following the Hendy review no financial underperformance is recognised for the control period to date (refer to Statement 5a).
 - (f) Reading Station Area Redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. As this programme nears completion the expected costs for delivering the whole programme have decreased, as tight cost control has allowed the release of project contingencies. As a result, there is a saving against baseline and a recognition of financial outperformance (see Statement 5a).
 - (g) Adjustment for DfT funding – Reading Station Area Redevelopment – in 2014/15 DfT made the decision to fund some of Reading Station Area Redevelopment programme through a cash payment rather than through a RAB addition. This change in funding is also reflected in the Third party PAYG category. To aid transparency, this is shown as a separate item in these accounts.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2015-16 prices unless stated

- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and baselines are set out below:
- (a) Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (b) Thames Valley branches – this programme aims to electrify three branch lines (Twyford to Henley-on-Thames, Maidenhead to Borne End and Marlow, and Slough to Winsor & Eton Central) to compliment the GW Electrification programme in the Western route. In line with baselines included in the Hendy review there was limited activity on this project in the first two years of the control period.
 - (c) Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along on the Oxford Corridor. Expenditure is very slightly higher than the baseline.
 - (d) Western access to London Heathrow Airport – This project will improve access to Heathrow Airport by providing an interchange at Reading. Expenditure on the programme in the control period to date is broadly in line with the agreed baseline.
 - (e) Dr Days to Filton Abbey Wood Capacity Improvements - The project will contribute to reducing end-to-end journey times for cross-country and Bristol – London Paddington services. Expenditure is slightly higher than the baseline due to work being brought forward from future years.
 - (f) Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. In line with the Hendy review there was limited activity on this project in the first two years of the control period.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and baselines are set out below:
- (a) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Hendy review baselines there was minimal activity on this programme in the first two years of the control period.
 - (b) Route gauge Clearance for different EMUs – expenditure is slightly higher than the revised baseline which was agreed as part of the Hendy review due to acceleration of activity from future years.
- (9) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the Baseline column values in this statement. Notable variance between the funding available and actual spend in these areas are noted below:
- (a) Westerleigh Junction - Barnt Green linespeed increase - This enhancement will provide a linespeed increase to 100mph for the majority of the route, resulting in increased performance robustness. The scope and costs of this project have been revised as part of the Hendy review exercise and expenditure is in line with this new plan.

Statement 3: Analysis of enhancement capital expenditure, Western – continued

in £m 2015-16 prices unless stated

- (10) Other projects – this heading captures various sundry enhancement projects. Notable variances to the baseline include:
- (a) Seven day railway projects – Expenditure is lower than the expectation in the control period to date due to re-profiling of expenditure into future years.
 - (b) ERTMS Cab Fitment – The objective of this fund is to facilitate the inclusion of migration to ETCs operation as a requirement to new franchises and to ensure sufficient ETCS-equipped engineering vehicles are available to assure the continued maintenance of the routes equipped with ETCS. Expenditure in the control period is below target due to re-profiling of activity into future years.
 - (c) R&D allowance – In the Hendy Review the majority of this fund was re-phased from the current control period to CP6. Therefore the expenditure is below the target for the year and control period to date.
 - (d) Depots and stabling – The objective of the fund is to deliver depots, stabling and ancillary works to support delivery of outputs by committed projects. The fund's prime objective is to enhance depots and stabling facilities for HLOS capacity metric schemes, the CP5 electrification programme and for associated gauge and electric compatibility works. The expenditure for the control period is below the target as work has been reprofiled until later years of the control period.
 - (e) Income generating property schemes – The regulatory settlement assumed a certain level of investment in property schemes would be required in order to achieve the revenue targets (as set out in Statement 6). In addition, the regulator also set up the 'spend to save' framework to encourage extra investment in schemes which had a sufficiently robust business case. Expenditure in the control period to date is slightly below the target reflecting difficult decisions Network Rail are having to make based on the cash constraints facing the business this control period.
 - (f) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 or 2015/16 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry. The Hendy review acknowledged this which resulted in a change in the baseline.
- (11) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYG projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.
- (a) PAYGO – The main project in the year was to build a new underbridge near to Parsons Street Station.

Statement 4: Net debt and financial ratios, Western

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2016

(£m, nominal prices)	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
2014-15 Closing net debt	3,839	3,939	100			
Adjustment for opening control period debt	-	(51)	(51)			
Opening net debt	3,839	3,888	49	3,030	2,961	(69)
Income						
Grant income	(413)	(407)	6	(811)	(803)	8
Fixed charges	(28)	(28)	-	(65)	(64)	1
Variable charges	(96)	(93)	3	(186)	(184)	2
Other single till income	(100)	(138)	(38)	(189)	(250)	(61)
Total income	(637)	(666)	(29)	(1,251)	(1,301)	(50)
Expenditure						
Network operations	41	33	(8)	80	64	(16)
Support costs	28	43	15	68	87	19
Traction electricity, industry costs and rates	31	29	(2)	55	54	(1)
Network maintenance	122	114	(8)	238	228	(10)
Schedule 4	29	20	(9)	55	40	(15)
Schedule 8	8	1	(7)	26	2	(24)
Renewals	277	295	18	610	652	42
PR13 enhancement	1,035	819	(216)	1,639	1,566	(73)
Non-PR13 enhancement	6	-	(6)	48	-	(48)
Total expenditure	1,577	1,354	(223)	2,819	2,693	(126)
Financing						
Interest expenditure on nominal debt - FIM covered	39	63	24	89	119	30
Interest expenditure on index linked debt - FIM covered	27	30	3	51	54	3
Expenditure on the FIM	38	47	9	74	85	11
Interest expenditure on government borrowing	31	-	(31)	40	-	(40)
Interest on cash balances held by Network Rail	(1)	(2)	(1)	(2)	(3)	(1)
Total interest costs	134	138	4	252	255	3
Accretion on index linked debt - FIM covered	25	61	36	47	110	63
Total financing costs	159	199	40	299	365	66
Corporation tax	-	-	-	(1)	-	1
Other	(62)	-	62	(20)	57	77
Movement in net debt	1,037	887	(150)	1,846	1,814	(32)
Closing net debt	4,876	4,775	(101)	4,876	4,775	(101)

D) Financial indicators

	2014-15	2015-16	2015-16 PR13
Adjusted interest cover ratio (AICR)	1.12	1.17	1.50
FFO/interest	2.98	2.82	3.11
Net debt/RAB (gearing)	71.8%	75.4%	75.3%
FFO/debt	9.1%	7.7%	8.9%
RCF/debt	6.1%	5.0%	6.1%
Average interest costs by category of debt			
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	2.9%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.4%
FIM fee in %	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	n/a

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in May 2016.
- (2) This year, the ORR has decided to revisit its assumption of the 2015/16 opening debt for inflation differences between its determination and actual inflation. This has been included in the Adjustment for opening control period debt category.

Comments:

- (1) Network Rail's debt attributable to Western has increased by £1.0bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Net debt at 31 March 2016 is £0.1bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network, higher performance regime costs and higher operating costs have caused further increases in debt.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a. The PR13 renewals allowance in this statement represents the original determination assumptions and has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding as a result of the Hendy review, the ECAM (Enhancement Cost Adjustment Mechanism) process or any other agreed changes.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first two years of the control period). The current year variance has been augmented by lower than expected rates and the refinancing of some of these types of debt instruments through government borrowing this year. This trend is expected to continue over the remainder of the control period.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower assumed level of debt and lower inflation rates than the regulator assumed, thus reducing the interest costs associated with these instruments. In addition, as all new debt issuances are direct from government the proportion of this type of debt decreases which contributes to the lower costs compared to the regulatory expectation.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government. The control period to date variance is expected to increase quicker as more nominal debt is re-financed by direct government borrowing.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator's allowance built in an assumption of the RPI rates for 2013/14 to 2015/16. However, the actual RPI rates that drive the index-linked interest costs have been substantially lower. For example, this year the regulator assumed that RPI would be 2.9 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.3 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(13) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 33 per cent of the value of gross debt at the year end is now directly from government. The proportion of gross debt issued by government has doubled since last year as existing debt is refinanced. Nominal borrowings have decreased in both absolute and proportionate terms as bonds that have matured in the current year (including USD and CAD denominated issuances) have been replaced with government borrowing. Index-linked borrowings have increased in absolute terms as none of the debt instruments will mature this control period but the nature of these items means that the interest costs associated with them are added to the principle. The proportion of this type of debt has decreased as the rate of overall gross debt has increased at a much quicker rate than RPI.

Statement 4: Net debt and financial ratios, Western – continued

in £m nominal unless otherwise stated

(14) Financial indicators – ratios are defined as follows:

Adjusted interest cover ratio (AICR)	FFO* less capitalised expenditure to maintain the network in steady state divided by net interest**
FFO/interest	FFO divided by net interest
Net debt*** / RAB (gearing)	Net debt divided by RAB
FFO/debt	FFO divided by net debt
RCF**** / debt	FFO less net interest divided by net debt

Notes: *Funds from operations (FFO) is defined as gross revenue requirement less opex less maintenance, less schedule 4 & 8 less cash taxes paid. **Net interest is the total interest cost including the FIM fee, but excluding the principal accretion on index linked debt. ***Debt is defined in the Regulatory Accounting Guidelines May 2016.

****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – PR13 comparatives are derived from the information in Statements 2 and 4 as disclosed in these Regulatory financial statements. Therefore, these may be different to the targets set out in the final determination published in 2013 as this included forecasts of inflation from November 2013 onwards which are always likely to vary from the actual inflation experienced.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. The variance to the regulator's determination is mainly due to higher Schedule 4, Network operations and Network maintenance costs partly offset by savings in Support costs and interest cost savings. These variances are addressed in more detail in other statements of these Regulatory financial statements.

(17) Financial indicators - Debt:RAB ratio – this ratio (sometimes referred to as “the gearing ratio” in regulatory economics parlance) is a regulatory concept designed to act in lieu of market pressures that a privately-owned infrastructure company would face. A lower ratio suggests a less risky company as its main liability (ie debt) is worth comparatively less than its main asset (ie RAB). The ratio at the end of 2015/16 is consistent with the regulator's expectation.

(18) Financial indicators – FFO/ debt – this ratio shows the proportion of Network Rail's debt that is covered by the surplus funds it generates from its activities. The main reason for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably for Maintenance, Network operations and Schedule 4 costs. Network Rail also has higher debt the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator's expectation which contributes to the reduction.

Statement 5a: Total financial performance, Western

in £m 2015-16 prices unless stated

2015-16								
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Variance not included in Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
	A	B	C	D	E	F		
Income								
Grant Income	413	407	6	6	-	-	-	-
Fixed Income	28	28	-	-	-	-	-	-
Variable Income	96	93	3	-	-	-	3	3
Other Single Till Income	100	138	(38)	(50)	-	-	12	12
Opex memorandum account	4	-	4	2	-	-	2	2
Total Income	641	666	(25)	(42)	-	-	17	17
Expenditure								
Network operations	41	33	(8)	-	-	-	(8)	(8)
Support costs	28	43	15	13	-	-	2	2
Industry costs and rates	27	26	(1)	(2)	-	-	1	1
Traction electricity	3	3	-	-	-	-	-	-
Reporter's fees	1	-	(1)	-	(1)	-	-	-
Network maintenance	122	114	(8)	-	(6)	-	(2)	(2)
Schedule 4 costs	29	20	(9)	-	2	-	(11)	(11)
Schedule 8 costs	8	1	(7)	-	-	-	(7)	(7)
Renewals	277	295	18	-	138	-	(120)	(30)
PR13 Enhancements	1,035	1,103	68	-	120	-	(52)	(19)
Non PR13 Enhancements	6	-	(6)	-	(17)	-	11	11
Financing Costs	159	199	40	40	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,736	1,837	101	51	236	-	(186)	(63)
Total:			76	9	236	-	(169)	(46)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(46)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(6)
Under-delivery of train performance requirements (CaSL)								(1)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(7)
Total financial out / (under) performance to be recognised								(53)

Statement 5a: Total financial performance, Western - continued

in £m 2015-16 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance G = C - D - E - F	Financial out / (under) performance H = G or H = G*25%
Income								
Grant Income	815	806	9	9	-	-	-	-
Fixed Income	66	64	2	2	-	-	-	-
Variable Income	186	186	-	-	-	-	-	-
Other Single Till Income	190	254	(64)	(81)	-	-	17	17
Opex memorandum account	4	-	4	-	-	-	4	4
Total Income	1,261	1,310	(49)	(70)	-	-	21	21
Expenditure								
Network operations	80	66	(14)	-	-	-	(14)	(14)
Support costs	69	89	20	15	-	-	5	5
Industry costs and rates	51	53	2	(1)	-	-	3	3
Traction electricity	3	5	2	-	-	-	2	2
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	239	229	(10)	-	(6)	-	(4)	(4)
Schedule 4 costs	55	40	(15)	-	-	-	(15)	(15)
Schedule 8 costs	26	1	(25)	-	-	-	(25)	(25)
Renewals	615	655	40	-	224	-	(184)	(46)
PR13 Enhancements	1,646	1,720	74	-	142	-	(68)	(23)
Non PR13 Enhancements	48	-	(48)	-	(48)	-	-	-
Financing Costs	300	365	65	65	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	-	1	-	1	-	-	-
Total Expenditure	3,132	3,224	92	79	313	-	(300)	(117)
Total:			43	9	313	-	(279)	(96)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(96)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(13)
Under-delivery of train performance requirements (CaSL)								(3)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(16)
Total financial out / (under) performance to be recognised								(112)

	2015-16			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	-	-	-	-	-	-
Total variance not included in total	-	-	-	-	-	-
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	-	50	(50)	-	81	(81)
Total variance not included in total	-	50	(50)	-	81	(81)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	12	-	12	12	-	12
Spend to save adjustment	1	-	1	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2
Total variance not included in total	13	-	13	15	-	15

Statement 5a: Total financial performance, Western - continued

In £m 2015-16 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Crossrail) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance. Similarly, there may be occasions when Network Rail has spent more than the regulator's determination and these variances should not be attributed to financial underperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance but not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (3) Variable income – some outperformance has been recognised due to favourable variances on Variable usage charge, Capacity charge and Schedule 4 income compared to the regulators' targets
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, the external parties provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income is made to reflect the neutral impact of changes in the funding arrangements. The underlying outperformance recognised in Other single till income includes additional income arising from the reclassification of Bristol and Reading stations from leased to managed stations. Whilst this reclassification gives Network Rail an opportunity to generate more income it also results in higher operating costs that comes with running these extra stations. In addition, property sales realised this year were in excess of the determination.

Statement 5a: Total financial performance, Western – continued

In £m 2015-16 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Variances on Business Rates attributed to Western have been classified as FPM neutral. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM result. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the regulator's assumptions with the largest contributor being the reclassification of Reading and Bristol stations which have moved from franchised stations to managed stations. As a result Network Rail is responsible for the costs of running the station, but receives extra income (shown in Other single till income in the above table). This change in classification occurred after the targets for CP5 were set. Costs also include the impact of pay awards higher than inflation and extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination.
- (7) Support costs – costs are lower than the PR13 assumption largely as a net result of non-recurring transactions, including contractual receipts received from third parties for achieving project milestones on the Crossrail programme, lower re-organisation costs, reduction in incentive payments to senior staff as well as from some efficiencies achieved throughout the various functions that comprise Support costs. Not all of the favourable variance to the PR13 allowance has been classified as financial outperformance. During the year, Network Rail recognised some income received from agreeing restructuring to restructuring of financing arrangements. However, as this change in financing results in higher interest expenses (which are excluded from the scope of FPM) this benefit has also been excluded.
- (8) Reporters fees – the variance to the determination has been treated as neutral when assessing financial performance. The overspend allocated to Western this year offsets the saving last year which was also treated as neutral when calculating FPM.
- (9) Network maintenance – maintenance costs are higher than the regulator assumed in the year which reflects additional Reactive Maintenance works required. The variance due to Reactive Maintenance has been reported under the Variances in volume of work column, in line with financial performance calculation guidance agreed with the regulator. Financial underperformance has been recognised this year which includes the impact of pay awards higher than the rate of inflation.
- (10) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (11) Schedule 4 costs – when assessing financial performance for this category, an adjustment is made to the regulator's baseline to reflect the level of renewals work undertaken in the year. As Schedule 4 costs are incurred as a result of the level of possessions required by Network Rail this helps establish a like-for-like comparison. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to the Schedule 4 baseline so that a fair assessment of financial performance can be made. Therefore, the financial underperformance recognised this year is higher than the simple arithmetic variance between the regulator's assumption (column B) and the actual expenditure (column A). Costs this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies.
- (12) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. When preparing its Business Plan for CP5, Network Rail expected to have financial underperformance in this area throughout the control period. However, the level of underperformance this year exceeds this plan. Given how far behind the regulator's targets Network Rail were at the start of this year, achieving the ORR's targets was never a realistic expectation. The adverse variance compared to the determination was lower than the previous year suggesting improvements have been made in this area.

Statement 5a: Total financial performance, Western – continued

In £m 2015-16 prices unless stated

- (13) Renewals – when assessing renewals FPM, adjustments to the PR13 baselines are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This enables a like-for-like comparison to be made so that re-profiling of activity within the control period or accelerating/ deferring work from/into future control periods does not result in FPM being recognised. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions and changes arising from agreed revisions to the programme baseline. This year, following a review of Network Rail's enhancement programme undertaken by the organisation's new Chairperson, Sir Peter Hendy, a new set of baselines were agreed which will form the basis of assessing FPM. These new baselines are reflected in this year's assessment. Enhancement financial performance is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is highly likely that the size of this variance will only increase as new projects are identified. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. Following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates (for both nominal and accreting debt instruments) as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these types of costs and instead, it is the prevailing market conditions, which determines the underlying costs.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM. The measure is not symmetrical as no credit is recognised if Network Rail exceeds its' regulatory targets but reductions are made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2015/16, continuing the trend of the first year of the control period. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction in its financial performance for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, Western

in £m 2015-16 prices unless stated

2015-16								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(3)	25	(28)	(7)		(7)	-	-
Signalling	23	95	(72)	(18)		(18)	-	-
Civils	2	14	(12)	(3)		(2)	(1)	-
Buildings	5	5	-	-		-	-	-
Electrical power and fixed plant	10	10	-	-		-	-	-
Telecoms	1	5	(4)	(1)		-	(1)	-
Wheeled plant and machinery	2	2	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	(21)	(17)	(4)	(1)		-	(1)	-
Total	18	138	(120)	(30)		(27)	(3)	-

Cumulative								
	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(8)	44	(52)	(13)		(13)	-	-
Signalling	103	187	(84)	(21)		(21)	-	-
Civils	(24)	4	(28)	(7)		(5)	(2)	-
Buildings	9	9	-	-		-	-	-
Electrical power and fixed plant	20	20	-	-		-	-	-
Telecoms	6	10	(4)	(1)		-	(1)	-
Wheeled plant and machinery	12	12	-	-		-	-	-
IT	(10)	(10)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(68)	(52)	(16)	(4)		(2)	(2)	-
Total	40	224	(184)	(46)		(41)	(5)	-

Where: C = A - B

D = C x 25%

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, Western - continued

In £m 2015-16 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year to enable a like-for-like comparison. This approach means there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines May 2016) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets and continuing the trend from the previous year. As these efficiency targets get progressively harder as the control period continues financial underperformance is expected to continue for the remainder of the control period.
- (2) Track – there has been notable financial underperformance in the current year. About one-third of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Also, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. The assumptions in Network Rail's own plan for efficiencies, especially Plan Line, have not been achieved. In addition, higher non-volume costs, notably in drainage where the CP5 plan used modelled, centrally-derived rates which have proven to be highly optimistic, have contributed to financial underperformance this year. Switches & crossings unit rates have been impacted by deferral of activity into future years (as reductions in volumes do not have a proportionate decrease in total programme costs). Finally, contractor performance continues to be lower than anticipated.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. As reported in last year's Regulatory financial statements, additional costs on Swindon and Bristol re-signalling schemes have incurred delay costs, including additional possessions and contractor claims. In addition, issues have emerged on the Oxford signalling programme which have caused higher unit rates. Resource shortages in the contractor market have also increased cost. For example, the deferral of the second phase of the ETCS project (Heathrow to Bristol) until future control periods has resulted in a number of costs still being incurred this year, which have been recognised as financial underperformance. There have also been some extra costs on the Swindon Kemble programme attributable to national haulage shortage and a resultant contractor claim. Finally, delay in programme delivery has also resulted in supplementary cable renewal and life extension works required to maintain asset performance.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year, continuing the trend of the previous year. Once more, the impact of emergency works has added to the cost base, and these jobs, due to their nature, are usually more expensive than volumes planned in advance. Whilst some efficiencies have been generated, notably on contractor framework agreements and improved understanding of when to undertake interventions, the rate of savings were lower than the efficiencies assumed by the regulator in their determination.

Statement 5c: Total financial performance - enhancement variance analysis, Western

in £m 2015-16 prices unless stated

2015-16

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	49	33	-	16	4
Reading station area redevelopment	(4)	(16)	-	12	3
Swindon Kemble Redoubling	-	(11)	-	11	11
Crossrail	38	114	-	(76)	(25)
East West Rail (committed scheme)	(8)	(4)	-	(4)	(1)
Other Enhancements	(13)	(13)	-	-	-
Total	62	103	-	(41)	(8)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	(37)	(37)	-	-	-
Reading station area redevelopment	5	(7)	-	12	3
Swindon Kemble Redoubling	(24)	(24)	-	-	-
Crossrail	83	159	-	(76)	(25)
East West Rail (committed scheme)	(2)	2	-	(4)	(1)
Other Enhancements	2	2	-	-	-
Total	27	95	-	(68)	(23)

Statement 5c: Total financial performance - enhancement variance analysis, Western - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Enhancement financial performance is only measured on those schemes that have a confirmed baseline. Many of the enhancement programmes listed in Statement 3 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. During 2015, the Secretary of State commissioned Network Rail's new Chairperson, Sir Peter Hendy to conduct a thorough review of the CP5 enhancement programme in England & Wales. Following publication of this report and acceptance from DfT, this has become the appropriate baseline for measuring Network Rail against when assessing Financial performance and the amount eligible for RAB addition (refer to Statement 2). Note that the Hendy report did not cover all of Network Rail's enhancement programme, with the notable exception being and programmes with their own protocol (such as Crossrail).
- (2) The calculation of FPM for enhancements depends upon the nature of the enhancement programme or project. Network Rail and ORR have worked together to devise a set of rules for how to calculate FPM in detail.
- (3) Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, this is not always the case (such as programmes which have their own protocol arrangement). Where this is not the case, this will be noted in the below commentary.
- (4) Rather than list the variances for all enhancement programmes and projects the above table only includes those programmes where either financial out or under performance has been recognised in the current year or the control period to date.

Comments:

- (1) GW electrification – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being in excess of the baseline set under the ECAM process. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (2) Reading – the programme costs were re-baselined as part of the Hendy review. Since then programme efficiencies have been identified as risks have been successfully mitigated resulting in savings in programme contingencies.
- (3) Swindon Kemble Redoubling – in the 2014/15 Regulatory financial statements, financial underperformance was recognised as a result of anticipated final programme costs being higher than the original baseline. However, following the decision to re-evaluate programme baselines in line with the outcome of the Hendy review, the expected costs of the programme are currently in line with the new baseline, meaning there is no financial under or out performance on the programme to date. The financial outperformance recognised this year is to reverse the financial underperformance reported in 2014/15.
- (4) Crossrail – underperformance has been recognised this year in light of additional programme costs for due to extra station works, signalling contractor works, and impact of delays in the design details for the installation of West Outer Overhead Line Equipment. Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Crossrail overspends is not in line with the usual 25 per cent for enhancements overspends.
- (5) East West Rail – as part of the Hendy review, the baseline of this programme was re-set. Since that time the expected costs of the programme have increased, which has led to the recognition of negative FPM in the current year. The reason for the increased costs since Hendy include: additional contractor costs arising from unforeseen claims, increases in project scope to relocate noise barriers to obtain planning permission, delays to programme timetable caused by obtaining said permissions along with other programme delays.
- (6) Other enhancements – this is used as the balancing line to capture all programme spend variances against the PR13 assumptions that are due to agreed changes in baselines rather than financial under or out performance against those baselines, so that the total in the Variance to adjusted PR13 column agrees to the variance shown in Statement 3 of these Regulatory financial statements.

Statement 5d: REBS Reconciliation, Western

in £m 2015-16 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2015-16 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	49	49	-	-	-	-	-
Capacity charge	97	99	(2)	-	-	-	(2)
Electricity asset utilisation charge	-	-	-	-	-	-	-
Property income	55	44	11	-	-	-	11
Expenditure							
Network operations	80	63	(17)	-	-	-	(17)
Support costs	69	87	18	-	2	-	16
RSSB and BT Police	16	19	3	-	-	-	3
Network maintenance	239	226	(13)	(12)	-	-	(1)
Schedule 4 costs	55	53	(2)	13	-	-	(15)
Schedule 8 costs	26	-	(26)	-	-	-	(26)
Renewals	615	586	(29)	155	-	(138)	(46)
Total REBS performance			(57)	156	2	(138)	(77)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(13)
Under-delivery of train performance requirements (CaSL)							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(16)
Cumulative performance to end of 2015-16							(93)
Less cumulative outperformance recognised up to the end of 2014-15							(54)
Net REBS performance for 2015-16							(39)

Where: C = B - A
And: F = (C - D - E) x 75 %
And: G = (C - D - E - F)

Statement 5d: Total financial performance – REBS performance, Western – continued

In £m 2015-16 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.

Statement 6a: Analysis of income, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Grant income	413	407	6	815	806	9	402
Franchised track access income							
Fixed charges	28	28	-	66	64	2	38
Variable charges							
Variable usage charge	20	19	1	39	38	1	19
Traction electricity charges	-	-	-	-	-	-	-
Electrification asset usage charge	-	-	-	-	-	-	-
Capacity charge	50	49	1	97	98	(1)	47
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	26	25	1	50	50	-	24
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	96	93	3	186	186	-	90
Total franchised track access income	124	121	3	252	250	2	128
Total franchised track access and grant income	537	528	9	1,067	1,056	11	530
Other single till income							
Property income	34	25	9	55	49	6	21
Freight income	5	6	(1)	10	13	(3)	5
Open access income	10	12	(2)	21	23	(2)	11
Stations income	27	23	4	53	45	8	26
Facility and financing charges	15	64	(49)	35	109	(74)	20
Depots Income	8	7	1	15	14	1	7
Other income	1	1	-	1	1	-	-
Total other single till income	100	138	(38)	190	254	(64)	90
Total income	637	666	(29)	1,257	1,310	(53)	620

Statement 6a: Analysis of income, Western - continued

In £m 2015-16 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income – grants are not paid separately for each route within England & Wales. A single grant is received which is apportioned to each route in line with the assumptions in the regulator's determination. Grant income in the current year and the control period to date is slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the PR13 values uplifted by the November RPI for 2013, 2014 and 2015, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines May 2016), and the rates used to calculate the actual grant payments made by Department for Transport (which are calculated a year in arrears and so uplift the PR13 values by twice the November RPI for 2013 plus the November RPI for 2015) in line with the Deed of Grant arrangements. This is illustrated below:

	Price uplift to apply (%)		
	2013/14	2014/15	2015/16
PR13 comparison – in year	2.65%	1.98%	1.05%
PR13 comparison – cumulative	2.65%	4.68%	5.78%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%

As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income is higher than last year but as the amount received is contractual as discussed above and is set in the determination, prior year comparisons are not particularly useful. The increase from last year is largely offset by lower fixed track access charges received from train operators.

- (3) Fixed charges – Fixed charges are on target with the determination but are lower than last year but as the amount received is contractual as discussed above and is set in the determination prior year comparisons are not particularly useful. The decrease from last year is more than offset by increased government grant receipts

Statement 6a: Analysis of income, Western - continued

In £m 2015-16 prices unless stated

- (4) Property income – this is higher than the determination and the prior year due to both increased rental and sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. The extra income this year largely mitigates the lower income reported in the previous year. Property rental income is largely driven by the change in status of two stations, Bristol and Reading, during the year to being Managed stations. This allows Network Rail to earn additional rental income from station tenants, but also leads to higher costs (refer to Statement 7a) as Network Rail now has greater responsibility for the operations of the stations.
- (5) Stations income – this is favourable to the regulator's assumption in the year and control period to date, as two stations, Bristol and Reading, changed from being franchised stations to managed stations since the PR13 targets were established. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (6) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is outside the scope of Network Rail's financial performance assessment. This is consistent with the situation last year resulting in a large adverse variance against the determination in the control period to date (but also a large saving in interest costs incurred as reported in Statement 4).

Statement 6b: Analysis of other single till income, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Property Income							
Property rental	28	24	4	50	47	3	22
Property sales	6	3	3	5	6	(1)	(1)
Adjustment for commercial opex	-	(2)	2	-	(4)	4	-
Total property income	34	25	9	55	49	6	21
Freight income							
Freight variable usage charge	5	5	-	10	10	-	5
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	-	1	(1)	-
Total freight income	5	6	(1)	10	13	(3)	5
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	1	(1)	-
Open access traction electricity charges	1	3	(2)	3	5	(2)	2
Fixed contractual contribution	9	9	-	18	17	1	9
Open access other income	-	-	-	-	-	-	-
Total open access income	10	12	(2)	21	23	(2)	11
Stations income							
Managed stations income							
Long term charge	5	3	2	10	7	3	5
Qualifying expenditure	10	3	7	19	6	13	9
Total managed stations income	15	6	9	29	13	16	14
Franchised stations income							
Long term charge	9	10	(1)	18	20	(2)	9
Stations lease income	3	7	(4)	6	12	(6)	3
Total franchised stations income	12	17	(5)	24	32	(8)	12
Total stations income	27	23	4	53	45	8	26
Facility and financing charges							
Facility charges	15	14	1	35	28	7	20
Crossrail finance charge	-	50	(50)	-	81	(81)	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	15	64	(49)	35	109	(74)	20
Depots income	8	7	1	15	14	1	7
Other	1	1	-	1	1	-	-
Total other single till income	100	138	(38)	190	254	(64)	90

Statement 6b: Analysis of other single till income, Western (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	18	18	-	36	35	(1)	18
Signalling shift managers	-	1	1	-	2	2	-
Local operations managers	-	1	1	1	2	1	1
Controllers	6	2	(4)	12	5	(7)	6
Electrical control room operators	1	1	-	1	2	1	-
Total signaller expenditure	25	23	(2)	50	46	(4)	25
Non-signaller expenditure							
Mobile operations managers	2	2	-	4	5	1	2
Managed stations	10	3	(7)	18	6	(12)	8
Performance	1	1	-	2	2	-	1
Customer relationship executives	1	1	-	1	1	-	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	3	3	-
Other	4	1	(3)	10	2	(8)	6
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	1	2	1	2	4	2	1
Other operating income	(3)	(2)	1	(7)	(3)	4	(4)
Total non-signaller expenditure	16	10	(6)	30	20	(10)	14
Total network operations expenditure	41	33	(8)	80	66	(14)	39
Support costs							
Core support costs							
Human resources	3	5	2	6	10	4	3
Information management	6	6	-	12	11	(1)	6
Government and corporate affairs	1	2	1	2	3	1	1
Group strategy	-	1	1	1	2	1	1
Finance	2	2	-	4	5	1	2
Business services	1	1	-	2	3	1	1
Accommodation	6	5	(1)	13	11	(2)	7
Utilities	5	6	1	9	10	1	4
Insurance	8	7	(1)	15	13	(2)	7
Legal and inquiry	1	-	(1)	2	1	(1)	1
Safety and sustainable development	2	1	(1)	4	2	(2)	2
Strategic sourcing	1	1	-	2	1	(1)	1
Business change	-	-	-	-	1	1	-
Other corporate functions	6	-	(6)	12	1	(11)	6
Core support costs	42	37	(5)	84	74	(10)	42
Other support costs							
Asset management services	3	4	1	6	10	4	3
Network Rail telecoms	4	3	(1)	8	6	(2)	4
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(4)	-	4	(6)	-	6	(2)
Commercial property	(1)	-	1	(2)	-	2	(1)
Group costs	(16)	(1)	15	(21)	(2)	19	(5)
Total other support costs	(14)	6	20	(15)	15	30	(1)
Total support costs	28	43	15	69	89	20	41
Traction electricity, industry costs and rates							
Traction electricity	3	3	-	3	5	2	-
Business rates	17	15	(2)	31	31	-	14
British transport police costs	7	8	1	14	17	3	7
RSSB costs	1	1	-	2	2	-	1
ORR licence fee and railway safety levy	2	2	-	4	3	(1)	2
Reporters fees	1	-	(1)	1	1	-	-
Other industry costs	-	-	-	-	-	-	-
Total traction electricity, industry costs and rates	31	29	(2)	55	59	4	24
Total network operations expenditure, support costs, traction electricity, industry costs and rates	100	105	5	204	214	10	104

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network 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. The PR13 uses the term “network operations” to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator’s assumptions. The largest contributor was the reclassification of Reading and Bristol stations which have moved from franchised stations to managed stations. As a result Network Rail is responsible for the costs of running the station, but receives extra income (refer to Statement 6). This change in classification occurred after the targets for CP5 were set. Costs were higher than the previous year which included the impact of pay awards higher than inflation. Costs are also higher than the previous year due to extra expenditure on projects aimed at improving performance and efficiency in the long-run. This includes the adoption of LEAN techniques throughout the Network Operations organisation, implementing visualisation programmes as well as other numerous local change management and performance improvement schemes. Managed stations costs were higher this year, reflecting the full year impact of the reclassification of Reading and Bristol stations. Lastly, costs are higher than the determination due to the introduction of new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP) in response to the massive increases in passenger demand. Whilst this will provide upgrades to the industry there was no funding for these programmes in the determination. Most of these extra cost pressures have been absorbed in Western as efficiency initiatives have delivered some underlying cost savings.
- (4) 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 rest of the business areas. Support costs are lower than the determination (largely arising from one-off events recognised in Group) and lower than the previous year (for the same reason).
- (5) Human Resources - costs are lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail’s operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Costs are in line with the previous year. Further breakdown of HR costs can be found in Statement 7b.
- (6) Insurance - costs are higher than the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. So the extra cost compared to the determination provides less protection against external events
- (7) Other corporate functions – costs are consistent with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail’s Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or the determination did not expect the same level of organisational requirement. The savings compared to the PR13 in the current year and control period to date in Human Resources, Finance and Asset management services are helping to fund the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.

Statement 7a: Analysis of network operations expenditure, support costs, traction electricity, industry costs and rates, Western - continued

In £m 2015-16 prices unless stated

- (8) Infrastructure Projects – in line with International Accounting Standards, incremental, directly attributable costs incurred by projects are capitalised and therefore, there is usually minimal net costs reported within Infrastructure Projects. The amount in Infrastructure Projects for the current year mostly relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers. The underlying credit balance is in line with the previous year. The current year also includes contractual receipts received from third parties for achieving project milestones on the Crossrail programme.
- (9) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off transactions. The current year benefitted from recognising a favourable commercial settlement and from reducing amounts payable to senior management under performance related pay arrangements. In addition, savings were made in reorganisation costs where the costs were less than half of that expected by the regulator, which was a consequence of fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were made around job security of union members in order to prevent industrial action causing massive disruption for the millions of people who rely on the rail network every day. In 2014/15, there was a large reduction in payments to senior management under performance related pay arrangements with the savings being re-invested in improving the safety and performance of the network. The prior year also included the benefit of a reduction in the financial penalty imposed by ORR for missing CP4 train performance targets. Savings from these non-recurring events were lower than the savings from the one-off items in the current year.
- (10) Traction electricity, industry costs and rates – 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. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. Costs are broadly in line with the regulator’s assumption with some additional Business rates expenses recognised.
- (11) Traction electricity – unlike most routes, Western only has minimal traction electricity expenses as very little of the network in this area is electrified. Costs are higher than the previous year as the network in this route begins to use electrification as a means of propulsion. This was in line with the regulator’s assumption.
- (12) Business rates - costs are higher than the determination assumed. The ORR assumed a different allocation of Business rates to the Western route than is the case. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator’s assumptions. Network Rail expects to be compensated for these extra costs in Western through the Opex memorandum account mechanism (refer to Statement 10).

Statement 7b: Analysis of network operations expenditure and support costs by activity, Western

in £m 2015-16 prices unless stated

	2013-14	2014-15	2015-16
Network operations			
Operations and customer services signalling	14	17	19
MOMS	1	2	3
Control	2	6	6
Planning & Performance Staff Costs	2	3	5
Managed Stations Staff Costs	1	2	2
Operations Management Staff Costs	1	2	1
Other	7	7	5
Total operations & customer services costs	28	39	41
Total Network Operations	28	39	41
Support			
Human resources			
Functional support	3	-	1
Training (inc Westwood)	2	1	1
Graduates	-	-	-
Apprenticeships	1	1	1
Other	-	1	-
Total human resources	6	3	3
Information management			
Support	1	1	-
Projects	-	-	-
Licences	-	-	-
Business operations	4	5	6
Other	-	-	-
Total information management	5	6	6
Finance	2	2	2
Business Change	-	-	-
Contracts & Procurement	1	-	-
Strategic Sourcing (National Supply Chain)	-	1	1
Planning & development	1	1	-
Safety & compliance	1	-	-
Other corporate services	5	2	1
Commercial property	9	6	5
Infrastructure Projects	(6)	(2)	(4)
Route Services	1	2	3
Asset management & Engineering/Asset heads	13	-	-
National delivery service	-	-	-
Private party	-	-	-
Utilities	-	4	5
Network Rail Telecoms	-	4	4
Digital Railway	-	1	2
Safety Technical & Engineering	-	4	3
Government & Corporate Affairs	-	1	1
Business Services	-	1	1
Route Asset Management	-	2	2
Legal and inquiry	-	1	1
Group/central			
Pensions	-	-	-
Insurance	3	7	8
Redundancy/reorganisation costs	6	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)
Accommodation & Support Recharges	-	(2)	(2)
Commercial claims settlements	1	-	(13)
ORR financial penalty	8	(2)	-
Other	-	-	(1)
Total group/central costs	18	2	(8)
Total support	56	41	28
Total network operations and support costs	84	80	69

Statement 7b: Analysis of network operations expenditure and support costs by activity, Western (unaudited) - continued

In £m 2015-16 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	39	39	-	78	80	2	39
Signalling	20	15	(5)	38	29	(9)	18
Civils	19	14	(5)	36	28	(8)	17
Buildings	6	6	-	12	12	-	6
Electrical power and fixed plant	4	19	15	8	36	28	4
Telecoms	2	2	-	4	5	1	2
Other network operations	30	12	(18)	59	25	(34)	29
Asset management services	4	4	-	7	7	-	3
National Delivery Service	(1)	4	5	(2)	9	11	(1)
Property	1	-	(1)	3	1	(2)	2
Group	(2)	(1)	1	(4)	(3)	1	(2)
Total maintenance expenditure	122	114	(8)	239	229	(10)	117

Statement 8a: Summary analysis of network maintenance expenditure, Western - continued

In £m 2015-16 prices unless stated

Note:

- (1) These costs only include direct costs.

Comments:

- (1) Overall, maintenance costs are higher than the regulator assumed in the year, which reflects additional Reactive Maintenance works required. In addition, in the face of industrial action and the disruption that this would have on the millions of people who rely on rail every day, pay awards for have been higher than inflation and Network Rail have been unable to initiate potential re-organisation plans. Costs are higher than the previous year largely due to more Reactive maintenance works required this year and network growth partly offset by reductions in project expenditure from 2014/15 (vegetation management and tidy railway).
- (2) Track – costs are in line with the determination targets. However, this does not take into consideration the transfer of costs from National Delivery Services to Track. As noted in the previous year's Regulatory financial statements, National Delivery Services costs are borne directly by the recipient of the services in order to better understand the driver of costs and improve accountability. Despite this cost increase, Western have been able to deliver some savings compared to the regulator's determination. In addition, responsibility for some operations (and associated costs) have transferred to the Other network operations category, which increases costs in this area. Costs are consistent with the previous year.
- (3) Signalling – costs are higher than the determination, continuing the trend of the previous year. Costs have increased compared to the previous year mainly due to extra works delivery costs for signalling teams. In the previous year, responsibility for these activities resided within Other network operations.
- (4) Civils – costs were slightly higher than the determination which was a combination of higher Reactive Maintenance activity and additional structures inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. This overspend has been augmented by extra inspections costs due to contractor disputes and increased activity.
- (5) Buildings – all 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. However, expenditure in the current year in this area is in line with the regulator's assumption and the previous year.
- (6) Electrical power and fixed plant – costs are significantly lower than the determination but in line with the previous year. The determination assumed that certain activities were going to be classified within Electrical power and fixed plant. However, as most of these are reported under the Other network operations category there is minimal net impact on Network maintenance costs in the route.
- (7) Other network operations – as reported in the previous year's Regulatory financial statements, in 2014 Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. There was considerable investment in programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category in the previous year. This year, lower expenditure on these initiatives yielded a year-on-year saving. Costs are higher than the determination largely due to the extra responsibility that this category of costs has within the Western route. Within Other network operations costs are activities the regulator assumed would be recorded as Electrical power and fixed plant and Track. These reclassifications have no impact on the overall Maintenance costs reported for the route. The increase compared to the previous year includes the impact of extra Electrical power and fixed plant costs (as expected in the PR13 allowances) as the volume of electrification assets increase in this route.

Statement 8a: Summary analysis of network maintenance expenditure, Western - continued

In £m 2015-16 prices unless stated

- (8) National Delivery Services – as noted above, and in previous year's Regulatory financial statements, the costs arising from the activities of this department are recharged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided and some additional income made from sales of scrap rail.

Statement 9a: Summary analysis of renewals expenditure, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Track	69	66	(3)	146	138	(8)	77
Signalling	91	114	23	191	294	103	100
Civils	51	53	2	138	114	(24)	87
Buildings	19	24	5	38	47	9	19
Electrical power and fixed plant	3	13	10	5	25	20	2
Telecoms	2	3	1	9	15	6	7
Wheeled plant and machinery	8	10	2	15	27	12	7
Information Technology	12	9	(3)	27	17	(10)	15
Property	1	3	2	4	4	-	3
Other renewals	21	-	(21)	42	(26)	(68)	21
Total renewals expenditure	277	295	18	615	655	40	338

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2015-16 prices unless stated

Comments:

- (1) Renewals expenditure in the year was lower than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year, with decreases in expenditure across almost all categories but notably civils.
- (2) Track – whilst expenditure is broadly in line with the PR13 assumption this includes financial underperformance (as reported in Statement 5) largely offset by deferral of activity into future years. Around one-third of the financial underperformance arose from differences between the exit rate for track activity at the end of CP4 compared to the regulator's assumption in the determination. Also, the experiences of the first year of the control period suggested that it was improbable that the CP5 Business Plan efficiency plans could be achieved. Switches & crossings unit rates have been impacted by deferral of activity into future years (as reductions in volumes do not have a proportionate decrease in total programme costs) whilst contractor performance continues to be lower than anticipated across the portfolio. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years, notably Switches & Crossings activity. Expenditure was lower than the previous year with the largest contribution coming from High Output where volumes were around a quarter of those delivered in the first year of the control period.
- (3) Signalling – overall, expenditure was lower than the determination expected. This was largely due to deferral of activity (largest variance in Partial Conventional Re-signalling), following delays in major projects to be completed to accommodate the introduction of Great Western Electrification (including projects at Bristol and Swindon) which was partly offset by higher than expected costs on a like for like basis where issues with the overheated supply chain has been exacerbated by these programme delays whilst additional contractor claims and additional remedial works caused by programme delays have also added to the cost base. As a result signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Investment is lower than the previous years due to the delays referred to above. This has been partly offset by progress on the ETCS programme which is ramping up.
- (4) Civils – expenditure this year is broadly in line with the regulator's assumption. However, this comprises of a deferral of activity largely offset by higher like-for-like costs. The extra like-for-like costs experienced this year, continuing the trend of the previous year, include the impact of emergency works adding extra work which, by the nature of the jobs, are usually more expensive than volumes planned in advance. Also, the rate of savings made this control period has been lower than the regulator's determination assumed. As a result Civils financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (May 2016) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs have been mostly offset by deferral of activity, notably Tunnels (including Thurstonland tunnel boring project being deferred to a future control period) and Underbridges (predominantly due to delays arising from the late commencement of frameworks, procurement issues and escalating costs prompting scope and tender review). Costs are lower than the previous year largely due to lower Earthworks and Underbridges investment. The former was affected by higher remedial activity required in the previous year whilst the latter is largely due to the issues noted above.
- (5) Buildings – expenditure in the year was lower than the determination mainly due to Franchised Stations mainly arising from a reprioritisation of resources in light of cost constraints faced by the organisation. Expenditure in the year is in line with the previous year with extra activity on Managed Stations (mostly at Paddington) largely offsetting reduced investment in Franchised Stations and Light Maintenance Depots.
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination, which included a large underspend on Fixed Plant items as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Expenditure was broadly in line with the previous year. Given the nature of the network in Western the negligible investment in Electrification assets is in line with expectations.

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2015-16 prices unless stated

- (7) Telecoms – expenditure in the year was in line with the determination assumptions, although it was lower than the previous year due to lower investment in central programmes, an element of which is apportioned to each of the operational routes. In the previous year there was considerable investment in FTNx projects which did not re-occur this year.
- (8) Wheeled plant and machinery – as expected, expenditure in the year was less than the regulator assumed, mainly due to delays or postponements of machinery purchases. There was significantly lower expenditure on Intervention items than the regulator expected which was partly offset by higher expenditure on High output plant (partly catching up the underspend witnessed in 2014/15 in this category). As a consequence of the funding constraints facing the company, Network Rail has to make difficult decisions over the best ways to utilise the financial resources available. This has led to alternative strategies for delivering Wheeled plant and machinery solutions, such as life extension strategies for existing items or renting machinery. None of the savings compared to the determination have been included as financial performance this year (refer to Statement 5). In addition, the procurement of the new stone blowers, has been delayed due to the business team working to ensure that the strategy is the best option for Network Rail. This has resulted in the project being deferred into next control period as delivery and safety testing of machines takes over three years after contractual agreement. Expenditure is higher than the previous year which includes the aforementioned catch up of High output plant investment from 2014/15).
- (9) Information technology – as planned, investment in the year is higher than the determination assumed and will be higher than the regulatory baseline across the control period. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Expenditure is lower than the previous year which included a major modernisation to network Rail's IT hardware estate.

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2015-16 prices unless stated

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Costs are higher than the determination assumed due to project phasing as lower expenditure compared to ORR expectations in 2014/15 was partly caught up in 2015/16. Despite this catch up expenditure in the control period to date is lower than the regulator's determination. This is mostly because management focus has been on completing the projects deferred from the previous control period (CP4), for which the ORR provided increased allowances. The programme remains on track to be substantially complete in the next couple of years. Expenditure is higher than the previous year where more of the activity on the overall programme was funded through the CP4 rollover allowances. Overall programme costs (both the amount reported in Asset information strategy and CP4 rollover) is higher than last year as delivery of the project ramps up.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, as noted in last year's Regulatory financial statements, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. This year's expenditure on the fund is comparable to last years; however the business is expecting to start implementing programmes to utilise the fund in the last three years of the control period.
- c. Small plant – expenditure is less than the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category. This fund is used to procure many small, bespoke pieces of equipment so items are only procured if there is a suitable option available. As part of Network Rail's policy to devolve more accountability to the operating routes, the management of this fund has been decentralised to improve investment strategy in this area. Consequently, it is expected that activity will increase over the remainder of the control period.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Intuitively, over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- e. CP4 rollover - following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2015/16 this includes expenditure on FTN, ORBIS (as noted above) and Paddington roof. In the control period to date, expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As expected, investment is lower in the current year compared to the previous year as most of the schemes rolled over from CP4 will have been in full flow at the start of the control period whereas much of the activity has now taken place. There are still some minor costs expected in future years of the control period as these projects are completed.

Statement 9b: Detailed analysis of renewals expenditure, Western

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	32	21	(11)	65	51	(14)
High output renewal	5	3	(2)	20	10	(10)
Plain line refurbishment	4	1	(3)	7	3	(4)
S&C renewal	13	19	6	24	31	7
S&C refurbishment	2	3	1	5	6	1
Track non-volume	1	6	5	2	13	11
Off track	12	13	1	23	24	1
Total track	69	66	(3)	146	138	(8)
Signalling						
Full conventional resignalling	1	3	2	1	16	15
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	5	9	4	8	9	1
Partial conventional resignalling	61	75	14	143	204	61
Targeted component renewal	-	2	2	-	18	18
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	9	5	(4)	9	5	(4)
Operating strategy other capital expenditure	3	4	1	3	6	3
Level crossings	5	7	2	8	15	7
Minor works	5	6	1	14	16	2
Centrally managed costs	2	3	1	5	5	-
Other	-	-	-	-	-	-
Total signalling	91	114	23	191	294	103
Civils						
Underbridges	14	21	7	36	46	10
Overbridges	4	3	(1)	6	5	(1)
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	-	(1)	2	-	(2)
Tunnels	1	3	2	2	9	7
Other assets	7	3	(4)	30	8	(22)
Structures other	1	6	5	3	11	8
Earthworks	22	17	(5)	59	35	(24)
Other	1	-	(1)	-	-	-
Total civils	51	53	2	138	114	(24)
Buildings						
Managed stations	9	8	(1)	11	13	2
Franchised stations	8	13	5	18	27	9
Light maint depots	1	1	-	4	3	(1)
Depot plant	-	1	1	-	2	2
Lineside buildings	1	-	(1)	2	1	(1)
MDU buildings	-	1	1	3	1	(2)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	19	24	5	38	47	9

Statement 9b: Detailed analysis of renewals expenditure, Western - continued

in £m 2015-16 prices unless stated

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	2	2	-	5	5
Fixed plant	3	11	8	5	20	15
Total electrical power and plant	3	13	10	5	25	20
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	-	-	-	-	-
SISS	1	1	-	2	10	8
Projects and other	(1)	1	2	(1)	1	2
Non-route capital expenditure	2	1	(1)	8	4	(4)
Total telecoms	2	3	1	9	15	6
Wheeled plant and machinery						
High output	3	1	(2)	7	9	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	-	(1)	1	1	-
Intervention	1	5	4	1	8	7
Materials delivery	1	-	(1)	3	-	(3)
On track plant	1	2	1	1	3	2
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	1	1
Road vehicles	1	1	-	2	1	(1)
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	8	10	2	15	27	12
Information Technology						
IM delivered renewals	11	8	(3)	25	15	(10)
Traffic management	1	1	-	2	2	-
Total information technology	12	9	(3)	27	17	(10)
Property						
MDUs/offices	1	2	1	1	3	2
Commercial estate	-	1	1	3	1	(2)
Corporate services	-	-	-	-	-	-
Total property	1	3	2	4	4	-
Other renewals						
Asset information strategy	7	5	(2)	7	11	4
Intelligent infrastructure	1	1	-	2	3	1
Faster isolations	1	4	3	1	7	6
LOWS	-	-	-	-	-	-
Small plant	-	1	1	1	3	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	(11)	(11)	-	(50)	(50)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	12	-	(12)	31	-	(31)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	21	-	(21)	42	(26)	(68)
Total renewals	277	295	18	615	655	40

Statement 9b: Detailed analysis of renewals expenditure, Western (unaudited) - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (May 2016) and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Western

in £m 2015-16 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2015-16 PR13	Difference	Actual	Cumulative PR13	Difference	2014-15 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	29	20	(9)	55	40	(15)	26
Access charge supplement Income	(26)	(25)	1	(50)	(50)	-	(24)
Net (income)/cost	3	(5)	(8)	5	(10)	(15)	2
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	8	1	(7)	26	1	(25)	18
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	8	1	(7)	26	1	(25)	18

B) Opex memorandum account

	2015-16	Cumulative	2014-15
Volume incentive	2	4	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	2	1	(1)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	-
Reporters fees	-	-	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(1)	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	4	4	-

Statement 10: Other information, Western - continued

In £m 2015-16 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 against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into 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 revenue. 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.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines (May 2016).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.

Comments:

- (1) Schedule 4 costs are higher than the determination. Costs this year include a share of the losses made by Network Rail's captive insurance company on significant network incidents such as Lamington which occurred as a result of adverse weather damaging infrastructure and requiring emergency possessions to repair. Network Rail's captive insurance company losses are allocated to each route in line with specified policies. In addition, changes in the level of work carried out and in the mix of projects (including geographical location) have impacted costs. Net costs are broadly consistent with the previous year.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2015/16. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2015/16 unrealistic. Performance targets were missed in 2014/15, putting further pressure on the current year. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. Despite these factors, there was a noticeable improvement in Schedule 8 compared to the previous year as some of the performance improvement plans implemented paid dividends.
- (3) The opex memorandum shows a net income for this year which is a combination of amounts earned through the Volume Incentive (see Statement 12) but also for differences in the Business rates attributed to Western compared to the determination allowance. Business rates are allocated to different routes in line with individual property location and so provide a more accurate basis than the regulator's assumptions

Statement 12: Volume incentives, Western

in £m 2015-16 prices unless stated

	Volume incentive cumulative to 2015- 16	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	3	1	28	27	0.3%	1.47	pence per passenger train mile
Passenger farebox (millions)	4	1	885	827	2.8%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	2	2	1.5%	2.97	pence per freight train mile
Freight gross tonne miles (thousands)	2	0	2,705	2,540	1.8%	2.53	pence per freight 1,000 gross tonne mile
Total volume incentive	8	2					

The cumulative volume incentive is determined by the following calculation:

$$[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$$

Where:
At = Actual in year quantity
B = 2015-16 baseline
Ct = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Western - continued

In £m 2015-16 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines (May 2016) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2015/16 by five to reflect the income/ cost that may arise over the five-year period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2015/16 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2015/16 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £2m as a result, adding to the positive result witnessed in the opening year of the control period. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).
- (2) Passenger train miles has increased by 0.7 per cent compared to the previous year, which resulted in further outperformance compared to the regulatory target.
- (3) Passenger farebox growth continues to outperform regulatory expectations as more passengers use the railway. Passenger farebox information is supplied by ORR.

Statement 14: Renewals volumes, unit costs and expenditure, Western

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs			Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		
					Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m	Unit cost x volume £m	Unit cost x volume £m				Unit cost x volume £m	Unit cost x volume £m	
Track	Track plain line	km	406	101	41	-	41	313	99	31	-	-	31	(93)	(2)	(10)	-	-	(10)
	Conventional		582	55	32	-	32	611	36	22	-	-	22	29	(19)	(10)	-	-	(10)
	High Output		625	8	5	-	5	316	19	6	-	-	6	(309)	11	1	-	-	1
	Refurbishment		105	38	4	-	4	68	44	3	-	-	3	(37)	6	(1)	-	-	(1)
	S&C	point ends	306	49	15	-	15	238	101	24	-	-	24	(68)	52	9	-	-	9
	Track Drainage		2	5,548	9	-	9	-	-	7	-	-	7	(2)	(5,548)	(2)	-	-	(2)
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	5,548	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(5,548)	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Fencing	km	13	76	1	-	1	17	58	1	-	-	1	4	(18)	-	-	-	-
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	Off track		n/a	n/a	n/a	3	3	n/a	n/a	n/a	7	7	n/a	n/a	n/a	n/a	4	4	4
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					66	3	69			63	7	70			(3)	4	1		
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	67	n/a	n/a	n/a	-	-	74	n/a	n/a	n/a	-	7	7
	Full conventional resignalling	SEU	71	14	1	-	1	34	118	4	-	-	4	(38)	104	3	-	3	3
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	5	-	5	-	-	7	-	-	7	-	-	2	-	2	2
	Partial conventional resignalling	SEU	173	352	61	-	61	104	585	61	-	-	61	(69)	233	-	-	-	-
	Targeted component renewal	SEU	-	-	-	-	-	500	4	2	-	-	2	500	4	2	-	2	2
	Level crossings	No.	1,000	5	5	-	5	889	9	8	-	-	8	(111)	4	3	-	3	3
	Signalling other		-	-	-	19	19	-	-	-	17	17	-	-	-	-	(2)	(2)	(2)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	-	-
	ERTMS other costs		n/a	n/a	n/a	9	9	n/a	n/a	n/a	5	5	n/a	n/a	n/a	n/a	(4)	-	(4)
	Operating strategy other capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	1	-	1
	Minor works		n/a	n/a	n/a	5	5	n/a	n/a	n/a	6	6	n/a	n/a	n/a	n/a	1	-	1
	Centrally managed costs		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					72	19	91			82	17	99			10	(2)	8		
Civils	Key structures		n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	-	37	n/a	n/a	n/a	-	17	17
	Underbridges	m2	2	6,544	14	-	14	3	8,015	28	-	-	28	1	1,471	14	-	14	14
	Overbridges (incl BG3)	m2	3	1,525	4	-	4	7	711	5	-	-	5	4	(814)	1	-	1	1
	Tunnels	m2	1	931	1	-	1	1	4,386	4	-	-	4	(0)	3,455	3	-	3	3
	Major structures	m2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	(1)	-	(1)
	Other structures assets		n/a	n/a	n/a	-	7	n/a	n/a	n/a	-	-	5	n/a	n/a	n/a	-	(2)	(2)
	Culverts	m2	-	-	-	-	-	20	98	2	-	-	2	20	98	2	-	2	2
	Footbridges	m2	13	80	1	-	1	10	98	1	-	-	1	(2)	18	-	-	-	-
	Coastal & Estuary Defences	m	14	360	5	-	5	-	-	1	-	-	1	(14)	(360)	(4)	-	(4)	(4)
	Retaining Walls	m2	7	150	1	-	1	1	714	1	-	-	1	(5)	564	-	-	-	-
	Earthworks	5-chain	21	950	20	-	20	29	478	14	-	-	14	8	(472)	(6)	-	(6)	(6)
	EW Drainage		-	-	2	-	2	2	3,640	6	-	-	6	2	3,640	4	-	4	4
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	2,292	n/a	n/a	n/a	n/a	n/a	2,292	n/a	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	337	n/a	n/a	n/a	n/a	n/a	337	n/a	n/a	n/a	n/a
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	1,011	n/a	n/a	n/a	n/a	n/a	1,011	n/a	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	1	1	n/a	-	n/a	2	2	n/a	n/a	n/a	n/a	1	-	1
	Other		n/a	n/a	n/a	1	1	n/a	-	n/a	(8)	(8)	(8)	n/a	n/a	n/a	(9)	-	(9)
	Total					48	3	51			62	(6)	56			14	(9)	5	

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m	Unit cost x		Other non- volume costs £m	Total Cost £m
			Unit cost £k/unit	Volume unit			Unit cost £m	Volume unit			Unit cost £k/unit	Volume unit			Unit cost £m	Volume unit		
Buildings	Franchised Stations		n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	17	n/a	n/a	n/a	n/a	n/a	9
	Footbridges	m2	5	382	2	-	2	n/a	160	n/a	n/a	-	n/a	(222)	n/a	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Canopies	m2	1	1,918	2	-	2	n/a	4,594	n/a	n/a	-	n/a	2,676	n/a	n/a	n/a	-
	Platforms	m2	-	245	-	-	-	n/a	1,358	n/a	n/a	-	n/a	1,113	n/a	n/a	n/a	-
	Buildings	m2	-	160	-	-	-	n/a	1,076	n/a	n/a	-	n/a	916	n/a	n/a	n/a	-
	Lifts & Escalators	No.	286	7	2	-	2	n/a	2	n/a	n/a	-	n/a	(5)	n/a	n/a	n/a	-
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	9	n/a	-	n/a	-	5	n/a	n/a	n/a	n/a	n/a	(4)
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Train Sheds	m2	-	-	5	-	5	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	144	n/a	n/a	-	n/a	144	n/a	n/a	n/a	-
	Platforms	m2	-	100	-	-	-	n/a	100	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Lifts & Escalators	No.	1,000	1	1	-	1	n/a	-	n/a	n/a	-	n/a	(1)	n/a	n/a	n/a	-
	Other		-	-	-	2	2	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	2,713	1	-	1	-	-	n/a	-	2	n/a	(2,713)	n/a	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-
	Depot Shed	m2	-	2,713	-	-	-	n/a	-	n/a	n/a	-	n/a	(2,713)	n/a	n/a	n/a	-
	Lineside Buildings	m2	0	-	1	-	1	-	-	n/a	n/a	3	n/a	-	n/a	n/a	n/a	2
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	n/a	1
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	1	n/a	-	n/a	n/a	n/a	1
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(6)	n/a	n/a	n/a	n/a	n/a	(6)
Total					15	4	19		-	-		23		-	-		-	

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan							
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume		Other non- volume costs £m	Total Cost £m
					£m	£m					£m	£m					£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	n/a	-	
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	-	n/a	n/a	-	
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	-	n/a	n/a	-	
	Structure Renewals	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Fixed plant		-	-	-	-	3	n/a	-	n/a	n/a	12	n/a	n/a	n/a	n/a	n/a	9		
	Signalling Power Cable Renewal	km	400	5	2	-	2	n/a	66	n/a	n/a	n/a	-	n/a	61	n/a	n/a	-		
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	19	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	2			
Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-			
Total					2	1	3					14					11			
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	1	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	(1)		
	Customer Information Systems	No.	59	17	1	-	1	n/a	-	n/a	n/a	-	n/a	(17)	n/a	n/a	n/a	-		
	Public Address	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Clocks	No.	-	8	-	-	-	n/a	4	n/a	n/a	-	n/a	(4)	n/a	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	System	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Radio System	No.	-	3	-	-	-	n/a	-	n/a	n/a	-	n/a	(3)	n/a	n/a	n/a	-		
	Power Systems	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Projects and other		n/a	n/a	n/a	(1)	(1)	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	1		
	Non route capex		n/a	n/a	n/a	2	2	n/a	-	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	2		
Total					1	1	2					4								

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

2015-16			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume		Total Cost £m	£m	
					Unit cost x volume £m	costs £m				Unit cost x volume £m	costs £m								
Wheeled plant and machinery	High output		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(2)	(2)		
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4		
	Materials delivery		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)		
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-			
Total						8	8				10	10				2	2		
IT	IM delivered renewals		n/a	n/a	n/a	11	11	n/a	n/a	n/a	10	10	n/a	n/a	n/a	(1)	(1)		
	Traffic management		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						12	12				14	14				2	2		
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1		
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						1	1				3	3				2	2		
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(3)	(3)		
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-		
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2		
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1		
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
	CP4 Rollover		n/a	n/a	n/a	12	12	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(12)	(12)		
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2		
Total						21	21				11	11				(10)	(10)		
Total Renewals							277	304							27				

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non-volume costs		Total Cost £m
					Unit cost x volume £m	£m				Unit cost x volume £m	£m				Unit cost x volume £m	£m	
Track	Track plain line	km	371	248	92	-	92	386	228	88	-	88	15	(20)	(4)	-	(4)
	Conventional		613	106	65	-	65	708	89	63	-	63	95	(17)	(2)	-	(2)
	High Output		513	39	20	-	20	358	53	19	-	19	(154)	14	(1)	-	(1)
	Refurbishment		68	103	7	-	7	70	86	6	-	6	2	(17)	(1)	-	(1)
	S&C	point ends	345	84	29	-	29	244	168	41	-	41	(101)	84	12	-	12
	Track Drainage		1	7,398	11	-	11	-	-	14	-	14	(1)	(7,398)	3	-	3
	Renewal	lm	n/a	1,850	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1,850)	n/a	n/a	n/a
	Refurbishment	lm	n/a	5,548	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(5,548)	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a
	Fencing	km	15	130	2	-	2	18	112	2	-	2	2	(18)	-	-	-
	Slab Track		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Off track		n/a	n/a	n/a	12	12	n/a	n/a	n/a	14	14	n/a	n/a	n/a	2	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					134	12	146			145	14	159			11	2	13
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	152	n/a	n/a	n/a	-	222	n/a	n/a	n/a	-	70
	Full conventional resignalling	SEU	71	14	1	-	1	136	118	16	-	16	64	104	15	-	15
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	8	-	8	-	-	7	-	7	-	-	(1)	-	(1)
	Partial conventional resignalling	SEU	292	489	143	-	143	155	1,176	182	-	182	(138)	687	39	-	39
	Targeted component renewal	SEU	-	-	-	-	-	213	80	17	-	17	213	80	17	-	17
	Level crossings	No.	1,143	7	8	-	8	720	25	18	-	18	(423)	18	10	-	10
	Signalling other		-	-	-	31	31	-	-	-	27	27	-	-	-	(4)	(4)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	9	9	n/a	n/a	n/a	5	5	n/a	n/a	n/a	(4)	(4)
	Operating strategy other capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	6	6	n/a	n/a	n/a	3	3
	Minor works		n/a	n/a	n/a	14	14	n/a	n/a	n/a	12	12	n/a	n/a	n/a	(2)	(2)
	Centrally managed costs		n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(1)	(1)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					160	31	191			240	27	267			80	(4)	76
Civils	Key structures		n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	74	n/a	n/a	n/a	-	28
	Underbridges	m2	2	17,776	36	-	36	3	19,226	56	-	56	1	1,450	20	-	20
	Overbridges (incl BG3)	m2	4	1,525	6	-	6	4	1,946	8	-	8	0	421	2	-	2
	Tunnels	m2	1	2,205	2	-	2	2	6,494	10	-	10	1	4,289	8	-	8
	Major structures	m2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	Other structures assets		n/a	n/a	n/a	-	30	n/a	n/a	n/a	-	10	n/a	n/a	n/a	-	(20)
	Culverts	m2	2	2,507	6	-	6	8	608	5	-	5	6	(1,899)	(1)	-	(1)
	Footbridges	m2	13	80	1	-	1	7	138	1	-	1	(5)	58	-	-	-
	Coastal & Estuary Defences	m	50	420	21	-	21	-	-	2	-	2	(50)	(420)	(19)	-	(19)
	Retaining Walls	m2	13	150	2	-	2	2	864	2	-	2	(11)	714	-	-	-
	Earthworks	5-chain	38	1,427	54	-	54	31	980	30	-	30	(7)	(447)	(24)	-	(24)
	EW Drainage		-	-	5	-	5	2	6,942	12	-	12	2	6,942	7	-	7
	Renewal	lm	n/a	-	n/a	n/a	n/a	n/a	4,421	n/a	n/a	n/a	n/a	4,421	n/a	n/a	n/a
	Refurbishment	lm	n/a	-	n/a	n/a	n/a	n/a	677	n/a	n/a	n/a	n/a	677	n/a	n/a	n/a
	Maintenance	lm	n/a	-	n/a	n/a	n/a	n/a	1,844	n/a	n/a	n/a	n/a	1,844	n/a	n/a	n/a
	New Build	lm	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	3	3	n/a	-	n/a	4	4	n/a	n/a	n/a	1	1
	Other		n/a	n/a	n/a	-	-	n/a	-	n/a	(15)	(15)	n/a	n/a	n/a	(15)	(15)
	Total					133	5	138			126	(11)	115			(7)	(16)

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan				
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m	Unit cost £k/unit	Volume unit	Other non- volume costs		Total Cost £m
					Unit cost x volume £m	£m				Unit cost x volume £m	£m				Unit cost x volume £m	£m	
Buildings	Franchised Stations		n/a	n/a	n/a	-	18	n/a	n/a	n/a	-	38	n/a	n/a	n/a	n/a	20
	Footbridges	m2	9	452	4	-	4	n/a	605	n/a	n/a	-	n/a	153	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	4,000	n/a	n/a	-	n/a	4,000	n/a	n/a	-
	Canopies	m2	1	5,418	3	-	3	n/a	6,923	n/a	n/a	-	n/a	1,505	n/a	n/a	-
	Platforms	m2	-	1,370	-	-	-	n/a	1,958	n/a	n/a	-	n/a	588	n/a	n/a	-
	Buildings	m2	-	160	-	-	-	n/a	4,548	n/a	n/a	-	n/a	4,388	n/a	n/a	-
	Lifts & Escalators	No.	286	7	2	-	2	n/a	7	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	9	9	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	11	n/a	-	n/a	-	9	n/a	n/a	n/a	n/a	(2)
	Footbridges	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	5	-	5	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	n/a	144	n/a	n/a	-	n/a	144	n/a	n/a	-
	Platforms	m2	-	115	-	-	-	n/a	200	n/a	n/a	-	n/a	85	n/a	n/a	-
	Buildings	m2	-	-	2	-	2	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	1,000	1	1	-	1	n/a	1	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	28,663	4	-	4	0	26,888	n/a	-	7	n/a	(1,775)	n/a	n/a	3
	Buildings	m2	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Depot Shed	m2	-	28,663	-	-	-	n/a	26,888	n/a	n/a	-	n/a	(1,775)	n/a	n/a	-
	Lineside Buildings	m2	0	-	2	-	2	0	-	n/a	n/a	6	n/a	-	n/a	n/a	4
	MDU Buildings	m2	-	-	3	-	3	-	-	n/a	n/a	2	n/a	-	n/a	n/a	(1)
	Depot Plant		-	-	-	-	-	n/a	-	n/a	n/a	2	n/a	-	n/a	n/a	2
	NDS Depots		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(12)	n/a	n/a	n/a	n/a	(12)
Total					26	12	38					52				14	

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

Cumulative			Actual					Network Rail Business Plan					Difference to Business Plan						
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost		
					volume	volume				volume	volume				volume	volume		volume	volume
					£m	£m	£m			£m	£m	£m			£m	£m	£m		
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	wiring	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Structure Renewals	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	Conductor rail	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	AC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Booster Transformers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	DC distribution		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	HV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	HV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Switchgear Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	LV Cables	km	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Transformer Rectifiers	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Fixed plant		-	-	-	-	5	n/a	-	n/a	n/a	21	n/a	n/a	n/a	n/a	16		
	Signalling Power Cable Renewal	km	118	17	2	-	2	n/a	121	n/a	n/a	n/a	-	n/a	104	n/a	n/a	-	
	Principle Supply Point Renewal	No.	-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	-	n/a	n/a	-	
	Other		-	-	-	3	3	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Rail Heating - points heating	Point End	-	-	-	-	-	n/a	36	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
Energy efficiency		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
System capability / capacity		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Other electrical power		-	-	-	-	-	n/a	-	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	4		
Other		-	-	-	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
Total				2	3	5					25						20		
Telecoms	Surveillance Systems		n/a	n/a	n/a	-	2	n/a	-	n/a	n/a	7	n/a	-	n/a	n/a	5		
	Customer Information Systems	No.	57	35	2	-	2	n/a	-	n/a	n/a	-	n/a	(35)	n/a	n/a	-		
	Public Address	No.	-	16	-	-	-	n/a	382	n/a	n/a	-	n/a	366	n/a	n/a	-		
	CCTV	No.	-	-	-	-	-	n/a	253	n/a	n/a	-	n/a	253	n/a	n/a	-		
	Clocks	No.	-	8	-	-	-	n/a	4	n/a	n/a	-	n/a	(4)	n/a	n/a	-		
	Operational Comms		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-		
	PABX Concentrator	No. Lines	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Processor Controlled Concentrator	No. Lines	-	14	-	-	-	n/a	-	n/a	n/a	-	n/a	(14)	n/a	n/a	-		
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	System	No.	-	7	-	-	-	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-		
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	-	n/a	n/a	-		
	Radio System	No.	-	3	-	-	-	n/a	-	n/a	n/a	-	n/a	(3)	n/a	n/a	-		
	Power Systems	No.	-	7	-	-	-	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-		
	Network		n/a	n/a	n/a	-	-	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-	
	Projects and other		n/a	n/a	n/a	(1)	(1)	n/a	-	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	1	
	Non route capex		n/a	n/a	n/a	8	8	n/a	-	n/a	n/a	n/a	9	n/a	n/a	n/a	n/a	1	
Total				2	7	9					16								

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

in £m 2015-16 prices unless stated

Cumulative		Actual						Network Rail Business Plan				Difference to Business Plan						
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	Unit cost	Volume	Unit cost x	Other non-	Total Cost	
			£k/unit	unit	£m	volume costs		£m	£k/unit	unit	£m		£m	£k/unit	unit	£m		£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	7	7	n/a	n/a	n/a	10	10	n/a	n/a	n/a	3	3	
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)	
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	8	8	n/a	n/a	n/a	7	7	
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)	
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)	
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total						15	15	27						27	12			12
IT	IM delivered renewals		n/a	n/a	n/a	25	25	n/a	n/a	n/a	22	22	n/a	n/a	n/a	(3)	(3)	
	Traffic management		n/a	n/a	n/a	2	2	n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total						27	27	29						29	2			2
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2	
	Commercial estate		n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(1)	(1)	
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total						4	4	5						5	1			1
Other renewals	Asset information strategy		n/a	n/a	n/a	7	7	n/a	n/a	n/a	11	11	n/a	n/a	n/a	4	4	
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	6	6	n/a	n/a	n/a	5	5	
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	31	31	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(31)	(31)	
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	5	5	n/a	n/a	n/a	5	5		
Total						42	42	26						26	(16)			(16)
Total Renewals							615	721							106			

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

In £m 2015-16 prices unless stated

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. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) Volume variances to Network Rail's business plan for the current year are discussed below. The business plan was set before the control period began. At this stage, information regarding the workbanks for earlier years were more complete than for later years of the control period. Intuitively, a more informed view of the exact works that were to be completed in the first year of the control period (where, for example, contracts had been signed and possessions planned) during the control period compared to future years. Each year Network Rail updates its forecast to provide a more detailed plan for the forthcoming year as the required activity becomes more evident and comes into sharper focus. Therefore, the level of detail contained in the commentary to this statement on which specific jobs that were predicted in the CP5 business plan which have not occurred will decline with each passing year of the control period.
- (3) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year in line with the approach agreed with the regulator. This is different to any assessment of unit costs undertaken on an "earned basis". The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (4) Track – Plain Line – Plain Line delivery in in line with the plan, with additional Conventional volumes offsetting shortfalls in High Output
 - a. Conventional – Volume delivered in the current year is greater than planned. This is partly due to asset management decisions about the most appropriate renewals solution which favoured Conventional works over High output and Refurbishment (which both delivered lower than planned in the year).
 - b. High Output - This year the high output programme has under-delivered due to access restrictions (partly due to prioritisation given to enhancements programmes which are considered more fundamental to delivering improvements for passengers), contractor performance resulting in lower than expected outputs and issues with availability of specialist equipment.
 - c. Refurbishment – Refurbishment workbank is lower than plan in the current year, partly offsetting the extra workbank delivered in the opening year of the control period. Planning cycles for this type of activity can be fluid in nature, which may result in increasing levels of deviation from plan as the control period progresses.
- (5) Track - Switches & Crossings - Volumes are below plan which is largely due to availability of specialist plant to undertake volume delivery quickly and efficiently. Resource and planning difficulties have both also impacted on deliverability in specific cases as have non-compliant designs and supply chain failures preventing materials reaching site in a timely manner.
- (6) Track – drainage – volumes were recorded for this type of activity this year, whereas the plan did not include any volumes for this type of activity. Therefore, the additional volumes compared to the plan is expected. The actual volumes have been included in the Regulatory financial statements to provide additional information and inform the regulator of the activity (and so funding) for future periodic reviews.

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

In £m 2015-16 prices unless stated

- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years, even though activity and progress is similar. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling – Re-signalling – Full Conventional re-signalling – the volumes are lower than the CP5 Business Plan mainly due to delays in the commissioning dates of a number of large schemes which are taking place across the route prior to the finalisation of the Great Western Electrification Programme, such as Swindon, Bristol and Reading Area re-signalling jobs.
- (9) Signalling – Re-signalling – Partial Conventional re-signalling – the volumes are lower than the CP5 Business Plan mainly due to delays in the commissioning dates of a number of large schemes which are taking place across the route prior to the finalisation of the Great Western Electrification Programme, such as Swindon, Bristol and Reading Area re-signalling jobs.
- (10) Signalling – Level Crossings – as with the previous year, volumes delivered have been lower than the CP5 Business Plan. Volumes are not expected to recover over the remainder of the control period as resources are planned to be utilised elsewhere.
- (11) Civils - Underbridges – There has been a significant shortfall versus plan which is predominantly due to delays arising from the late commencement of frameworks, procurement issues and escalating costs prompting scope and tender review. In addition, a number of planned volumes have been deferred until future control periods to reflect the constraints Network Rail faces and the re-prioritisation of scarce resources.
- (12) Civils - Overbridges – volumes delivered are higher than planned, which is mainly due to additional volumes originally planned for 2014/15 being delivered in the current year. The previous year's workbank experienced delays connected with agreeing and implementing the framework agreement with contractors.
- (13) Civils - Tunnels – volumes are below plan due predominantly to Thurstonland tunnel boring project being deferred to a future control period. Updates to Network Rail's plans have highlighted the need to re-prioritise workbanks to stay within the loan agreements set by the Department for Transport (refer to Statement 4).
- (14) Civils – Culverts – volume delivery this year was lower than the plan. This partly offsets the extra units delivered in the opening year of the control period.
- (15) Civils – Coastal & Estuary Defences – the CP5 Business Plan assumed minimal volumes in this asset category, and none until the last year of the control period. Asset condition works (notably at Dawlish) have required extra units to be delivered earlier in the control period.
- (16) Civils – Retaining Walls – activity in the year is lower than planned. A number of planned volumes have been deferred until future control periods to reflect the constraints Network Rail faces and the re-prioritisation of scarce resources.
- (17) Civils - Earthworks - Volume delivery is ahead of plan which includes recovery of some shortfalls experienced in 2014/15 where delivery was hampered by access restrictions and slow contractor engagement. Extra activity has also been required this year due to emergency works being required to maintain asset condition. This has manifested itself in financial underperformance (as reported in Statement 5).
- (18) Civils – Earthworks Drainage – as with the previous year, no volumes have been reported against this activity. Alternatively approaches to asset management have been implemented to obtain reasonable asset condition.
- (19) Buildings - Franchised Stations – footbridges – volumes were higher than planned, which partly offset the lower volumes delivered in the first year of the control period.
- (20) Buildings - Franchised Stations – canopies – volumes were lower than planned, which partly offset the extra volumes delivered in the first year of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, Western - continued

In £m 2015-16 prices unless stated

- (21) Buildings - Franchised Stations – platforms – volumes were lower than planned, largely reflecting a revision to the workbank planned for the control period which has now been reduced. The resource constraints faced by Network Rail has led to a re-prioritisation of funds during the control period.
- (22) Buildings - Franchised Stations – buildings – volumes were lower than planned, largely reflecting a revision to the workbank planned for the control period which has now been reduced. The resource constraints faced by Network Rail has led to a re-prioritisation of funds during the control period.
- (23) Buildings - Managed Stations – canopies – volumes were lower than planned, largely reflecting a revision to the workbank planned for the control period which has now been reduced. The resource constraints faced by Network Rail has led to a re-prioritisation of funds during the control period.
- (24) Buildings – Depots Shed – no volume was planned in the CP5 Delivery Plan however volume has been delivered in year in relation to Plymouth Laira roof works.
- (25) Electrification – Signalling Power Cables – Volumes are below plan due to contractor availability and design delays which have resulted in volumes slipping to later year of the control period. In addition, some of the workbank originally planned for the current control period is expected to be deferred so that Network Rail can remain within the loan set by the Department for Transport for the control period in light of cost pressures experienced across the business.
- (26) Electrification – Points Heaters – Volumes are below plan due to the deferral of activity originally planned for the current control period is expected to be deferred so that Network Rail can remain within the loan set by the Department for Transport for the control period in light of cost pressures experienced across the business.
- (27) Telecoms – Customer Information Systems – a review of Network Rail's Station Information and Surveillance System has led to additional Customer Information Systems being introduced rather than public address asset solutions during the control period. There was a shortfall in public address units in the opening year of the control period.
- (28) Telecoms – Clocks – additional units were introduced this year to improve information available to the travelling public.

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 Network Rail Infrastructure Limited group

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2016

In £m 2015/16 prices unless stated

	£m	£m
RAB valuation at 31 March 2016 (Statement 2a)		57,177
Investment properties	(1,109)	
Unamortised Capital grants	3,168	
		2,059
Adjustment for cash flow differences in the latest Business Plan compared to Periodic Review 2013		(726)
Vinegar Yard 1 & 2		23
Other		(1)
Property, plant and equipment per NRL statutory accounts at 31 March 2016		58,532

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

Year ended 31 March 2016

In £m 2015/16 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2016 per the regulatory Statements (Statement 1)	1,513	1,248	2,761
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,789		1,789
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	(36)		(36)
Network Rail (High Speed) Limited	(11)		(11)
Other	(2)		(2)
	1,740	-	1,740
Operating and maintenance expenditure for year ended 31 March 2016 per NRL statutory accounts	3,253	1,248	4,501

Notes:

⁽¹⁾ This includes depreciation expenses of £1,876m and capital grant amortisation of £97m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2016

In £m 2015/16 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2016 (Statement 6a)		6,582
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(373)	
Income from property sales	(74)	
Network Rail (High Speed) Limited	(11)	
Opex memorandum timing difference	(37)	
Other	<u>1</u>	
		(484)
Turnover per NRL statutory accounts for year ended 31 March 2016		6,098

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2016

In £m 2015/16 prices unless stated

	£m	£m
Regulatory debt at 31 March 2016 (Statement 4)		40,178
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	1,277	
Foreign exchange differences	<u>151</u>	
		1,428
Net debt per NRL statutory accounts at 31 March 2016		41,606

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

Year ended 31 March 2016

In £m 2015/16 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2016 (Statement 1)		6,290
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	314	
Capitalised interest	133	
Investment property schemes	(25)	
Other	(28)	
		394
Capital expenditure per NRL statutory accounts for the year ended 31 March 2016		6,684

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

Year ended 31 March 2016

In £m 2015/16 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2016 (Statement 1)		1,400
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(133)	
Net finance costs relating to defined pension schemes assets and liabilities	49	
Investment revenue disclosed separately in statutory accounts	8	
Other	(2)	
		(78)
Interest expense per NRL statutory accounts for the year ended 31 March 2016		1,322